AnorMED Inc.
Form F-10/A
September 12, 2006

As filed with the Securities and Exchange Commission on September 11, 2006.
Registration No. 333-136931

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Amendment No. 1
to
Form F-10
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

ANORMED INC.
(Exact name of Registrant as specified in its charter)

Canada	**2834**	**98-0171581**
(Province or other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number, if any)*

200 20353 64th Avenue
Langley, British Columbia
Canada V2Y 1N5
(604) 530-1057
(Address and telephone number of Registrant s principal executive offices)
CT Corporation System
111 Eighth Avenue
New York, New York 10011
(212) 894-8600
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Copies to:

Daniel M. Miller **Dorsey & Whitney LLP** **Suite 1605** **777 Dunsmuir Street** **P.O. Box 10444, Pacific Centre** **Vancouver, B.C.** **Canada V7Y 1K4**	**William J. Adams** **Vice President, Finance, Chief Financial Officer, Secretary and Treasurer** **AnorMED Inc.** **200 20353 64th Avenue** **Langley, British Columbia** **Canada V2Y 1N5**	**R. Hector MacKay-Dunn, Q.C.** **Trevor R. Scott, Esq.** **Farris, Vaughan, Wills & Murphy LLP** **25th Floor** **700 West Georgia Street** **Vancouver, B.C.** **Canada V7Y 1B3**

Approximate date of commencement of proposed sale to the public:
From time to time after the effective date of this Registration Statement.
Province of British Columbia, Canada

(Principal jurisdiction regulating this offering)

It is proposed that this filing shall become effective (check appropriate box below):

A. þ upon filing with the Commission, pursuant to Rule 467(a) (if in connection with an offering being made contemporaneously in the United States and Canada).

B. o at some future date (check appropriate box below)

1. o pursuant to Rule 467(b) on ( ) at ( ) (designate a time not sooner than seven calendar days after filing).
2. o pursuant to Rule 467(b) on ( ) at ( ) (designate a time seven calendar days or sooner after filing) because the securities regulatory authority in the review jurisdiction has issued a receipt or notification of clearance on ( ).
3. o pursuant to Rule 467(b) as soon as practicable after notification of the Commission by the Registrant or the Canadian securities regulatory authority of the review jurisdiction that a receipt or notification of clearance has been issued with respect hereto.
4. o after the filing of the next amendment to this Form (if preliminary material is being filed).

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to the home jurisdiction s shelf prospectus offering procedures, check the following box. þ

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registration statement shall become effective as provided in Rule 467 under the Securities Act of 1933 or on such date as the Commission, acting pursuant to Section 8(a) of the Act, may determine.

PART I
INFORMATION REQUIRED TO BE DELIVERED TO OFFEREES OR PURCHASERS

I-1

PROSPECTUS

AnorMED Inc.
U.S.$100,000,000
Common Shares

We may offer from time to time, during the 25 month period that this short form base shelf prospectus, including any amendments hereto, remains effective, up to U.S.$100,000,000 (or its equivalent in any other currency) in aggregate of our common shares.

The specific terms of any offering of our common shares will be described in supplements to this prospectus. You should read this prospectus and any applicable prospectus supplement carefully before you invest.

Our common shares are listed on the Toronto Stock Exchange under the symbol AOM and on the NASDAQ Global Market (NASDAQ) under the symbol ANOR . On September 8, 2006, the closing price of our common shares was CDN$11.05 per share on the Toronto Stock Exchange and U.S.$10.17 per share on NASDAQ. Our legal name is AnorMED Inc. , our head office is located at Suite 200, 20353 64th Avenue, Langley, British Columbia, Canada V2Y 1N5 and our registered office is located at 2500 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1B3.

Our business and an investment in our common shares involve significant risks. See Risk Factors .

Neither the United States Securities and Exchange Commission (SEC) nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offence.

We are permitted, under a multi-jurisdictional disclosure system adopted by the United States, to prepare this prospectus in accordance with Canadian disclosure requirements, which are different from those of the United States. We prepare our financial statements, which are incorporated by reference in this prospectus, in accordance with Canadian generally accepted accounting principles, and they are subject to Canadian auditing and auditor independence standards. Our financial statements may not be comparable to the financial statements of U.S. companies.

Purchasing our securities may subject you to tax consequences both in the United States and Canada. This prospectus or any prospectus supplement may not describe these tax consequences fully. You should read the tax discussion in any applicable prospectus supplement fully.

Your ability to enforce civil liabilities under United States federal securities laws may be affected adversely because we are incorporated or organized under the laws of Canada, certain of our directors are not U.S. residents, a majority of our officers and the experts named in this prospectus are residents of Canada, and a substantial portion of our assets are located outside the United States.

The date of this prospectus is September 11, 2006.

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As used in this prospectus, the terms AnorMED , we , our and us refer to AnorMED Inc. and, depending on the context, its subsidiary, and the term common shares refers to our common shares.

CURRENCY

In this prospectus and in any prospectus supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars, all references to dollars , CDN$ or $ are to Canadian dollars and all references to U.S.$ are to United States dollars.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, all financial information included and incorporated by reference in this prospectus or included in any prospectus supplement is determined using Canadian generally accepted accounting principles, referred to as Canadian GAAP . U.S. GAAP means generally accepted accounting principles in the United States. We prepare our consolidated financial statements in accordance with Canadian GAAP, which differs from U.S. GAAP. Therefore, our consolidated financial statements incorporated by reference in this prospectus, in any applicable prospectus supplement and in the documents incorporated by reference in this prospectus may not be comparable to financial statements prepared in accordance with U.S. GAAP. For a description of the material differences between accounting principals generally accepted in Canada and accounting principles generally accepted in the United States, as they relate to our financial statements, see note 13 to our audited consolidated financial statements for the financial year ended March 31, 2006, incorporated by reference in this prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

We are incorporating by reference in this short form prospectus certain information contained in documents filed by us with the securities commissions or securities regulatory authorities in each of the provinces of Canada. This means that we are disclosing important information to you by referring you to those documents. You may obtain copies of the documents incorporated by reference in this prospectus on request without charge from our Secretary at Suite 200, 20353 64th Avenue, Langley, British Columbia, Canada, V2Y 1N5, telephone: (604) 530-1057, and are also available electronically at www.sedar.com. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained without change from our Secretary at the above-mentioned address and telephone number and is also available electronically at www.sedar.com.

The following documents are specifically incorporated by reference in this prospectus:

(a) our annual information form for the financial year ended March 31, 2006, dated June 27, 2006;

(b) our audited consolidated balance sheets as at March 31, 2006 and 2005 and the consolidated statements of operations, changes in shareholders equity, and cash flows for each of the years in the three year period ended March 31, 2006, together with the notes thereto and the auditors report thereon;

(c) our management s discussion and analysis for the financial year ended March 31, 2006;

(d) our unaudited consolidated balance sheet as at June 30, 2006 and consolidated statements of operations, changes in shareholders equity, and cash flows for the three month periods ended June 30, 2006 and 2005;

(e) our management s discussion and analysis for the three month period ended June 30, 2006;

(f) our material change report dated April 28, 2006 relating to the election and appointment of our directors;

(g) our material change report dated May 26, 2006 relating to Dr. Michael Abrams stepping down as our President and Chief Executive Officer;

(h) our material change report dated June 14, 2006 relating to the appointment of Paul Brennan, our Acting President and Vice President, Business Development, as one of our directors;

(i) our material change report dated August 30, 2006 relating to receipt of approval to list our common shares on the NASDAQ Global Market;

(j) our material change report dated September 11, 2006 relating to the rejection of the unsolicited approach from Genzyme Corporation to purchase all of our issued and outstanding common shares;

(k) our material change report dated September 11, 2006 relating to the recommendation by our board to reject the unsolicited offer by Genzyme Corporation to acquire all of our common shares and to the adoption by us of a limited duration shareholders rights plan; and

(l) our management proxy circular dated August 10, 2006 prepared in connection with the annual and special meeting of our shareholders to be held on September 19, 2006.

Any documents of the type referred to in the above paragraph, including annual information forms, financial statements, management s discussion and analysis, material change reports (excluding any confidential material change reports), management proxy circulars and business acquisition reports filed by us with the securities regulatory authorities in each of the provinces in Canada after the date of this prospectus and prior to the completion or withdrawal of this offering will be deemed to be incorporated by reference in this prospectus.

In addition, to the extent that any document or information incorporated by reference into this prospectus is included in any report on Form 6-K, Form 40-F, Form 20-F, Form 10-K, Form 10-Q or Form 8-K (or any respective successor form) that is filed with or furnished to the SEC after the date of this prospectus, such document or information shall be deemed to be incorporated by reference as an exhibit to the registration statement of which this prospectus forms a part. In addition, we may incorporate by reference into the registration statement of which this prospectus forms a part other information from documents that we file with or furnish to the SEC if and to the extent expressly provided therein.

A prospectus supplement containing the specific terms of any securities offered will be delivered to purchasers of such securities together with this prospectus and will be deemed to be incorporated by reference in this prospectus as of the date of the prospectus supplement solely for the purposes of the offering of securities to which that prospectus supplement pertains.

Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

Upon a new annual information form and the related annual financial statements being filed by us with, and, where required, accepted by, the applicable securities regulatory authorities during the currency of this prospectus, the previous annual information form, the previous annual financial statements and all quarterly financial statements, material change reports and information circulars filed prior to the commencement of our financial year in which the new annual information form is filed shall be deemed no longer to be incorporated into this prospectus for purposes of future offers and sales of common shares under this prospectus.

You should rely only on the information contained in or incorporated by reference in this prospectus or any applicable prospectus supplement and on the other information included in the registration statement of which this prospectus forms a part. We have not authorized anyone to

provide you with different or additional information. We are not making an offer of these common shares in any jurisdiction where the offer is not permitted by law. You should not assume that the information in this prospectus or any applicable prospectus supplement is accurate as of any date other than the date on the front of those documents.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form F-10 of which the prospectus forms a part. Under the registration statement, we may, from time to time, sell common shares in one or more offerings up to an aggregate principal amount of US$100,000,000. This prospectus provides you with a general description of our common shares. Each time we sell common shares under the registration statement, we will provide a prospectus supplement that will contain specific information about the terms of that offering of common shares. The prospectus supplement may also add, update or change information contained in this prospectus. Before you invest, you should read both this prospectus and any applicable prospectus supplement together with additional information described in this prospectus. This prospectus does not contain all of the information set out in the registration statement. For further information about us and the common shares, please refer to the registration statement, including the exhibits to the registration statement.

We are subject to the information requirements of the United States Securities Exchange Act of 1934, as amended (the Exchange Act), and applicable securities legislation in each of the provinces of Canada, and in accordance therewith, we file and furnish reports and other information with the SEC and with the securities regulatory authorities of each of the provinces of Canada. Under a multijurisdictional disclosure system adopted by the United States and Canada, we may generally prepare these reports and other information (including financial information) in accordance with the disclosure requirements of Canada. These requirements are different from those of the United States. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and shortswing profit recovery provisions contained in Section 16 of the Exchange Act.

The reports and other information filed or furnished by us with the SEC may be read and copied at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Copies of the same documents can also be obtained from the public reference room of the SEC in Washington by paying a fee. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a web site, which can be accessed at www.sec.gov, that makes available reports and other information that we file or furnish electronically with it, including the registration statement of which this prospectus forms a part.

Copies of reports, statements and other information that we file with the Canadian provincial securities regulatory authorities are electronically available from the Canadian System for Electronic Document Analysis and Retrieval, or SEDAR, which can be accessed at www.sedar.com.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, and the documents incorporated by reference herein, contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, and forward looking information within the meaning of applicable securities laws in Canada, (collectively referred to as forward-looking statements). Statements, other than statements of historical fact, are forward-looking statements and include, without limitation, statements regarding the Company s strategy, future operations, timing and completion of clinical trials, prospects and plans and objectives of management. The words anticipates , believes , budgets , could , estimates , expects , fo intends , may , might , plans , projects , schedule , should , will , would and similar expressions are often identify forward-looking statements, which include underlying assumptions, although not all forward-looking statements contain these identifying words.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other things contemplated by the forward-looking statements will not occur. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the beliefs, outlooks, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. Although our management believes that the expectations represented by such forward-looking statements are reasonable, there is significant risk that the forward-looking statements, and the underlying assumptions thereto, will not prove to be accurate. Forward-looking statements in this prospectus, and the documents incorporated by reference herein, include but are not limited to, statements pertaining to the following:

our expectation that we can issue up to U.S.$100,000,000 in aggregate of our common shares for the 25 month period following the date of this short form base shelf prospectus;

our expectation that any potential offering will be successful;

our expectation that we can negotiate commercially acceptable financial terms for any potential offering;

our expectation that any net proceeds from the issue of our common shares will be used for working capital and general corporate purposes, which may include conducting clinical trials and other research and development and, if and when approved, commercialization of our product candidates;

our expected satisfaction of regulatory requirements, including drug manufacturing regulations and environmental regulations;

our expectation with respect to increasing our workforce and completing executive searches;

our estimates of the market potential for our products;

our patent expiration dates;

our dividend policy;

our expectations with respect to revenues and expenses;

the effect of interest rates on our results of operations and cash flow;

our expectations with respect to the timing, progress and success of the various stages comprising our drug discovery and preclinical, clinical and regulatory development programs;

our expectations with respect to existing and future collaborations and licensing transactions with third parties, and the receipt and timing of any payments from such arrangements;

our plans to commence building commercial infrastructure for our lead drug candidate, MOZOBIL;

our intentions relating to the future of the CCR5 research program;

our plans for an E.U. development organization;

the availability of further financing and our plans in the event sufficient capital is not available from alternative sources of funding;

our expectations that we can obtain raw materials and manufacture products in commercial quantities at acceptable costs; and

the benefits and efficacy of our products.

With respect to the forward-looking statements contained in this prospectus and the documents incorporated by reference herein, we have made numerous assumptions regarding, among other things:

our ability to raise up to U.S.$100,000,000 in the 25 month period following the date of this short form base shelf prospectus;

our ability to negotiate commercially acceptable financial terms for any potential offering;

our ability to predict where any net proceeds from the issue of our common shares will be used;

our ability to obtain patents and other intellectual property rights for our drug candidates;

our ability to protect our intellectual property rights and to not infringe on the intellectual property rights of others;

our ability to comply with applicable governmental regulations and standards;

our ability to succeed at establishing a successful commercialization program for any of our products;

our ability to successfully attract and retain skilled and experienced personnel; and

our ability to maintain adequate insurance at acceptable costs.

The foregoing list of assumptions is not exhaustive.

Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and other factors, including:

we may not be able to raise up to U.S.$100,000,000 in the 25 month period following the date of this short form base shelf prospectus to fund further research and development, conduct planned preclinical and clinical studies, and obtain regulatory approvals;

we may not be able to negotiate commercially acceptable financial terms for any potential offering;

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further equity financing may substantially dilute the interests of our shareholders;

our early stage of development, particularly the inherent risks and uncertainties associated with (i) developing new drug candidates generally and specifically drug candidates that interact with chemokine receptors (the area of cellular and molecular biology where we are primarily focused), (ii) demonstrating the safety and efficacy of these drug candidates in clinical studies in humans, and (iii) obtaining regulatory approval to commercialize these drug candidates;

clinical studies and regulatory approvals of our drug candidates are subject to delays, and may not be completed or granted on expected timetables, if at all, and such delays may increase our costs and could delay our ability to generate revenue;

we may not be able to predict where any net proceeds from the issue of our common shares will be used;

we may not be able to obtain patents and other intellectual property rights for our drug candidates;

we may not be able to protect our intellectual property rights and not infringe on the intellectual property rights of others;

we may not be able to comply with applicable governmental regulations and standards;

we may not be able to succeed at establishing a successful commercialization program for any of our products;

we may not be able to successfully attract and retain skilled and experienced personnel;

we may not be able to maintain adequate insurance at acceptable costs;

our lack of product revenues and history of operating losses;

development or commercialization of similar products by our competitors, many of which are more established and have greater financial resources than we do;

we may not be able to rely on third parties for raw materials and manufacturing products in commercial quantities at acceptable costs;

changes in government regulation, medical and healthcare standards, and drug reimbursement policies of government and other third party payors;

changes in foreign currency exchange rates; and

our business is subject to potential product liability and other claims.

The section entitled Risk Factors discusses these and other risks, uncertainties and factors that our management believes could cause actual results or events to differ materially from the forward-looking statements. Although we have attempted to identify the forward-looking statements, the underlying assumptions, and the risks, uncertainties and other factors that could cause actual results or events to differ materially from those expressed or implied in the forward-looking statements, there may be other factors that cause actual results or events to differ from those expressed or implied in the forward-looking statements. We undertake no obligation to revise or update any forward-looking statements as a result of new information, future events or otherwise, after the date hereof, except as may be required by law.

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RISK FACTORS

You should carefully consider the risks described below, together with all of the information disclosed in this short form prospectus, including all documents incorporated by reference, prior to making an investment in our common shares. If any of the following risks materialize, our business, financial condition, results of operations and future prospects will likely be materially and adversely affected. In that event, the market price for our common shares could decline and you could lose all or part of your investment. The risks described below are not the only ones that may exist. Additional risks not currently known by us or that we consider immaterial at the present time may also impair our business, financial condition, results of operations and future prospects.

Risks Related to our Business and our Industry

We are at an early stage of development and have not yet demonstrated an ability to successfully overcome the risks and uncertainties associated with our business.

We were founded in 1996 and are at an early stage of development. As a development stage company, we have limited experience and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical area. There are inherent risks and uncertainties associated with (i) developing new drug candidates generally and specifically drug candidates that interact with chemokine receptors (the area of cellular and molecular biology where we are primarily focused), (ii) demonstrating the safety and efficacy of these drug candidates in clinical studies in humans, (iii) obtaining regulatory approval to commercialize these drug candidates, and (iv) obtaining, enforcing and defending patents claiming our inventions and operating without infringing the patents or other intellectual property rights of third parties. In order to execute our business plan, we will need to successfully advance our core products and programs through the development process, select and develop further drug candidates, build and maintain a strong intellectual property portfolio and avoid infringing the intellectual property rights of third parties, develop and maintain successful strategic relationships, manage costs associated with our research and product development plans, conduct preclinical and clinical trials, obtain regulatory approvals and deliver pharmaceutical products to the market. If we are unsuccessful in accomplishing these objectives, we may not be able to develop drug candidates, raise capital, expand our business or continue our operations.

Our drug candidates require time-consuming and costly preclinical and clinical testing and regulatory approvals prior to commercialization.

The development and commercialization of our products, including MOZOBIL, are subject to extensive regulation by government agencies. These drug regulatory agencies include the U.S. Food and Drug Administration, or FDA, Health Canada, the European Medicines Agency, or EMEA, and country-by-country market regulators in Europe, the Japanese Ministry of Health, Labour and Welfare, the Chinese State Food and Drug Administration, and counterparts of these agencies in other countries. Before we can market a drug product in any of these countries, the applicable regulatory authority in that country must approve a marketing authorization application that we submit for that product. In the United States, the applications for the type of products we are developing are called New Drug Applications , or NDA. In some countries there are also provincial, state and other local government agencies with authority over the marketing of drugs in their jurisdictions. Although the U.S., Europe and Japan, together with other nations, have for a number of years been engaged in an ongoing process to harmonize their respective drug testing and marketing authorization approval regulations, there are still substantial variances in these regula-

tions as well as varying scientific and medical opinions among these regulators as to what constitutes proof of safety and efficacy. Consequently, variances among regulatory approval procedures from country to country may, in some circumstances, require us to conduct additional preclinical or clinical studies that could delay or prevent marketing approval of any of our drug candidates on a country-by-country basis. In response to well-publicized recent events relating to the safety of approved drugs, drug regulators around the world are increasing their focus on pharmacovigilance (drug safety) during the conduct of clinical trials as well as following the approval of marketing authorization applications, such as NDA s in the United States. In addition, in the United States and other jurisdictions, the study protocol to be followed, the informed consent form to be signed by patients, the medical ethics of the study, and related matters for any clinical trial to be conducted at any particular medical center must be approved by the institutional review board at that medical center.

Our drug candidates require significant additional preclinical and clinical testing and investment prior to commercialization. Conducting preclinical and clinical trials is a lengthy, time-consuming and expensive process, and the results of these trials are inherently uncertain. We and, where applicable, our collaborators must commit substantial resources to conduct research and clinical trials in order to complete the development of our portfolio of drug candidates. We cannot assure that any of our drug candidates will meet applicable regulatory standards, obtain required regulatory approvals, be capable of being produced in commercial quantities at reasonable costs or be successfully marketed. We do not expect our products, with the exception of FOSRENOL, which is commercially available in the U.S., to be commercially available in the next two years.

Clinical studies and regulatory approvals of our drug candidates are subject to delays and may not be completed or granted on expected timetables, if at all, and such delays may increase our costs and could delay our ability to generate revenue.

The process of completing preclinical and clinical testing and obtaining regulatory approvals generally takes many years and requires the expenditure of substantial resources, and we do not know whether any preclinical or clinical studies by us or our collaborators will be successful, or that regulatory approvals will be received in a timely manner, or at all, for any of our drug candidates under development. The commencement and completion of clinical trials for any of our drug candidates may be delayed or prevented by many factors, many of which are beyond our control, including:

- ineffectiveness of our drug candidate or perceptions that the candidate is not safe or effective for a particular indication;
- data from our preclinical and clinical studies may be subject to varying interpretations by regulators which could result in failure to obtain regulatory approval for any or all of our drug candidates;
- delays or failures in obtaining regulatory clearance to commence a clinical trial;
- delays or failures in obtaining sufficient clinical materials;
- delays or failures in reaching agreement on acceptable clinical trial agreement terms or clinical trial protocols with prospective sites;
- delays or failures in the regulatory process we must follow, such as the Investigational New Drug process in the United States, in order to commence any clinical trial or in obtaining approval of our clinical trial protocols and related matters from institutional review boards;
- slower than expected rates of patient recruitment or failure to reach full enrollment;

failure of patients to complete the clinical trial;

death of, or serious adverse effects experienced by, one or more patients during a clinical trial even if the reasons are not related to our drug candidate;

inability to monitor patients adequately during or after treatment and, where we rely on third parties for data collection and analysis, inability or unwillingness of such third parties to do so in a timely or accurate manner in accordance with our clinical trial protocols or good clinical practices generally;

inconclusive or negative results as to efficacy and unforeseen safety issues;

clinical costs that are greater than we anticipate; and

government or regulatory delays.

Even if we achieve positive interim results in any clinical trials for any of our drug candidates, these results do not necessarily predict final results, and positive results in early trials may not be indicative of success in later trials. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. Negative or inconclusive results or adverse medical events during a clinical trial could cause us or any of our applicable collaborators to repeat or terminate a clinical trial or conduct additional trials. We do not know whether our existing or any future clinical trials of our drug candidates will demonstrate safety and efficacy sufficiently to result in marketable products. Any one or more of our clinical trials may be suspended at any time for a variety of reasons, including the occurrence of any events or results that cause us, any of our collaborators or any drug regulatory agency to believe that the patients participating in these trials are exposed to unacceptable health risks or that there are deficiencies in the conduct of these trials. Failures or perceived failures in our clinical trials may directly delay our product development and regulatory approval process, damage our business prospects, make it difficult for us to establish collaborations and negatively affect our reputation and competitive position in the pharmaceutical community.

Even if we receive approval to market any product from any regulatory authorities on the basis of successful clinical studies of that product, following the market introduction of that product we or others may discover safety and efficacy problems not observed in the clinical studies. In this respect, as a condition to granting approval to market any of our products or at any time after granting such approval, one or more regulatory authorities may require us to conduct further studies (referred to as Phase IV studies) to determine the safety and efficacy of the product following market introduction. If such problems arise, one or more regulatory authorities may withdraw the approval for that product or we may otherwise voluntarily withdraw the product from the market.

Despite the time and resources expended by us, regulatory approval of drug candidates is never guaranteed. If any of our development programs are not successfully completed in a timely fashion, required regulatory approvals are not obtained in a timely fashion, or products for which approvals are obtained are not commercially successful or are ultimately found to not be safe or effective, our business could be seriously harmed.

We have not recorded any revenues from the sale of products, have a history of operating losses and expect to incur additional losses in the future.

To date, we have not recorded any revenues from the sale of products. From our date of incorporation to March 31, 2006, we have accumulated net losses of approximately $131 million. Although we have received certain milestone and royalty payments in the past, we cannot assure you that we will receive any milestone or royalty payments in the future. Consequently, we expect losses

to increase in the near term as we fund our preclinical and clinical trials and eventually seek regulatory approval for the sale of our products. We expect to continue to incur substantial operating losses unless and until such time as product sales and milestone and royalty payments generate sufficient revenues to fund our continuing operations. We cannot predict if we will ever achieve and sustain profitability.

We need to raise substantial additional financing to fund further research and development, conduct preclinical and clinical studies, and obtain regulatory approvals.

Since inception, we have raised approximately $174 million, net of offering costs, from the sale of equity securities in private placements and public offerings. We will require substantial additional funds to fund further research and development, conduct planned preclinical and clinical trials and obtain regulatory approvals. Further funding for these purposes may be achieved through public or private equity or debt financings, collaborative arrangements with pharmaceutical companies and/or from other sources. We have no established bank financing arrangements, and there can be no assurance that we will be able to establish such arrangements on satisfactory terms. There can be no assurance that additional funding will be available at all or on acceptable terms to permit successful commercialization of our products. If adequate funds are not available, we may be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or commercialization efforts.

Our success will depend, in part, on our ability to obtain and protect patents and other intellectual property rights for our drug candidates.

Our success will depend, in part, on our ability to obtain and enforce patents and other intellectual property rights and maintain trade secret protection. We have filed and are actively pursuing applications for patents in the United States, Canada, various countries in Europe, Japan and other countries. The patent rights of biotechnology and pharmaceutical companies can be highly uncertain and involve complex legal and factual questions. Thus, we cannot assure that any of our patent applications will result in the issuance of patents, that we will develop additional proprietary products that are patentable, that any patents issued to us or those that already have been issued will provide us with any competitive advantages or will not be challenged by any third parties, that the patents of others will not impede our ability to do business or that third parties will not be able to circumvent our patents. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of our products not under patent protection, or design around the inventions we claim in any of our existing patents, existing patent applications or future patents or patent applications.

A number of pharmaceutical and biotechnology companies and research and academic institutions have developed technologies, filed patent applications or received patents on various technologies that are related to or affect our business. Some of these technologies, applications or patents may conflict with our technologies or patent applications. Such conflict could limit the scope of the patents, if any, that we may be able to obtain or result in the denial of our patent applications.

Patent applications in the United States are maintained in secrecy and not published if either: (i) the application is a provisional application or, (ii) the application is filed and we request no publication, and certify that the invention disclosed has not and will not be the subject of a published foreign application. Otherwise, U.S. applications or foreign counterparts, if any, publish 18 months after the priority application has been filed. Since publication of discoveries in the scientific or patent literature often lag behind actual discoveries, we cannot be certain that we or any of our licensors were the first creator of inventions covered by pending patent applications or that we or such licensor was the first to file patent applications for such inventions. Moreover, we might have

to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention or opposition proceedings in the European Patent Office to determine whether any patent issued to us or any third party should be maintained, amended or revoked, which could result in substantial cost to us, even if the eventual outcome were favourable to us. There can be no assurance that our patents, if issued, would be held valid or enforceable by a court or that a competitor s technology or product would be found to infringe such patents.

Much of our know-how and technology may not be patentable. To protect our rights, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. There can be no assurance, however, that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Further, our business may be adversely affected by competitors who independently develop competing technologies, especially if we obtain no, or only narrow, patent protection.

Our success will depend, in part, on our ability to operate without infringing the intellectual property rights of others.

Our success will depend, in part, on our ability to operate without infringing the patents and other proprietary rights of third parties. Infringement proceedings in the pharmaceutical and biotechnology industries can be lengthy, costly and time-consuming and their outcome is uncertain. If we become involved in any patent litigation, interference, opposition or other administrative proceedings, we may incur substantial expense and the efforts of our technical and management personnel may be significantly diverted. As a result of such litigation or proceedings we could lose our proprietary position and be restricted or prevented from developing, manufacturing and selling the affected products, incur significant damage awards, including punitive damages, or be required to seek third-party licenses. If patents that cover our activities are issued to other companies, we cannot assure that we would be able to obtain licenses to these patents at a reasonable cost or be able to develop or obtain alternative technology. We cannot assure that that any such licenses required under third-party patents or proprietary rights would be made available, if at all, on terms we find acceptable. If we need but cannot obtain such licenses on terms that are acceptable to us, we could encounter delays in the introduction of our products or be prohibited from developing, manufacturing, using, selling or otherwise commercializing our own products.

We may incur substantial costs, delays and difficulties in complying with government regulations, including drug manufacturing regulations and environmental regulations.

The manufacture and sale of human therapeutic and diagnostic products in countries around the world, including those in North America, Europe and Asia, are governed by a variety of statutes and regulations. In addition to the statutes and regulations described above relating to the preclinical and clinical studies that we must conduct to demonstrate the safety and efficacy of our drug candidates, we must also comply with statutes and regulations relating to current Good Manufacturing Practices, or cGMP, that regulate the production and storage of drugs, the control of advertising, labelling and other marketing activities, the protection of the environment, and the protection of occupational safety and health of manufacturing personnel.

We believe that the manufacturing processes and facilities by and in which the drug candidates that we are currently studying in clinical trials are manufactured and stored comply with cGMP as adopted by the FDA, Health Canada, the EMEA and Europe national drug regulatory agencies, and counterparts of these regulatory agencies in other countries. Under cGMP, the manufacturing processes and facilities in which our drug candidates are manufactured and stored are subject to periodic review by the FDA, Health Canada and, in the case of the EMEA, authorized third parties. We cannot assure, however, that any of these processes, facilities or future such processes or

facilities that we utilize will remain in or be able to achieve such compliance. The failure to comply with cGMP of any of the processes or facilities by or in which our drug candidates are manufactured or stored is more than likely to result in our failure to obtain or maintain regulatory approval to market the applicable drug candidate or product. In the United States, the FDA has been engaged during the past several years in revising its cGMP regulatory program to encourage the early adoption of new technological advances by the pharmaceutical industry, facilitate industry application of modern quality management techniques, including implementation of quality systems approaches, to all aspects of pharmaceutical production and quality assurance, encourage implementation of risk-based approaches that focus on critical areas, ensure that regulatory review and inspection policies are based on state-of-the-art pharmaceutical science, and enhance the consistency and coordination of the FDA s drug quality regulatory programs, in part, by integrating enhanced quality systems approaches into the FDA s business processes and regulatory policies concerning review and inspection activities. This program, as well as similar programs under consideration by drug regulators in other countries, may result in revisions in the cGMP regulations in the United States and elsewhere that require us or any third party contract manufacturers that we use to modify the facilities in which our drug candidates are manufactured and stored. We cannot assure that we will be able to do so if so required.

Our discovery and development processes also involve the controlled use of hazardous and radioactive materials. We are subject to federal, provincial and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any damages that result and any such liability could exceed our resources. We are not specifically insured with respect to this liability. Although we believe that we are in compliance in all material respects with applicable environmental laws and regulations and currently do not expect to make material capital expenditures for environmental control facilities in the near-term, we cannot assure that we will not be required to incur significant costs to comply with environmental laws and regulations in the future, or that our operations, business or assets will not be materially adversely affected by current or future environmental laws or regulations.

We currently face and will continue to face significant competition.

We are engaged in a rapidly changing field. Other products and therapies that will compete directly with the products that we are seeking to develop and market currently exist or are being developed. Competition from fully integrated pharmaceutical companies and more established biotechnology companies is intense and is expected to increase. Most of these companies have significantly greater financial resources and expertise in discovery and development, manufacturing, preclinical and clinical testing, obtaining regulatory approvals and marketing than ourselves. Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large pharmaceutical and established biotechnology companies. Many of these competitors have significant products that have been approved or are in development and operate large, well-funded discovery and development programs. Academic institutions, governmental agencies and other public and private research organizations also conduct research, seek patent protection and establish collaborative arrangements for therapeutic products and clinical development and marketing. These companies and institutions compete with us in recruiting and retaining highly qualified scientific and management personnel. In addition to the above factors, we will face competition based on product efficacy and safety, the timing and scope of regulatory approvals, availability of supply, marketing and sales capability, reimbursement coverage, price and patent

position. We cannot assure that our competitors will not develop more effective or more affordable products, or achieve earlier patent protection or product commercialization, than our own.

Other companies may succeed in developing products earlier than ourselves, obtaining government regulatory approvals for such products more rapidly than we will, or in developing products that are more effective than products we propose to develop. While we will seek to expand our technological capabilities in order to remain competitive, there can be no assurance that research and development by others will not render our technology or products obsolete or non-competitive or result in treatments or cures superior to any therapy we develop, or that any therapy we develop will be preferred to any existing or newly developed technologies.

We may not succeed at establishing a successful commercialization program for any of our products either through resources that we will have to establish or through outsourcing contracts with third parties.

We have not yet introduced any products to market and have limited manufacturing, sales, marketing and distribution experience. To develop internal sales, distribution and marketing capabilities, we would have to invest significant amounts of financial and management resources. If we decide to perform sales, marketing and distribution functions for certain drugs ourselves, we would face a number of risks, including:

- we may not be able to build a significant marketing or sales force;
- the cost of establishing, training and providing oversight for a marketing or sales force may not be justifiable in light of the revenues generated by any particular product;
- our sales and marketing efforts may not be successful; and
- there are significant legal and regulatory risks in drug marketing and sales that we have never faced, and any failure to comply with legal and regulatory requirements for sales, marketing and distribution could result in enforcement action by drug regulatory authorities, such as the FDA or Health Canada, that could jeopardize our ability to market the product or subject us to liability.

If we rely on third parties to launch and market our drug candidates, if approved, we may have limited or no control over the sales, marketing and distribution activities of these third parties and our future revenue may depend on the success of these third parties. In addition, if these parties fail to comply with applicable regulatory requirements, the FDA, Health Canada or other authorities could take enforcement action that could jeopardize our ability to market the drug candidate.

We believe that there will be many different applications for our products. We also believe that the anticipated market for our products will continue to expand. However, these assumptions may prove to be incorrect for a variety of reasons, including competition from other products and the degree of our products commercial viability.

Our success depends, in part, on our ability to obtain raw materials and manufacture products in commercial quantities at acceptable costs.

To be commercially successful, our drug candidates, if approved, must be manufactured in commercial quantities in compliance with regulatory requirements and at acceptable costs. In order to manufacture any of our products in commercial quantities, if we elect to do so, we will need to develop our own manufacturing facilities or contract with third parties to do so. We cannot assure that we will be able to make the transition to commercial production of any of our products either by manufacturing them on our own or through contract manufacturers.

In addition, production of our products may require raw materials for which the sources and amount of supply are limited or could be limited in the future. Any inability to obtain adequate supplies of such raw materials on acceptable terms, could significantly delay the development, regulatory approval and marketing of our products.

If we fail to hire and retain key management and scientific personnel, we may be unable to successfully implement our business plan.

We are dependent on certain members of our management and scientific staff, the loss of services of one or more of whom could materially adversely affect us. Currently, five members of our management and scientific staff are permitted to work in Canada pursuant to employment authorizations issued by Immigration Canada. Employment authorizations are required to be renewed periodically. We cannot assure that these employment authorizations will be renewed.

Our ability to manage growth effectively will require us to continue to implement and improve our management systems and to recruit and train new employees. Although we have done so in the past and expect to do so in the future, we cannot assure that we will be able to successfully attract and retain skilled and experienced personnel.

Healthcare reform and cost control initiatives by third-party payors could reduce the prices that can be charged for drugs, which could limit the commercial success of our drug candidates and reduce or revenues and profitability.

Our ability to commercialize products successfully will depend in significant part on the extent to which reimbursement for the cost of such products and related treatments will be available from government health administration authorities, private health coverage insurers and other organizations. Both the federal and state governments in the United States, federal and provincial governments in Canada and governments in other countries continue to propose and pass new legislation, rules and regulations affecting third-party payors coverage and reimbursement policies, which are designed to contain or reduce the cost of health care. There may be future changes that result in reductions in current coverage and reimbursement levels for the type of products we are developing, and we cannot predict the full scope of the changes or the impact that those changes would have on our operations. In addition, third-party payors in the United States and elsewhere are increasingly challenging the price and cost-effectiveness of medical products and services. Significant uncertainty exists as to the coverage and reimbursement status of newly approved healthcare products, and we cannot assure that adequate third-party coverage will be available to establish price levels sufficient for us to realize an appropriate return.

We may incur losses associated with foreign currency fluctuation and may not be able to effectively hedge our exposure.

We maintain our accounts in Canadian dollars. A portion of our revenue and expenditures are in foreign currencies, most notably in U.S. dollars, and therefore we are subject to foreign currency fluctuations, which may, from time to time, impact our financial position and results. We currently do not hedge for foreign currency fluctuations. In the future, we may enter into hedging arrangements under specific circumstances, typically through the use of forward or futures contracts, to minimize the impact of decreases in the value of the U.S. dollar.

If product liability lawsuits are successfully brought against us, we will incur significant liabilities and may be required to limit the commercialization of our product candidates.

Our business exposes us to potential product liability risks, which are inherent in the testing, manufacturing, marketing and sale of therapeutic products. Human therapeutic products involve an

inherent risk of product liability claims and associated adverse publicity. While we will continue to take precautions we deem appropriate, there can be no assurance that we will be able to avoid significant product liability exposure.

Our success may depend, in part, on our ability to maintain adequate insurance at acceptable costs.

We have product liability insurance coverage to a maximum of $5 million per incident and an aggregate of $10 million. Such insurance is expensive, difficult to obtain and may not continue to be available on acceptable terms, if at all. An inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of our current or potential products. A product liability claim brought against us in a clinical trail or a product withdrawal could have a material adverse effect upon us and our financial condition.

If we are not successful in establishing and maintaining existing and additional collaborations with third parties, our business will be adversely affected.

Our strategy is to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of our products. To date, we have also entered into research collaborations for the potential development and commercialization of our product candidates with pharmaceutical firms, pursuant to which we could receive additional funding, including milestone payments from those parties. We intend to enter into additional corporate partnering agreements to develop and commercialize products based upon our products and technology. We cannot assure, however, that we will be able to establish such additional collaborations on favourable terms, if at all, or that our current or future collaborative arrangements will be successful.

Should any collaborative partner fail to develop or commercialize successfully any product to which we have rights, or any of the partner s products to which we have rights, our business may be adversely affected. In addition, while we believe that our collaborative partners will have sufficient economic motivation to continue their funding, we cannot assure that any of these collaborations will be continued or result in successfully commercialized products. Failure of a collaborative partner to continue funding any particular program could delay or halt the development or commercialization of any products arising out of such program. In addition, we cannot assure that the collaborative partners will not pursue alternative technologies or develop alternative products either on their own or in collaboration with others, including our competitors, as a means for developing treatments for the diseases and conditions targeted by our programs.

Risks Related to our Common Shares

Further equity financing may substantially dilute the interests of our shareholders.

We will require substantial additional funds to fund further research and development, conduct planned preclinical and clinical trials and obtain regulatory approvals. If we raise additional funding by issuing additional equity securities, such financing may substantially dilute the interests of our shareholders and reduce the value of their investment.

Our common shares may experience price and volume fluctuations and the market price for our common shares may drop below the price you pay.

The market price of our common shares could be subject to significant fluctuations. Market prices for securities of early stage companies like ours have historically been particularly volatile. As a result of this volatility, you may not be able to sell your common shares at or above the price you

pay. The market price of our common shares may fluctuate substantially due to a variety of factors, many of which are beyond our control, including:

announcements concerning the results of clinical trials for our drug candidates;

announcements regarding regulatory approval or rejection of NDA s in the United States and marketing authorization applications in other countries, if any, that we file for any of our drug candidates;

market acceptance of each of our products, if approved for marketing by government regulators;

the amount of reimbursement for our products under government programs, such as Medicare and Medicaid in the United States, and by other third party payors, as well as the prices for our products that we are able to negotiate with government regulators in those countries where we are required to do so;

the need to recall any of our products after they have been approved and introduced into the market;

reports and publications by drug regulatory, health or medical authorities, academic or other researchers, the media or other third parties regarding the potential benefits, side effects or other disadvantages of our drug candidates in particular, the general type of products we are developing, or biopharmaceutical products in general;

announcements of technological innovations or new products by us or our competitors;

announcements concerning our competitors or the biopharmaceutical industry in general;

new regulatory pronouncements and changes in regulatory guidelines;

the timing of our achievement, if at all, of profitability and positive cash flow from operations;

actual or anticipated variations in our quarterly operating results; and

changes in financial estimates or recommendations by securities analysts, or the failure to meet or exceed securities analyst recommendations.

The market prices of securities of pharmaceutical and biotechnology companies have been highly volatile and are likely to remain highly volatile in the future. This volatility has often been unrelated or disproportionate to the operating performance of the particular companies. These broad market fluctuations could result in extreme fluctuations in the price of our common shares, which could cause a decline in the value of a shareholder s investment.

In the past, following periods of volatility in the market price of a company s securities, shareholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and diversion of management attention and resources, which could significantly harm our profitability and reputation.

We do not expect to pay dividends on our common shares in the foreseeable future.

We have never paid cash dividends on our common shares. We currently intend to retain our future earnings, if any, to fund the development and growth of our business, and do not anticipate paying any cash dividends on our common shares for the foreseeable future. As a result, you will have to rely on capital appreciation, if any, to earn a return on your investment in our common

shares in the foreseeable future. Furthermore, we may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends.

Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.

Sales of substantial amounts of our securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for our securities. A decline in the market prices of our securities could impair our ability to raise additional capital through the sale of securities should we desire to do so.

Our articles and certain Canadian laws could delay or deter a change of control.

Our authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares issuable in one or more series, without par value. Our authorized preferred shares are available for issuance from time to time at the discretion of our board of directors, without shareholder approval. Our articles grant our board of directors the authority, subject to the corporate laws of Canada, to determine or alter the special rights and restrictions granted to or imposed on any wholly unissued series of preferred shares, and such rights may be superior to those of our common shares.

Limitations on the ability to acquire and hold our common shares may be imposed by the *Competition Act* (Canada). This legislation permits the Commissioner of Competition of Canada to review any acquisition of a significant interest in us. This legislation grants the Commissioner jurisdiction to challenge such an acquisition before the Canadian Competition Tribunal if the Commissioner believes that it would, or would be likely to, result in a substantial lessening or prevention of competition in any market in Canada. The *Investment Canada Act* (Canada) subjects an acquisition of control of a company by a non-Canadian to government review if the value of our assets as calculated pursuant to the legislation exceeds a threshold amount. A reviewable acquisition may not proceed unless the relevant minister is satisfied that the investment is likely to be a net benefit to Canada.

Any of the foregoing could prevent or delay a change of control and may deprive or limit strategic opportunities for our shareholders to sell their shares.

We follow corporate governance requirements of Canadian corporate and securities laws.

Non-Canadian residents holding our common shares should be aware that we follow the corporate governance requirements of applicable Canadian corporate and securities laws which may differ from corporate governance requirements under laws applicable in their place of residence. In addition, although we substantially comply with the corporate governance guidelines of the NASDAQ, we are permitted to follow the shareholder meeting quorum requirements of our bylaws, which provide that a quorum is met by two persons holding or representing not less than 10% of the outstanding voting shares (as compared to $33^{1}/3$% under NASDAQ requirements).

We may be a passive foreign investment company under U.S. federal income tax laws in the current or future tax years.

Special United States federal income tax rules apply to U.S. taxpayers directly or indirectly owning shares of a passive foreign investment company, or PFIC. We may constitute a PFIC in the current or a future tax year. However, since PFIC status will be determined on an annual basis and depends on the composition of the our income and assets and the nature of the our activities from time to time, there can be no assurance that we will not be considered a PFIC for the current or any future taxable year. Moreover, we will not obtain an opinion of counsel, and no ruling will be sought

from the U.S. Internal Revenue Service, regarding the United States federal income tax characterization of us as a PFIC. If we are treated as a PFIC for any taxable year during which a U.S. taxpayer holds, or is treated as holding, our common shares, certain adverse consequences could apply to the U.S. taxpayer.

Certain adverse PFIC rules described above will not apply to a U.S. shareholder if the U.S. shareholder timely elects to have us treated as a qualified electing fund , or QEF, for the first taxable year in which the U.S. taxpayer is treated as owning an interest in a PFIC, and we provide specified information to U.S. shareholders. If we are treated as a PFIC, a U.S. taxpayer may not be able to avoid the adverse consequences described above by electing to treat us as a QEF because we may not provide the information that a holder requires to make such an election effective.

As an alternative to the QEF election, a U.S. taxpayer of marketable stock in a PFIC may make a mark-to-market election, provided the PFIC stock is regularly traded on a qualified exchange . Our common shares are currently traded on NASDAQ, which is a qualified exchange . We cannot assure U.S. taxpayers that our common shares will be treated as regularly traded stock. If the mark-to-market election is available and validly made, the electing U.S. taxpayer generally would (i) include in gross income, entirely as ordinary income, an amount equal to the excess, if any, of the fair market value of the PFIC stock as of the close of such taxable year and its adjusted tax basis in the stock, and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the PFIC stock over its fair market value at the end of the taxable year, but only to the extent of the amount previously included in gross income as a result of the mark-to-market election.

A U.S. taxpayer considering investing in our common shares should consult its own tax advisor concerning the United States federal income tax consequences of holding our common shares if we are treated as a PFIC for any taxable year during which the U.S. shareholder holds, or is treated as holding, our common shares (including the advisability and availability of making any of the foregoing elections).

U.S. investors may not be able to obtain enforcement of civil liabilities against us, certain of our directors and officers, and the experts named in this prospectus.

The enforcement by investors of civil liabilities under the United States federal or state securities laws may be affected adversely by the fact that we are organized under and governed by the federal laws of Canada, and that certain of our directors are not U.S. residents and a majority of our officers and the experts named in this prospectus are residents of Canada, and that a substantial portion of our are located outside the United States. It may not be possible for investors to effect service of process within the United States on us, certain of our directors and officers, and the experts named in this prospectus, or enforce judgments obtained in U.S. courts against us, certain of our directors and officers, and the experts named in this prospectus based upon the civil liability provisions of U.S. federal or state securities laws.

There is some doubt as to whether a judgment of a U.S. court based solely upon the civil liability provisions of U.S. federal or state securities laws would be enforceable in Canada against us and our directors and officers. There is also doubt as to whether an original action could be brought in Canada against us or our directors and officers to enforce liabilities based solely upon U.S. federal or state securities laws.

OUR COMPANY

We are a chemistry-based biopharmaceutical company focused on the discovery, development and commercialization of new therapeutic drugs in the areas of hematology, human immunodeficiency virus, or HIV, and oncology, based on our research into chemokine receptors. Our lead drug candidate, MOZOBIL, is in pivotal Phase III clinical trials for stem cell mobilization. We believe MOZOBIL has the potential to increase the proportion of patients achieving an optimal collection of stem cells more rapidly and predictably than currently approved drugs thus making current stem cell transplantation procedures more safe, effective and accessible to patients.

Our programs are focused on a new class of drugs that target chemokine receptors, specifically CXCR4 and CCR5 receptors. Chemokines are a class of naturally occurring proteins that are involved in cellular signalling, adhesion and migration. These processes play a critical role in bone marrow function, immune responses as well the pathogenesis of diseases such as cancer and HIV infection.

While significant advances in drug discovery have generated breakthroughs in the treatment and management of hematology, HIV and oncology, individual responses to treatments remain highly variable with a significant proportion of patients deriving little or no benefit from the therapy. For example, exposure to chemotherapeutic drugs is associated with toxic side effects and adaptation within the tumor micro environment can rapidly trigger drug resistance. In the HIV setting, mutations of the HIV virus generate drug resistance. As a result, treatments for cancer and HIV often involve drug cocktails whereby physicians employ a strategy of combining drugs with different mechanisms of action to maximize tumor response and infection control, respectively.

Our product candidates in HIV and oncology have the potential to improve patient outcomes by working additively or synergistically with common drugs used to manage and treat cancer and HIV. In conditions where the underlying pathology of the disease is mediated by chemokines, our product candidates have the potential to serve as primary therapeutic compounds.

The following table summarizes our preclinical and clinical product candidates and programs:

Program	**Indication**	**Status**	**Marketing Rights**
MOZOBIL	Stem Cell Transplant	Phase III	AnorMED
AMD070	HIV Entry Inhibitor	Phase Ib/IIa	AnorMED
MOZOBIL	Oncology	Preclinical	AnorMED
CCR5	HIV	Preclinical	AnorMED
CXCR4	Oncology	Preclinical	AnorMED

CAPITALIZATION

Since June 30, 2006, there have been no material changes in our consolidated share and loan capital.

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, any net proceeds that we receive from the issue of our common shares will be used for working capital and general corporate purposes, which may include, but is not limited to, conducting clinical trials and other research and development and, if and when approved, commercialization of our product candidates.

DESCRIPTION OF SHARE CAPITAL

Our authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares issuable in one or more series, without par value. As at September 8, 2006, 41,914,011 of our common shares, and none of our preferred shares, were issued and outstanding.

The modification, amendment or variation of the rights attached to our common shares or preferred shares is governed by the *Canada Business Corporations Act,* the legislation under which we are incorporated. This legislation provides that such a modification, amendment or variation requires the approval of our shareholders by special resolution, being a majority of not less than 2/3 of the votes cast by our shareholders.

Common Shares

The holders of our common shares are entitled to receive notice of any meeting of our shareholders, except those meetings at which only the holders of shares of another class or of a particular series are entitled to vote, and to attend and vote thereat. Each of our common shares entitles its holder to one vote on any poll that may be conducted. Subject to the rights of the holders of our preferred shares, the holders of our common shares are entitled to receive on a pro-rata basis such dividends as our board of directors may declare out of funds legally available for this purpose. In the event of the dissolution, liquidation, winding-up or other distribution of our assets, holders of our common shares are entitled to receive on a pro-rata basis all of our assets remaining after payment of all of our liabilities, subject to the rights of holders of our preferred shares. The common shares carry no pre-emptive or conversion rights and no provisions for redemption, retraction, purchase for cancellation or surrender, sinking or purchase funds, or requiring a shareholder to contribute additional capital.

Preferred Shares

Our preferred shares are issuable from time to time in one or more series, each series comprising the number of shares, designation, rights, privileges, restrictions and conditions determined by our board of directors. Our preferred shares will be entitled to priority over our common shares with respect to the payment of dividends and distributions in the event of our dissolution, liquidation or winding-up. The holders of our preferred shares are entitled to receive notice of any meeting of our shareholders and to attend and vote thereat, except as otherwise provided in the rights and restrictions attached to a series of preferred shares by our board or directors.

PLAN OF DISTRIBUTION

We may issue the common shares offered by this prospectus for cash or other consideration;

- to or through underwriters, dealers, placement agents or other intermediaries;
- directly to one or more purchasers; or
- in connection with acquisitions by us.

Each prospectus supplement will set forth the terms of the offering of the common shares, including:

- the name or names of any underwriters, dealers or other placement agents;
- the purchase price of, and form of consideration for, the common shares;

any proceeds to us; and

any underwriting commissions, fees, discounts and other items constituting underwriters compensation.

The common shares may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market price or at negotiated prices.

Under agreements which may be entered into by us, underwriters, dealers and agents who participate in the distribution of common shares may be entitled to indemnification by us against certain liabilities, including liabilities under the United States Securities Act of 1933, as amended, and applicable Canadian provincial securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. The underwriters, dealers and agents with whom we enter into agreements may be customers of, engage in transactions with, or perform services for, us in the ordinary course of business.

In connection with any offering of common shares, the underwriters may over-allot or effect transactions which stabilize or maintain the market price of the common shares offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

LEGAL MATTERS

Certain legal matters relating to the common shares offered by this short form base shelf prospectus will be passed upon for us by Farris, Vaughan, Wills & Murphy LLP, Vancouver, British Columbia, Canada, with respect to matters of Canadian law, and Dorsey & Whitney LLP, Vancouver, British Columbia, Canada, with respect to matters of United States law.

DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

The following documents have been filed with the SEC as part of the Registration Statement of which this prospectus forms a part: the documents referred to under the heading documents incorporated by reference ; consent of KPMG LLP; and powers of attorney from our directors and officers.

PART II
INFORMATION NOT REQUIRED TO BE DELIVERED TO
OFFEREES OR PURCHASERS

Indemnification of Directors and Officers.

Canada Business Corporations Act

Under the *Canada Business Corporations Act* (the CBCA), which governs the Registrant, the Registrant may indemnify a present or former director or officer of the Registrant or a person who acts or acted at the Registrant s request as a director or officer, or an individual acting in a similar capacity, of another entity (the Individual), against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the Individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the Individual is involved because of that association with the Registrant or other entity. The Registrant may advance monies to the Individual for the costs, charges and expenses of a proceeding referred to in the preceding sentence.

However, the indemnification referred to in the preceding paragraph is prohibited under the CBCA, and all moneys advanced to the Individual pursuant to the preceding paragraph must be repaid, unless the Individual:

(a) acted honestly and in good faith with a view to the best interests of the Registrant, or, as the case may be, to the best interests of the other entity for which the Individual acted as director or officer or in a similar capacity at the Registrant s request; and

(b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, had reasonable grounds for believing that the Individual s conduct was lawful.

In addition, such indemnification or the advance of monies may only be made in respect of an action by or on behalf of the Registrant or other entity to procure a judgment in its favour with the prior approval of the court.

Notwithstanding the foregoing, the CBCA provides that an Individual is entitled to indemnity from the Registrant in respect of all costs, charges and expenses reasonably incurred by the Individual in connection with the defence of any civil, criminal, administrative, investigative or other proceeding to which the Individual is subject because of the Individual s association with the Registrant or other entity, if the Individual was not judged by the court or other competent authority to have committed any fault or omitted to do anything that the individual ought to have done and has fulfilled the conditions set forth in (a) and (b) of the preceding paragraph.

Bylaws of the Registrant

The bylaws of the Registrant provide that, subject to the limitations contained in the CBCA, but without limiting the right of the Registrant to indemnify any individual under the CBCA or otherwise to the full extent permitted by law, the Registrant:

(a) shall indemnify each director or officer or former director or officer and each other individual who acts or has acted at the Registrant s request as a director or officer, or in a similar capacity, of another entity (and each such individual s respective heirs and personal representatives), against all costs, charges and expenses, including an amount paid to settle an

action or satisfy a judgment, reasonably incurred in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the Registrant or other entity, provided:

(i) the individual acted honestly and in good faith with a view to the best interests of the Registrant or, as the case may be, to the best interests of the other entity for which the individual acted as a director or officer or in a similar capacity at the Registrant s request; and

(ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the individual s conduct was lawful; and

(b) shall advance monies to a director, officer or other individual for the costs, charges and expenses of a proceeding referred to in subparagraph (a) above in accordance with and subject to the CBCA.

Notwithstanding the foregoing, the bylaws of the Registrant provide that any such indemnity or advance of monies in respect of an action referred to in (a) of the preceding paragraph by or on behalf of the Registrant or other entity in respect of which an individual has acted as director or officer or in a similar capacity at the request of the Registrant to procure judgment in its favour shall be subject to approval of a court.

Indemnification Agreements

The Registrant has entered into an indemnification agreement with each of its directors and officers which provides, among other things, that the Registrant will, to the fullest extent not prohibited by law, indemnify such person against costs, charges and expenses reasonably incurred by such person in respect of any civil, criminal, administrative, investigative or other proceeding in which such person is involved because of his or her association as a present or former director or officer of the Registrant, or an individual who acts or acted at the Registrant s request as a director or officer, or an individual acting in a similar capacity, of another entity, whether brought by or on behalf of the Registrant or otherwise. The indemnification agreements also provide that, to the fullest extent not prohibited by law, or by a finding of an arbitrator or a court of first instance, the Registrant will advance, as they are incurred in advance of the final disposition of an eligible proceeding, the litigation expenses actually and reasonably incurred by such person in connection with the eligible proceeding, and upon it being ultimately determined whether or not indemnification of such person for all or part of the advanced litigation expenses is prohibited by the CBCA:

(a) to the extent that indemnification for the advanced litigation expenses is not prohibited, the Registrant will indemnify such person against them, and such person will not be required to repay them; or

(b) to the extent that indemnification for the advanced litigation expenses is prohibited, such person will repay them to the Registrant.

Directors and Officers Insurance

The Registrant maintains a directors and officers insurance and registrant reimbursement policy. The policy: (a) insures directors and officers against losses for which the Registrant does not indemnify and which losses arise from certain wrongful acts in the indemnified parties capacities as directors and officers; and, (b) reimburses the Registrant for those losses for which the Registrant has lawfully indemnified the directors and officers.

United States Securities and Exchange Commission Opinion on Indemnification Under the Securities Act

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the Securities Act), may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the United States Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

EXHIBITS

See the Exhibit Index hereto.

PART III
UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

Item 1. Undertaking.

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the United States Securities and Exchange Commission staff, and to furnish promptly, when requested to do so by the United States Securities and Exchange Commission staff, information relating to the securities registered pursuant to this Form F-10 or to transactions in said securities.

Item 2. Consent to Service of Process.

The Registrant has previously filed with the Commission a written Appointment of Agent for Service of Process and Undertaking on Form F-X.

Any change to the name or address of the agent for service of the Registrant shall be communicated promptly to the United States Securities and Exchange Commission by an amendment to Form F-X referencing the file number of the relevant registration statement.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-10 and has duly caused this amendment to its Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Langley, Province of British Columbia, Canada, on this 11th day of September, 2006.

AnorMED Inc.
By:/s/ William J. Adams

Name: William J. Adams
Title: Vice President, Finance, Chief Financial Officer, Secretary and Treasurer

Pursuant to the requirements of the Securities Act of 1933, this amendment to the Registration Statement has been signed by the following persons in the capacities indicated on September 11, 2006:

Signature	Title
* Kenneth H. Galbraith	Interim Chief Executive Officer, Chairman and Director (Principal Executive Officer)
/s/ William J. Adams William J. Adams	Vice President, Finance, Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)
* Paul A. Brennan	Acting President, Vice President, Business Development and Director
* Joseph P. Dougherty	Director
* Henry J. Fuchs	Director
* Jacques R. Lapointe	Director
* I. Berl Nadler	Director
*	Director

Kelvin M. Neu

Signature	Title
*	Director
Klaus R. Veitinger	
*	Director
Felix Baker	
*	Director
William L. Hunter	

*By: /s/ William J. Adams

Name: William J. Adams
Title: Attorney-in-fact

AUTHORIZED REPRESENTATIVE

Pursuant to the requirements of Section 6(a) of the Securities Act of 1933, as amended, the undersigned has signed this amendment to the Registration Statement, solely in its capacity as the duly authorized representative of AnorMED Inc. in the United States, on September 7, 2006.

/s/ Klaus R. Veitinger

Klaus R. Veitinger

EXHIBIT INDEX

Exhibit	Description
4.1	Annual information Form for the financial year ended March 31, 2006, dated June 27, 2006 (incorporated by reference to AnorMED Inc. s Annual Report on Form 40-F for the financial year ended March 31, 2006, filed with the SEC on June 30, 2006 (File No. 0-51803)).
4.2	Audited consolidated balance sheets as at March 31, 2006 and 2005 and the consolidated statements of operations, changes in shareholders equity, and cash flows for each of the years in the three year period ended March 31, 2006, together with the notes thereto and the auditors report thereon (incorporated by reference to AnorMED Inc. s Annual Report on Form 40-F for the financial year ended March 31, 2006, filed with the SEC on June 30, 2006 (File No. 0-51803)).
4.3	Management s discussion and analysis for the financial year ended March 31, 2006 (incorporated by reference to AnorMED Inc. s Annual Report on Form 40-F for the financial year ended March 31, 2006, filed with the SEC on June 30, 2006 (File No. 0-51803)).
4.4	Unaudited consolidated balance sheet as at June 30, 2006 and consolidated statements of operations, changes in shareholders equity, and cash flows for the three month periods ended June 30, 2006 and 2005 (incorporated by reference to AnorMED Inc. s Report on Form 6-K, furnished to the SEC on August 14, 2006 (File No. 0-51803)).
4.5	Management s discussion and analysis for the three month period ended June 30, 2006 (incorporated by reference to AnorMED Inc. s Report on Form 6-K, furnished to the SEC on July 31, 2006 (File No. 0-51803)).
4.6	Material change report dated April 28, 2006 (incorporated by reference to AnorMED Inc. s Report on Form 6-K, furnished to the SEC on June 6, 2006 (File No. 0-51803)).
4.7	Material change report dated May 26, 2006 (incorporated by reference to AnorMED Inc. s Report on Form 6-K, furnished to the SEC on May 30, 2006 (File No. 0-51803)).
4.8	Material change report dated June 14, 2006 (incorporated by reference to AnorMED Inc. s Report on Form 6-K, furnished to the SEC on June 19, 2006 (File No. 0-51803)).
4.9	Management proxy circular dated August 10, 2006 prepared in connection with the annual and special meeting of our shareholders to be held on September 19, 2006 (incorporated by reference to AnorMED Inc. s Report on Form 6-K, furnished to the SEC on August 28, 2006 (File No. 0-51803)).
4.10	Material change report dated August 30, 2006 (incorporated by reference to AnorMED Inc. s Report on Form 6-K, furnished to the SEC on August 31, 2006 (File No. 0-51803)).
4.11	Material change report dated September 11, 2006 (incorporated by reference to AnorMED Inc. s Report on Form 6-K, furnished to the SEC on September 11, 2006 (File No. 0-51803)).
4.12	

Material change report dated September 11, 2006 (incorporated by reference to AnorMED Inc. s Report on Form 6-K, furnished to the SEC on September 11, 2006 (File No. 0-51803)).

5.1 Consent of KPMG LLP.

6.1* Powers of Attorney.

* Previously filed.
style="TEXT-ALIGN: left">$300 /
mo
200 9th Avenue N, Ste 200
Safety Harbor,
FL
Mortgage Sales
Leased
3,591 $57,065 /
yr
970 No. Kalaheo Ave, Suite A-214
Kailua
HI
Mortgage Sales
Leased
665 $19,094 /
yr
1540 W North Ave. #2
Chicago
IL
Mortgage Sales
Leased
1,000 $19,800 /
yr
1016 W Jackson Blvd Suites 503&505
Chicago
IL
Mortgage Sales
Leased
1,000 $3,000 /
mo
7227 West Madison Street Suite F
Forest Park
IL
Mortgage Sales
Leased
1,800 $8,400 /
yr
1200 Jorie Blvd #220
Oak Brook
IL
Mortgage Sales

Leased

4,763 $84,940 /

yr
16744 Oak Park Ave
Tinley Park
IL
Mortgage Sales
Leased

500 $499 /

mo
6813 Hobson Valley Drive #104
Woodridge
IL
Mortgage Sales
Leased

1,000 $3,000 /

yr
6900 College Blvd., Suite 950
Overland Park
KS
Mortgage Sales
Leased

2,800 $55,100 /

yr
6900 Houston Rd. #21 & 22
Florence
KY
Mortgage Sales
Leased

1,700 $1,900 /

mo
4401 N. I-10 Service Rd. Suite 104
Metairie
LA
Mortgage Sales
Leased

507 $7,200 /

yr
150 A Andover Street
Danvers
MA
Mortgage Sales
Leased

2,138 $28,863 /

yr
12977 North Forty Drive Ste 203
St. Louis
MO
Mortgage Sales
Leased

2,933 $50,881 /

yr
1400 Battleground Ave #202-A
Greensboro
NC
Mortgage Sales
Leased
260 $238 /
mo
8601 Six Forks Rd.
Raleigh
NC
Mortgage Sales
Leased
160 $799 /
mo
127 Village Rd
Shallotte
NC
Mortgage Sales
Leased
500 $3,000 /
yr
142 Main Street
Nashua
NH
Mortgage Sales
Leased
500 $9,000 /
yr
60 Main Street Suite 322
Nashua
NH
Mortgage Sales
Leased
1,000 $14,256 /
yr
212 West Route 38 #200
Moorestown
NJ
Mortgage Sales
Leased
500 $5,100 /
yr
6540 South Pecos Road, Building A, Suite 104
Clark County
NV
Mortgage Sales
Leased
2,802 $2,662 /
mo
375 N Stephanie #2311

Henderson
NV
Mortgage Sales
Leased
3,938 $47,256 /
yr
2370 Corporate Circle, Suite 200
Henderson
NV
Mortgage Sales
Leased
7,741 $169,063 /
yr
3285 North Fort Apache Road
Las Vegas
NV
Mortgage Sales
Leased
1,000 $11,500 /
mo
3275 N Fort Apache Rd, Stuie #150
Las Vegas
NV
Mortgage Sales
Leased
2,000 $2,448 /
mo
3406 S Durango Dr #100
Las Vegas
NV
Mortgage Sales
Leased
3,165 $34,182 /
yr
9330 W. Sahara Ave #270
Las Vegas
NV
Mortgage Sales
Leased
3,000 $3,351 /
mo
800 s Meadows Pkwy #600
Reno
NV
Mortgage Sales
Leased
1,346 $20,190 /
yr
26341 Curtiss Wright Pkwy Ste 101
Richmond Heights
OH

Mortgage Sales
Leased

3,600 $2,025 /

mo
5000 Rockside Road #100
Independence
OH
Mortgage Sales
Leased

1,000 $19,025 /

yr
2649 N. High Street, Suite A
Columbus
OH
Mortgage Sales
Subleased

1,500 $500 /

mo
1205 West Abrams Street
Arlington
TX
Mortgage Sales
Leased

463 $84,000 /

yr
2900 South Congress #101
Austin
TX
Mortgage Sales
Leased

916 $2,005 /

mo
8700 Manchca Road #603
Austin
TX
Mortgage Sales
Leased

1,000 $300 /

mo
9737 Great Hills Trail, Suite 150
Austin
TX
Mortgage Sales
Leased

3,667 $54,088 /

yr
9737 Great Hills Trail, Suite 200
Austin
TX
Mortgage Sales
Leased

8,000 $11,333 /
mo
1213 East Alton Gloor Blvd Suite H
Brownsville
TX
Mortgage Sales
Leased
1,000 $13,200 /
yr
255 Elk Drive Suite D
Burleson
TX
Mortgage Sales
Leased
1,182 $19,503 /
yr
12201 Merit Drive, Suite 400
Dallas
TX
Mortgage Sales
Leased
4,613 $83,034 /
yr
4144 North Central Expressway Stuite 600
Dallas
TX
Mortgage Sales
Leased
420 $10,320 /
yr
223 North Cedar Ridge
Duncanville
TX
Mortgage Sales
Leased
1,000 $9,600 /
yr
5211 South McColl Road Suite G
Edinburg
TX
Mortgage Sales
Leased
1,000 $450 /
mo
11601 Pellicano Suite A-14&15
El Paso
TX
Mortgage Sales
Leased
2,160 $30,000 /
yr

4936 Collinwood Sutie 110
Fort Worth
TX
Mortgage Sales
Leased
750 $13,500 /
yr
17000 El Camino Real #103D
Houston
TX
Mortgage Sales
Leased
750 $750 /
mo

10

Item 2. Properties (Continued)

Street	City	State	Function	Owned Leased	Approximate Square Footage		Lease Amount		
6420 Richmond #208	Houston	TX	Mortgage Sales	Leased	700	$	9,100	/	yr
17347 Village Green Drive-102A	Houston	TX	Mortgage Sales	Leased	3,000	$	4,495	/	mo
5353 W. Sam Houston Parkway N., Suite 170	Houston	TX	Mortgage Sales	Leased	5,442	$	69,756	/	yr
7410 Westview	Houston	TX	Mortgage Sales	Leased	1,000	$	18,000	/	yr
4600 Hwy 6 North, Ste 220	Houston	TX	Mortgage Sales	Leased	463	$	7,030	/	yr
2825 Wilcrest Drive, Ste 220	Houston	TX	Mortgage Sales	Leased	120	$	400	/	mo
545 E John Carpenter, Ste 300	Irving	TX	Mortgage Sales	Leased	1,081	$	3,629	/	mo
201 Kingwood Medical Drive A400	Kingwood	TX	Mortgage Sales	Leased	1,850	$	4,420	/	mo
1310 RR 620 S #C15	Lakeway	TX	Mortgage Sales	Leased	2,472	$	3,060	/	mo
201 W Del Mar Blvd # 5B	Laredo	TX	Mortgage Sales	Leased	500	$	1,627	/	mo
1901 East Palm Valley Blvd	Round Rock	TX	Mortgage Sales	Leased	1,100	$	13,200	/	yr
1354 North Loop 1604 East	San Antonio	TX	Mortgage Sales	Leased	3,622	$	56,684	/	yr
1110 South Alamo	San Antonio	TX	Mortgage Sales	Leased	1,016	$	1,300	/	mo
1036 South Alamo	San Antonio	TX	Mortgage Sales	Leased	575	$	11,700	/	yr
19901 Southwest Freeway #108	Sugarland	TX	Mortgage Sales	Leased	500	$	500	/	mo
206 FM 1237	Troy	TX	Mortgage Sales	Leased	200	$	275	/	mo
3334 WSW Loo 323 # 121	Tyler	TX	Mortgage Sales	Leased	180	$	235	/	mo
602 S Main St #300	Weatherford	TX	Mortgage Sales	Leased	1,000	$	1,800	/	mo
13961 Minuteman Drive Suite 125	Draper	UT	Mortgage Sales	Leased	2,807	$	4,795	/	mo
13997 Minuteman Drive Suite 100	Draper	UT	Mortgage Sales	Leased	5,492	$	2,975	/	mo
497 South Main	Ephraim	UT	Mortgage Sales	Leased	500	$	765	/	mo
1558 N Woodland Park Drive #400	Layton	UT	Mortgage Sales	Leased	1,000	$	2,500	/	mo

6965 South Union Park, Suites #300, #460, #470, & #480	Midvale	UT	Mortgage Sales	Leased	29,184	$	44,703	/	mo
7651 South Main Street	Midvale	UT	Mortgage Sales	Leased	665	$	12,768	/	mo
1245 Deer Valley Drive #3A	Park City	UT	Mortgage Sales	Leased	2,183	$	43,660	/	yr
1864 West 12600 South	Riverton	UT	Mortgage Sales	Leased	277	$	6,911	/	yr
970 East Murray-Holladay Rd., Suite 603	Salt Lake City	UT	Mortgage Sales	Leased	6,357	$	47,722	/	yr
307 West 200 South, Ste 2001	Salt Lake City	UT	Mortgage Sales	Leased	500	$	500	/	mo
9815 S. Monroe Street	Sandy	UT	Mortgage Sales	Leased	2,819	$	59,988	/	yr
1099 West South Jordan Parkway	South Jordan	UT	Mortgage Sales	Leased	3,329	$	60,311	/	yr
70 South Main Street	Tooele	UT	Mortgage Sales	Leased	1,230	$	25,200	/	yr
8831 South Redwood Rd	West Jordan	UT	Mortgage Sales	Leased	1,000	$	97,248	/	yr
1604 Hewitt Ave, Suite 703	Everett	WA	Mortgage Sales	Leased	2,038	$	4,650	/	mo
720 South 333rd St#102	Federal Way	WA	Mortgage Sales	Leased	2,000	$	6,253	/	mo
11335 NE 122nd Way, Suite #138 & #115	Kirkland	WA	Mortgage Sales	Leased	230	$	1,475	/	mo
5400 Carillon Point	Kirkland	WA	Mortgage Sales	Leased	500	$	5,089	/	mo
803 Vandercook Way #6E	Longview	WA	Mortgage Sales	Leased	500	$	995	/	mo
424 29th Ave NE, Suite A	Puyallup	WA	Mortgage Sales	Leased	2,782	$	4,869	/	mo
110 East Stewart Ave	Puyallup	WA	Mortgage Sales	Leased	3,400	$	4,000	/	mo
5909 6th Avenue A	Kenosha	WI	Mortgage Sales	Leased	1,000	$	950	/	mo

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

Item 2. Properties (Continued)

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

					Net Saleable Acreage	
Name of Cemetery	Location	Date Acquired	Developed Acreage (1)	Total Acreage (1)	Acres Sold as Cemetery Spaces (2)	Total Available Acreage (1)
Memorial Estates, Inc.						
Lakeview Cemetery	1640 East Lakeview Drive Bountiful, Utah	1973	7	40	6	34
Mountain View Cemetery (5)	3115 East 7800 South Salt Lake City, Utah	1973	17	54	16	38
Redwood Cemetery (4) (5)	6500 South Redwood Road West Jordan, Utah	1973	34	78	29	49
Cottonwood Mortuary, Inc.						
Deseret Memorial Inc. Lake Hills Cemetery (3)(6)	10055 South State Street Sandy, Utah	1991	9	28	4	24
Holladay Memorial Park (3)(4)	4900 South Memory Lane Holladay, Utah	1991	5	14	4	10
California Memorial Estates						
Singing Hills Memorial Park	2800 Dehesa Road El Cajon, California	1995	8	35	4	31

(1) The acreage represents estimates of acres that are based upon survey reports, title reports, appraisal reports or the Company's inspection of the cemeteries.
(2) Includes spaces sold for cash and installment contract sales.
(3) As of December 31, 2013, there were mortgages of approximately $612,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, and Lake Hills Cemetery.
(4) These cemeteries include two granite mausoleums.
(5) The Company developed additional acreage at both Mountain View Cemetery and Redwood Cemetery in 2013 and plans to continue such development as needed.
(6) In mid-October 2013, Deseret Mortuary sold to Dry Creek Development 13 Acres of unimproved land.

Item 2. Properties (Continued)

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

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

(1) As of December 31, 2013, there were mortgages of approximately $612,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park and Lake Hills Cemetery.
(2) These funeral homes also provide burial niches at their respective locations.

Item 3. Legal Proceedings

Lehman Brothers – Aurora Loan Services Litigation

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

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 55 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 55 mortgage loans.

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

Since the reserve account was established, funds have been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among 55 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of $1,289,000 and $-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2013, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

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

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

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

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

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

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. The motion and cross motion are under advisement. SecurityNational Mortgage's motion in the Lehman Holdings case has been reset for hearing on April 22, 2014 before Judge Ted Stewart of the United States District Court for the District of Utah, with a trial, as may be necessary, set for August 11, 2014.

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Stock, Related Security Holder Matters, and Issuer Purchases of Equity Securities

The Company's Class A common stock trades on The Nasdaq National Market under the symbol "SNFCA." Prior to August 13, 1987, there was no active public market for the Class A and Class C common stock. As of March 26, 2014, the closing sales price of the Class A common stock was $4.16 per share. The following were the high and low market closing sales prices for the Class A common stock by quarter as reported by Nasdaq since January 1, 2012:

	Price Range (1)	
	High	Low
Period (Calendar Year)		
2012		
First Quarter	$ 1.54	$ 1.13
Second Quarter	$ 2.21	$ 1.32
Third Quarter	$ 4.22	$ 2.09
Fourth Quarter	$ 9.51	$ 3.92
2013		
First Quarter	$ 13.74	$ 6.45
Second Quarter	$ 8.73	$ 5.64
Third Quarter	$ 6.33	$ 5.21
Fourth Quarter	$ 5.73	$ 4.37

2014		
First Quarter (through March 26, 2014)	$ 4.79	$ 3.85

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

The Class C common stock is not registered or traded on a national exchange. See Note 11 of the Notes to Consolidated Financial Statements.

The Company has never paid a cash dividend on its Class A or Class C common stock. The Company currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business and does not intend to pay any cash dividends on its Class A or Class C common stock in the foreseeable future. Any future determination as to cash dividends will depend upon the earnings and financial position of the Company and such other factors as the Board of Directors may deem appropriate. A 5% stock dividend on Class A and Class C common stock has been paid each year from 1990 through 2013.

The graph below compares the cumulative total stockholder return of the Company's Class A common stock with the cumulative total return on the Standard & Poor's 500 Stock Index and the Standard & Poor's Insurance Index for the period from December 31, 2009 through December 31, 2013. The graph assumes that the value of the investment in the Company's Class A common stock and in each of the indexes was 100 at December 31, 2009 and that all dividends were reinvested.

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

	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
SNFC	100	59	50	283	163
S & P 500	100	113	113	128	166
S & P Insurance	100	114	103	131	175

The graph set forth above is required by the Securities and Exchange Commission and shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed soliciting material or filed under such acts.

As of December 31, 2013, there were 3,695 record holders of Class A common stock and 99 record holders of Class C common stock.

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

The following selected financial data is for each of the five years ended December 31, 2013, and is derived from the audited consolidated financial statements. The data as of December 31, 2013 and 2012, and for the three years ended December 31, 2013, should be read in conjunction with the consolidated financial statements, related notes and other financial information.

Consolidated Statement of Earnings Data:

	Year Ended December 31				
	2013	2012(2)	2011(1)	2010	2009
Revenue					
Premiums	$50,472,000	$48,216,000	$48,457,000	$38,509,000	$38,394,000
Net investment income	20,354,000	21,916,000	18,570,000	18,262,000	19,915,000
Net mortuary and cemetery sales	12,000,000	10,865,000	10,761,000	11,520,000	11,974,000
Realized gains on investments	1,418,000	1,425,000	2,464,000	1,615,000	1,223,000
Other than temporary impairments	(336,000)	(1,208,000)	(841,000)	(674,000)	(326,000)
Mortgage fee income	128,801,000	151,887,000	79,046,000	97,697,000	144,275,000
Other	2,606,000	1,159,000	1,110,000	1,582,000	1,415,000
Total revenues	215,315,000	234,260,000	159,567,000	168,511,000	216,870,000
Expenses					
Policyholder benefits	48,130,000	45,681,000	46,204,000	37,947,000	37,369,000
Amortization of deferred policy acquisition costs	5,182,000	5,450,000	5,769,000	4,431,000	5,693,000
Selling, general and administrative expenses	147,406,000	156,310,000	102,513,000	122,217,000	161,785,000
Interest expense	2,854,000	3,744,000	1,961,000	2,779,000	3,326,000
Cost of goods and services of the mortuaries and cemeteries	1,919,000	1,724,000	1,883,000	2,226,000	2,349,000
Total benefits and expenses	205,491,000	212,909,000	158,330,000	169,600,000	210,522,000
Earnings (loss) before income taxes	9,824,000	21,351,000	1,237,000	(1,089,000)	6,348,000
Income tax benefit (expense)	(2,238,000)	(4,639,000)	62,000	658,000	(2,574,000)
Net earnings (loss)	$7,586,000	$16,712,000	$1,299,000	$(431,000)	$3,774,000
Net earnings (loss) per common share (3)	$0.65	$1.55	$0.12	$(0.04)	$0.36
Weighted average outstanding common shares (3)	11,751,000	10,813,000	10,572,000	10,366,000	10,346,000
Net earnings (loss) per common share-assuming dilution (3)	$0.61	$1.47	$0.12	$(0.04)	$0.36
Weighted average outstanding common shares-assuming dilution (3)	12,338,000	11,384,000	10,685,000	10,366,000	10,349,000

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Balance Sheet Data:

	December 31				
	2013	2012(2)	2011(1)	2010	2009
Assets					
Investments and restricted assets	$391,523,000	$356,446,000	$337,625,000	$281,262,000	$304,618,000
Cash	38,203,000	33,494,000	15,583,000	37,244,000	37,761,000
Receivables	88,832,000	111,157,000	87,252,000	71,035,000	50,125,000
Other assets	100,199,000	96,120,000	82,591,000	77,471,000	79,523,000
Total assets	$618,757,000	$597,217,000	$523,051,000	$467,012,000	$472,027,000
Liabilities					
Policyholder benefits	$457,304,000	$443,388,000	$388,538,000	$351,563,000	$342,574,000
Bank & other loans payable	18,289,000	11,910,000	25,019,000	7,066,000	8,940,000
Cemetery & mortuary liabilities	13,176,000	13,412,000	13,140,000	13,192,000	13,382,000
Cemetery perpetual care obligation	3,266,000	3,153,000	2,983,000	2,854,000	2,756,000
Other liabilities	38,971,000	45,542,000	32,140,000	32,408,000	44,570,000
Total liabilities	531,006,000	517,405,000	461,820,000	407,083,000	412,222,000
Stockholders' equity	87,751,000	79,812,000	61,231,000	59,929,000	59,805,000
Total liabilities and stockholders' equity	$618,757,000	$597,217,000	$523,051,000	$467,012,000	$472,027,000

(1) Includes the assumption reinsurance of North America Life Insurance Company in March 2011.
(2) Includes the coinsurance with Mothe Life Insurance Company and DLE Life Insurance Company in November 2012.
(3) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

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

Overview

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

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 $25,000. The Company believes that funeral plans represent a marketing niche that has lower competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of the person's death. On a per thousand dollar cost of insurance basis these policies can be more

expensive to the policy holder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

The following table shows the financial results for the Company's insurance operations for the years ended December 31, 2013, 2012 and 2011. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2013	2012	2013 vs 2012 % Increase (Decrease)	2011	2012 vs 2011 % Increase (Decrease)
Revenues from external customers					
Insurance premiums	$50,472	$48,216	5 %	$48,457	0 %
Net investment income	15,878	16,617	(4 %)	15,855	5 %
Revenues from loan originations	851	1,334	(36 %)	1,441	(7 %)
Other	1,604	690	132 %	1,468	(53 %)
Total	$68,805	$66,857	3 %	$67,221	(1 %)
Intersegment revenue	$7,220	$7,571	(5 %)	$5,833	30 %
Earnings before income taxes	$2,868	$4,591	(34 %)	$2,698	70 %

Intersegment revenues for the Company's insurance operations are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in 2013 has decreased due to decreases in net investment income, decreases in intersegment revenues, decreases in loan origination revenue and increases in expenses.

Life Insurance Acquisitions, Mergers and Reinsurance

Reinsurance with Mothe Life Insurance Company and DLE Life Insurance Company

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

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

Reinsurance Terminated with North America Life Insurance Company

On December 1, 2013, in accordance with the terms of the Coinsurance Agreement, Security National Life, through TransWestern Life Insurance Company ("Trans-Western Life"), recaptured additional policies of Trans-Western Life from North American Life Insurance Company ("North American Life"). On December 10, 2013, pursuant to the Coinsurance Agreement, North America Life paid $2,500,000, less a ceding commission of $34,000 to Security National Life. On February 13, 2014, in accordance with the terms of the Coinsurance Agreement, Security National Life, through Trans Western Life, recaptured the remaining policies of Trans-Western Life from North American Life. Pursuant to the Coinsurance Agreement, North America Life paid $4,684,000 less a ceding commission of $57,000 to Security National Life, and the Reinsurance Agreement between Trans Western Life and North America Life was terminated.

Cemetery and Mortuary Operations

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

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

The following table shows the condensed financial results for the Company's cemetery and mortuary operations for the years ended December 31, 2013, 2012 and 2011. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2013	2012	2012 vs 2011 % Increase (Decrease)	2011	2012 vs 2011 % Increase (Decrease)
Revenues from external customers					
Mortuary revenues	$5,081	$4,567	11 %	$4,864	(6 %)
Cemetery revenues	6,919	6,297	10 %	5,897	7 %
Realized gains on investments and other assets	16	9	78 %	868	(99 %)
Other	364	470	(23 %)	308	53 %
Total	$12,380	$11,343	9 %	$11,937	(5 %)
Earnings (Losses) before income taxes	$223	$219	2 %	$461	(52 %)

The realized gain in the Company's cemetery and mortuary operations in 2011 was due to the sale of Greer-Wilson Funeral Home and Crystal Rose Funeral Home. Included in other revenue was rental income from residential and commercial properties purchased from Security National Life. Memorial Estates used financing provided by Security National Life to purchase these properties. The rental income was offset by property insurance, taxes, maintenance expenses and interest payments made to Security National Life. Memorial Estates recorded depreciation on these properties of $1,042,000, $1,029,000 and $1,025,000 for the twelve months ended December 31, 2013, 2012 and 2011, respectively.

Mortgage Operations

Approximately 62% of the Company's revenues for the fiscal year 2013 were through its wholly owned subsidiaries, SecurityNational Mortgage Company and Green Street Mortgage Services, Inc., which was incorporated on May 16, 2012. Both mortgage subsidiaries are mortgage lenders incorporated under the laws of the State of Utah, and are 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 and Green Street obtain loans from their retail offices and independent brokers and pay a commission to brokers for loans that are funded by them. Mortgage loans originated by the Company's mortgage subsidiaries are funded from internal cash flows, including loan purchase agreements from Security National Life Insurance Company, its wholly owned subsidiary, and unaffiliated financial institutions.

SecurityNational Mortgage and Green Street Mortgage receive fees from the borrowers and secondary fees from third party investors that purchase their loans. Loans originated by SecurityNational Mortgage and Green Street Mortgage are generally sold with mortgage servicing rights released to third party investors. However, since the second quarter of 2012, SecurityNational Mortgage has sold, but retained mortgage servicing rights on approximately 30% of its origination volume. These loans are serviced by an approved third party servicer. For the twelve months ended December 31, 2013, 2012 and 2011, SecurityNational Mortgage originated and sold 11,484 loans ($2,147,040,000 total volume), 13,392 loans ($2,451,843,000 total volume), and 8,100 loans ($1,407,212,000 total volume), respectively. For the twelve months ended December 31, 2013, Green Street Mortgage originated and sold seven loans ($1,731,000 total volume). Green Street Mortgage did not originate and sell any mortgage loans prior to January 1, 2013.

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The Company's wholly owned subsidiary, SecurityNational Mortgage, has entered into loan purchase agreements to sell mortgage loans to two unaffiliated warehouse banks. On August 6, 2012, SecurityNational Mortgage and Wells Fargo Bank, N.A. ("Wells Fargo") agreed to an amendment to their loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from $55,000,000 to $75,000,000.

On October 26, 2012, SecurityNational Mortgage and UBS Real Estate Securities, Inc. ("UBS") agreed to an amendment to their loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from $30,000,000 to $40,000,000.

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

The following table shows the condensed financial results for the Company's mortgage operations for the years ended 2013, 2012 and 2011. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2013	2012	2013 vs 2012 % Increase (Decrease)	2011	2012 vs 2011 % Increase (Decrease)
Revenues from external customers:					
Revenues from loan originations	$104,111	$120,749	(14 %)	$64,415	87 %
Secondary gains from investors	23,839	29,804	(20 %)	13,190	126 %
Total	$127,950	$150,553	(15 %)	$77,605	94 %
Earnings (Losses) before income taxes	$7,107	$16,542	(57 %)	$(1,922)	961 %

The decrease in earnings for the Company's mortgage operations for the twelve months ended December 31, 2013 as compared to December 31, 2012 was due to lower secondary gains on mortgage loans sold to investors and the decline in refinance activity as a result of the increase in mortgage loan interest rates in 2013.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses decrease. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses in years ended December 31, 2013 and 2012 were $1,846,000 and $4,053,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2013 and 2012, the balances were $5,507,000 and $6,035,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo Funding"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo Funding and is not to be construed as an

admission of responsibility, liability or fault for either party's claims. Under the terms of the settlement agreement, SecurityNational Mortgage paid an initial settlement amount to Wells Fargo Funding in the amount of $4,300,000.

SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser, including Wells Fargo Funding, and pay such amounts to Wells Fargo Funding. SecurityNational Mortgage is additionally required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 27 real estate properties with a total book value as of December 31, 2013 of $4,735,000.

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

Mortgage Loan Loss Demands

Third Party Investors

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

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued $5,502,000 as of December 31, 2013 to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third party investors and believes it has significant defenses to these demands. If SecurityNational Mortgage is unable to resolve the alleged claims by the third party investors on acceptable terms, legal action may ensue. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

JP Morgan Chase Indemnification Demand

The Company and its wholly owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, from JP Morgan Chase & Co. (“JP Morgan Chase”) on behalf of EMC Mortgage, LLC (“EMC Mortgage”), relating to 21 mortgage loans that EMC Mortgage allegedly purchased as a third party investor from SecurityNational Mortgage. The notice also referenced a guaranty agreement, dated February 23, 2006, by the Company for the benefit of EMC Mortgage. The indemnification notice additionally stated that EMC Mortgage had been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery.

The lawsuit the Trust brought against EMC Mortgage contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust (including the 21 loans allegedly originated by SecurityNational Mortgage) contained breaches of representations and warranties with respect to the mortgage loans, as well as defaults and foreclosures in many of such loans. As a result of the alleged breaches of representations and warranties by EMC Mortgage, the complaint requests that EMC Mortgage be ordered to repurchase from the Trust any loans for which it

breached its representations and warranties, in the amount of the mortgage loans' outstanding principal balance and all accrued but unpaid interest.

The indemnification notice from JP Morgan Chase further alleged that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit that the Trust brought against EMC based upon allegedly untrue statements of material fact related to information that was provided by SecurityNational Mortgage. To the extent the claims in the complaint relate to the 21 mortgage loans that SecurityNational Mortgage allegedly sold to EMC Mortgage, the Company believes it has significant defenses to such claims. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 55 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 55 mortgage loans.

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

Since the reserve account was established, funds had been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among 55 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of $1,289,000 and $-0-, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of December 31, 2013, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had

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

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

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

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

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. The motion and cross motion are under advisement. SecurityNational Mortgage's motion in the Lehman Holdings case has been reset for hearing on April 22, 2014 before Judge Ted Stewart of the United States District Court for the District of Utah, with a trial, as may be necessary, set for August 11, 2014.

Significant Accounting Policies

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

Insurance Operations

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

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

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

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

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

Cemetery and Mortuary Operations

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

Pre-need sales of cemetery interment rights (cemetery burial property), including revenue and costs associated with the sales of pre-need cemetery interment rights, are recognized in accordance with the retail land sales provisions of generally accepted accounting principles in the United States (GAAP). Under GAAP, recognition of revenue and associated costs from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected. Revenues related to the pre-need sale of unconstructed cemetery property will be deferred until such property is constructed and meets the criteria of GAAP, described above.

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

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

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

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

Mortgage Operations

Mortgage fee income consists of origination fees, processing fees and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of the mortgage loans comply with the sales criteria for the transfer of financial assets. The sales criteria is as follows: (i) the transferred assets have been isolated from 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 sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments. As of December 31, 2013, there was $115,806,000 in mortgage loans in which settlements with third party investors were still pending.

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

- Failure to deliver original documents specified by the investor,
- The existence of misrepresentation or fraud in the origination of the loan,
- The loan becomes delinquent due to nonpayment during the first several months after it is sold,
- Early pay-off of a loan, as defined by the agreements,
- Excessive time to settle a loan,
- Investor declines purchase, and
- 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 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 regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

- Research reasons for rejection,
- Provide additional documents,
- Request investor exceptions,
- Appeal rejection decision to purchase committee, and
- 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 fair value and the 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, while often difficult to determine, is based on the following guidelines:

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

The appraised value of the real estate underlying the original mortgage loan adds significance to 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 December 31, 2013, the Company's long term mortgage loan portfolio consisted of $12,424,000 in mortgage loans with delinquencies more than 90 days. Of this amount, $6,492,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the $12,424,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2013 and 2012, the Company increased its allowance for mortgage losses by $221,000 and $434,000, respectively, which was charged to bad debt expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2013 and 2012 were $1,652,000 and $4,240,000, respectively.

Also at December 31, 2013, the Company had foreclosed on a total of $59,831,000 in long term mortgage loans, of which $3,930,000 of the loans foreclosed were reclassified as other real estate held for investment during 2013. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its life, cemeteries and mortuaries, and mortgage subsidiary, and will rent the properties until it is deemed economically desirable to sell them.

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

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

Use of Significant Accounting Estimates

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

Fixed Maturities and Equity Securities Available for Sale

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

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

Deferred Acquisition Costs

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

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

Value of Business Acquired

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

Allowance for Doubtful Accounts

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

Future Policy Benefits

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

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

Unearned Revenue

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

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

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

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

Mortgage Servicing Rights

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

Mortgage Allowance for Loan Loss and Loan Loss Reserve

The Company provides allowances for losses on its mortgage loans through an allowance for loan losses (a contra-asset account) and through the mortgage loan loss reserve (a liability account). The allowance for loan losses is an allowance for losses on the Company's mortgage loans held for investment. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the

Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral.

When a mortgage loan is past due more than 90 days, the Company, where appropriate, sets up an allowance to approximate the excess of the carrying value of the mortgage loan over the estimated fair value of the underlying real estate collateral. Once a loan is past due more than 90 days the Company does not accrue any interest income and proceeds to foreclose on the real estate. All expenses for foreclosure are expensed as incurred. Once foreclosed the carrying value will approximate its fair value and the amount will be classified as real estate owned. The Company carries the foreclosed property in Security National Life, Memorial Estates and SecurityNational Mortgage, its life, cemeteries and mortuaries, and mortgage subsidiary, and will rent the properties until it is deemed desirable to sell them. The Company is currently able to rent properties at a 2% to 8% gross return.

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

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

Deferred Compensation

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

Depreciation

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

Captive Insurance

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

Results of Consolidated Operations

2013 Compared to 2012

Total revenues decreased by $18,945,000, or 8.1%, to $215,315,000 for fiscal year 2013 from $234,260,000 for the fiscal year 2012. Contributing to this decrease in total revenues was a $23,087,000 decrease in mortgage fee income and a $1,562,000 decrease in net investment income. This decrease in total revenues was partially offset by a $2,256,000 increase in insurance premiums and other considerations, a $1,447,000 increase in other revenues, a $1,136,000 increase in net cemetery and mortuary sales, and an $871,000 decrease in other than temporary

impairments.

Insurance premiums and other considerations increased by $2,256,000, or 4.7%, to $50,472,000 for 2013, from $48,216,000 for the comparable period in 2012. This increase was due to an increase in first year premiums as a result of increased insurance sales in 2013.

Net investment income decreased by $1,562,000, or 7.1%, to $20,354,000 for 2013, from $21,916,000 for the comparable period in 2012. This decrease was primarily attributable to a $3,103,000 increase in investment expenses, an $877,000 decrease in interest from mortgage loans, a $53,000 decrease in equity securities income, and a $31,000 decrease in policy loans income. This decrease was partially offset by a $1,731,000 increase in income from real estate, a $535,000 increase in fixed maturity securities income, and a $236,000 increase in income from short-term investments.

Net cemetery and mortuary sales increased by $1,136,000, or 10.5%, to $12,000,000 for 2013, from $10,864,000 for the comparable period in 2012. This increase was primarily due to a $622,000 increase in cemetery pre-need and at-need sales, and a $514,000 increase in mortuary at-need sales.

Realized gains on investments and other assets decreased by $6,000, or 0.5%, to $1,418,000 in realized gains for 2013, from $1,424,000 in realized gains for the comparable period in 2012. This decrease in realized gains and losses on investments and other assets was primarily due to a $410,000 decrease in gains and losses on fixed maturity securities held to maturity. This decrease was partially offset by a $252,000 increase in gains and losses on other assets, and a $152,000 increase in gains and losses on marketable securities.

Other than temporary impairments on investments decreased by $871,000, or 72.2%, to $336,000 for 2013 from $1,207,000 for the comparable period in 2012. This decrease was due to a $679,000 decrease in impairments on real estate held for investment and mortgage loans, a $147,000 decrease in impairments on marketable securities, and a $45,000 decrease in impairments on fixed maturity securities held to maturity.

Mortgage fee income decreased by $23,087,000, or 15.2%, to $128,801,000 for 2013, from $151,888,000 for the comparable period in 2012. This decrease was primarily attributable to lower secondary gains from mortgage loans sold to investors and the decline in refinance activity as a result of the increase in mortgage loan rates in 2013.

Other revenues increased by $1,447,000, or 124.9%, to $2,606,000 for 2013 from $1,159,000 for the comparable period in 2012. This increase was due to an increase in mortgage servicing revenues.

Total benefits and expenses were $205,491,000, or 95.3% of total revenues, for 2013, as compared to $212,909,000, or 90.9% of total revenues, for the comparable period in 2012.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of $2,449,000, or 5.4%, to $48,130,000 for 2013, from $45,681,000 for the comparable period in 2012. This increase was primarily the result of a $3,771,000 increase in death benefits, a $518,000 increase in surrender and other policy benefits offset by a $1,840,000 decrease in future policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by $267,000, or 4.9%, to $5,182,000 for 2013, from $5,449,000 for the comparable period in 2012. This decrease was primarily due to improved persistency in the traditional life and universal life lines of business.

Selling, general and administrative expenses decreased by $8,903,000, or 5.7%, to $147,407,000 for 2013, from $156,310,000 for the comparable period in 2012. This decrease was primarily the result of a decrease in mortgage loan originations by SecurityNational Mortgage, which was attributed to the decline in refinance activity as a result of the increase in mortgage loan rates in 2013. Commission expenses decreased by $17,861,000, from $83,840,000 in 2012 to $65,979,000 in 2013 as a result of the decline in refinance activity in 2013. Costs related to funding mortgage loans decreased by $296,000, from $6,931,000 in 2012 to $6,635,000 in 2013 as a result of the decline in refinance activity in 2013. Provision for loan losses decreased by $2,488,000, from $4,239,000 in 2012 to $1,751,000 in 2013.

The decreases in selling, general and administrative expenses were partially offset by an increase in salaries of $5,921,000, from $27,099,000 in 2012 to $33,020,000 in 2013, primarily due to an increase in the number of employees. Other expenses increased by $5,821,000, from $34,200,000 in 2012 to $40,021,000 in 2013 primarily due to an increase in mortgage servicing fees.

Interest expense decreased by $890,000, or 23.8%, to $2,854,000 for 2013, from $3,744,000 for the comparable period in 2012. This decrease was primarily due to reduction in outstanding balances on warehouse lines of credit

used to fund mortgage loans.

Cost of goods and services sold of the cemeteries and mortuaries increased by $195,000, or 11.3%, to $1,919,000 for 2013, from $1,724,000 for the comparable period in 2012. This increase was primarily due to an increase in mortuary at-need sales and an increase in cemetery pre-need and at-need sales.

Other comprehensive income for the years ended December 31, 2013 and December 31, 2012 amounted to a loss of $716,000 and a gain of $1,280,000, respectively. This decrease of $1,996,000 in 2013 was primarily the result of a loss of $1,873,000 in derivatives related to mortgage loans and a $123,000 unrealized loss in marketable securities.

2012 Compared to 2011

Total revenues increased by $74,693,000, or 46.8%, to $234,260,000 for fiscal year 2012 from $159,567,000 for the fiscal year 2011. Contributing to this increase in total revenues was a $72,842,000 increase in mortgage fee income, a $3,345,000 increase in net investment income, a $103,000 increase in net cemetery and mortuary sales, and a $50,000 increase in other revenues. This increase in total revenues was partially offset by a $1,039,000 decrease in realized gains on investments and other assets, a $367,000 increase in other than temporary impairments, and a $241,000 decrease in insurance premiums and other considerations.

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

Net investment income increased by $3,245,000, or 18.0%, to $21,915,000 for 2012, from $18,570,000 for the comparable period in 2011. This increase was primarily attributable to a $2,461,000 increase in income from short-term investments, a $1,186,000 increase in income from real estate, a $378,000 decrease in investment expenses, and a $21,000 increase in interest on mortgage loans on real estate. This increase was partially offset by a $32,000 decrease in fixed maturity securities income, an $8,000 decrease in equity securities income, and a $5,000 decrease in policy loans income.

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

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

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

Mortgage fee income increased by $72,842,000, or 92.2%, to $151,888,000 for 2012, from $79,046,000 for the comparable period in 2011. This increase was primarily attributable to an increase in secondary gains on mortgage loans sold to investors and an increase in mortgage loan volume due to the expansion of the retail operations of SecurityNational Mortgage, including the opening of additional retail loan offices.

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

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

Death benefits, surrenders and other policy benefits, and future policy benefits decreased by an aggregate of $523,000, or 1.1%, to $45,681,000 for 2012, from $46,204,000 for the comparable period in 2011. This increase was primarily

the result of a $93,000 increase in death benefits, a $207,000 increase in surrender and other policy benefits, which was offset by an $823,000 decrease in future policy benefits.

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

Selling, general and administrative expenses increased by $53,796,000, or 52.5%, to $156,310,000 for 2012, from $102,514,000 for the comparable period in 2011. This increase was primarily the result of the expansion of the retail loan operations of SecurityNational Mortgage, including the opening of additional retail loan offices in 2012. Commission expenses increased by $36,325,000, from $47,515,000 in 2011 to $83,840,000 in 2012 as a result of the expansion of the retail loan operations of SecurityNational Mortgage. Salaries increased by $4,621,000, from $22,478,000 in 2011 to $27,099,000 in 2012, primarily due to an increase in the number of employees and the expansion of the retail loan operations of SecurityNational Mortgage.

Costs related to funding mortgage loans increased by $2,691,000, from $4,240,000 in 2011 to $6,931,000 in 2012 as a result of the expansion of the retail loan operations of SecurityNational Mortgage. Provision for loan losses increased by $2,169,000, from $2,070,000 in 2011 to $4,239,000 in 2012. Other expenses increased by $7,990,000, from $26,210,000 in 2011 to $34,200,000 in 2012.

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

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

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

Risks

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

Legal and Regulatory Risks. The risk that changes in the legal or regulatory environment in which the Company operates will create additional expenses and risks not anticipated by the Company in developing and pricing its products. 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 and 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 that identify and minimize the adverse impact of such risks.

Mortgage Industry Risks. Developments in the mortgage industry and credit markets can adversely affect the Company’s ability to sell its mortgage loans to investors, which can impact the Company’s financial results by requiring it to assume the risk of holding and servicing any unsold loans.

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors. The Company’s mortgage subsidiaries 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 its historical experience. The amounts accrued for loan losses in years ended December 31, 2013, 2012 and 2011 were $1,846,000, $4,053,000 and $1,668,000, respectively, and the charge to expense has been included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of

December 31, 2013 and 2012, the balances were $5,507,000 and $6,035,000, respectively. The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of December 31, 2013. There is a risk, however, that future loan losses may exceed the loan loss reserves and allowances.

As of December 31, 2013, the Company's long term mortgage loan portfolio consisted of $12,424,000 in mortgage loans with delinquencies more than 90 days. Of this amount, $6,492,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the $12,424,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2013 and 2012, the Company increased its allowance for mortgage losses by $221,000 and $434,000, respectively, which was charged to bad debt expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2013 and 2012 were $1,652,000 and $4,240,000, respectively.

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

The total amount of potential claims and losses by third party investors is difficult to determine. The Company has reserved and accrued $5,507,000 as of December 31, 2013 to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third party investors and believes it has significant defenses to these demands. If SecurityNational Mortgage is unable to resolve the alleged claims by the third party investors on acceptable terms, legal action may ensue. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

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 and Morbidity Risks. The risk that the Company’s actuarial assumptions may differ from actual mortality and morbidity experiences 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 and liability duration matching, and sound actuarial practices.

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

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

Liquidity and Capital Resources

The Company’s life insurance subsidiaries and cemetery and mortuary subsidiaries realize cash flow from premiums, contract payments and sales on personal services rendered for cemetery and mortuary business, from interest and

dividends on invested assets, and from the proceeds from the maturity of held to maturity investments or sale of other investments. The mortgage subsidiaries realize 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 current operating expenses.

During the twelve months ended December 31, 2013 and 2012, the Company's operations provided cash of $36,652,000 and $22,416,000, respectively. This was due primarily to a $15,668,000 decrease in 2013 and an $18,808,000 increase in 2012 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. 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 also to invest predominantly in fixed maturity securities, real estate, 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 $142,854,000 as of December 31, 2013 compared to $127,939,000 as of December 31, 2012. This represents 37.3% and 36.9% of the total investments as of December 31, 2013, and 2012, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are six categories used for rating bonds. At December 31, 2013, 4.6% (or $6,621,000) and at December 31, 2012, 3.4% (or $4,392,000) 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. Notwithstanding, business conditions may develop in the future which may indicate a need for a higher level of liquidity in the investment portfolio. In that event, the Company believes it could sell short-term investment grade securities before liquidating higher yielding longer-term securities.

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

If market conditions were to cause interest rates to change, the market value of the Company’s fixed income portfolio, which includes bonds, preferred stock, and mortgage loans, could change by the following amounts based on the respective basis point swing (the change in the market values were calculated using a modeling technique):

	-200 bps	-100 bps	+100 bps	+200 bps
Change in Market Value	$ 24,501	$ 11,676	$ (14,505)	$ (26,433)
(in thousands)				

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At December 31, 2013 and

December 31, 2012, the life insurance subsidiaries exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank debt and notes payable were $106,040,000 as of December 31, 2013, as compared to $91,722,000 as of December 31, 2012. Stockholders' equity as a percent of total capitalization was 82.8% and 87.0% as of December 31, 2013 and December 31, 2012, respectively. Bank debt and notes payable increased by $6,379,000 for the twelve months ended December 31, 2013 as compared to December 31, 2012, 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 was 5.7% in 2013 as compared to a rate of 6.0% for 2012.

At December 31, 2013, $32,765,000 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 state insurance regulatory authorities.

Forward-Looking Statements

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

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

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

Off-Balance Sheet Agreements

At December 31, 2013, the Company was contingently liable under a standby letter of credit aggregating $641,001, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's captive insurance program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2013, the Company was contingently liable under a standby letter of credit aggregating $1,250,000, to be used as collateral to cover any contingency related to claims filed in states where the Company is licensed. The Company does not expect any material losses to result from the issuance of the standby letter of credit. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2013 the Company was contingently liable under two standby letters of credit aggregating $139,220, issued as security deposits to guarantee payment of final bills for electric and gas utility services for a commercial real estate property owned by the Company in Wichita, Kansas.

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

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

As of December 31, 2013, there was $115,806,000 in mortgage loans in which settlements with third party investors were still pending.

The total of the Company unfunded residential construction loan commitments as of December 31, 2013 was $5,087,000.

The Company has entered into a Construction and Term Loan Agreement ("Agreement") between Zions First National Bank, a national banking association, and Dry Creek Property Development, Inc., the Company's wholly owned subsidiary. Under the terms of this Agreement the Company promises to pay Zions First National Bank the principal sum of $27,500,000 plus interest. These funds will be used for the construction of a 282-unit multifamily development in Sandy City Utah.

Contractual Obligations

The Company's contractual obligations as of December 31, 2013 and the payments due by period are shown in the following table:

	Less than 1 year	1-3 years	4-5 years	over 5 years	Total
Non-cancelable operating leases	$3,104,498	$5,529,931	$300,777	$32,439	$8,967,645
Notes and contracts payable	5,849,926	4,652,008	247,065	7,540,438	18,289,437
	$8,954,424	$10,181,939	$547,842	$7,572,877	$27,257,082

Variable Interest Entities

In conjunction with the Company's casualty insurance program, limited equity interests are held in a captive insurance entity. This program permits the Company to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit its risk of loss in any particular year. This entity meets the definition of a variable interest entity (VIE); however, under generally accepted accounting principles, "there is not a requirement to include this entity in the consolidated financial statements." The maximum exposure to loss related to the Company's involvement with this entity is limited to approximately $641,001, which is collateralized under a standby letter of credit issued on the insurance entity's behalf. See Note 9, "Reinsurance, Commitments and Contingencies," for additional discussion of commitments associated with the insurance program and Note 1, "Significant Accounting Policies", for further information on a standby letter of credit. As of December 31, 2013, there are no other entities that met the definition of a variable interest entity.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company has no activities in derivative financial or commodity instruments other than those recorded and disclosed in the financial statements. See Note 18 of the consolidated financial statements included elsewhere in this Form 10-K. The Company's exposure to market risks (i.e., interest rate risk, foreign currency exchange rate risk and equity price risk) through other financial instruments, including cash equivalents, accounts receivable and lines of

credit, is not material.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and Subsidiaries as of December 31, 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the year then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Security National Financial Corporation and Subsidiaries as of December 31, 2013, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Salt Lake City, Utah
March 31, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

/s/ HANSEN, BARNETT & MAXWELL, P.C.
Salt Lake City, Utah
March 29, 2013

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
Assets	2013	2012
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	$143,466,494	$129,449,410
Equity securities, available for sale, at estimated fair value	4,498,756	5,405,112
Mortgage loans on real estate and construction loans held for investment, net of allowances for loan losses of $1,652,090 and $4,239,861 for 2013 and 2012	102,781,878	84,462,205
Real estate held for investment, net of accumulated depreciation of $9,658,599 and $7,441,418 for 2013 and 2012	99,760,475	64,254,030
Policy and other loans, net of allowance for doubtful accounts of $269,175 and $505,030 for 2013 and 2012	19,724,006	20,188,516
Short-term investments	12,135,719	40,925,390
Accrued investment income	2,485,054	2,393,941
Total investments	384,852,382	347,078,604
Cash and cash equivalents	38,203,164	33,494,284
Mortgage loans sold to investors	77,179,652	94,597,969
Receivables, net	11,652,572	16,559,277
Restricted assets	6,670,980	9,366,958
Cemetery perpetual care trust investments	2,414,883	2,090,111
Receivable from reinsurers	12,033,877	14,529,144
Cemetery land and improvements	10,631,573	11,079,755
Deferred policy and pre-need contract acquisition costs	45,737,940	39,913,465
Mortgage servicing rights	4,844,101	2,797,470
Property and equipment, net	11,523,160	11,033,957
Value of business acquired	8,680,845	9,829,082
Goodwill	677,039	677,039
Other	3,655,286	4,169,508
Total Assets	$618,757,454	$597,216,623

See accompanying notes to consolidated financial statements.

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

	December 31	
Liabilities and Stockholders' Equity	2013	2012
Liabilities		
Future life, annuity, and other benefits	$452,130,649	$438,003,813
Unearned premium reserve	5,173,785	5,383,800
Bank and other loans payable	18,289,438	11,910,343
Deferred pre-need cemetery and mortuary contract revenues	13,176,476	13,412,339
Cemetery perpetual care obligation	3,266,131	3,153,001
Accounts payable	2,850,575	2,026,433
Other liabilities and accrued expenses	20,167,363	25,591,487
Income taxes	15,951,848	17,923,298
Total liabilities	531,006,265	517,404,514
Commitments and Contingencies	-	-
Stockholders' Equity		
Common Stock:		
Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 11,807,287 shares in 2013 and 10,843,576 shares in 2012	23,614,574	21,687,152
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 13,301,908 shares in 2013 and 10,974,101 shares in 2012	2,660,382	2,194,820
Additional paid-in capital	23,215,875	21,262,140
Accumulated other comprehensive income, net of taxes	1,218,396	1,934,359
Retained earnings	39,666,587	35,114,072
Treasury stock, at cost - 1,141,021 Class A shares and -0- Class C shares in 2013; 1,097,416 Class A shares and -0- Class C shares in 2012	(2,624,625)	(2,380,434)
Total stockholders' equity	87,751,189	79,812,109
Total Liabilities and Stockholders' Equity	$618,757,454	$597,216,623

See accompanying notes to consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31		
	2013	2012	2011
Revenues:			
Insurance premiums and other considerations	$50,471,658	$48,216,327	$48,457,405
Net investment income	20,354,002	21,915,577	18,570,077
Net mortuary and cemetery sales	12,000,375	10,864,497	10,761,469
Realized gains on investments and other assets	1,418,051	1,424,510	2,464,353
Other than temporary impairments	(336,226)	(1,207,632)	(840,735)
Mortgage fee income	128,800,930	151,887,838	79,045,732
Other	2,606,230	1,159,052	1,108,969
Total revenues	215,315,020	234,260,169	159,567,270
Benefits and expenses:			
Death benefits	26,048,325	22,277,037	22,184,112
Surrenders and other policy benefits	2,486,611	1,969,051	1,761,608
Increase in future policy benefits	19,594,890	21,435,191	22,258,241
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	5,181,837	5,449,429	5,769,348
Selling, general and administrative expenses:			
Commissions	65,979,564	83,840,427	47,514,804
Salaries	33,019,624	27,098,570	22,477,563
Provision for loan losses and loss reserve	1,751,472	4,239,418	2,070,399
Costs related to funding mortgage loans	6,635,290	6,931,045	4,240,377
Other	40,021,077	34,200,460	26,210,359
Interest expense	2,853,701	3,744,293	1,961,249
Cost of goods and services sold – mortuaries and cemeteries	1,918,902	1,723,955	1,882,657
Total benefits and expenses	205,491,293	212,908,876	158,330,717
Earnings before income taxes	9,823,727	21,351,293	1,236,553
Income tax benefit (expense)	(2,237,806)	(4,638,775)	62,205
Net earnings	$7,585,921	$16,712,518	$1,298,758
Net earnings per Class A equivalent common share (1)	$0.65	$1.55	$0.12
Net earnings per Class A equivalent common share - assuming dilution(1)	$0.61	$1.47	$0.12
Weighted average Class A equivalent common shares outstanding (1)	11,751,428	10,812,967	10,572,201
Weighted average Class A equivalent common shares outstanding-assuming dilution (1)	12,337,663	11,383,711	10,685,545

(1) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common stock basis. Net earnings per common share represent net earnings per equivalent Class A common share. Net earnings per Class C common share is equal to one-tenth (1/10) of such amount or $0.06, $0.15 and $0.01 per share for 2013, 2012 and 2011, respectively, and $0.06, $0.14 and $0.01 per share-assuming dilution for 2013, 2012 and 2011, respectively.

See accompanying notes to consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012	2011
Net earnings	$7,585,921	$16,712,518	$1,298,758
Other comprehensive income:			
Changes in:			
Net unrealized gains (losses) on derivative instruments	(1,020,754)	852,168	541,335
Net unrealized gains (losses) on available for sale securities	304,791	427,748	(1,075,138)
Other comprehensive gain (loss)	(715,963)	1,279,916	(533,803)
Comprehensive income	$6,869,958	$17,992,434	$764,955

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2013, 2012 and 2011

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2011	$18,357,890	$1,932,031	$19,689,993	$ 1,188,246	$21,907,579	$(3,147,271)	$59,928,468
Net earnings	-	-	-	-	1,298,758	-	1,298,758
Other comprehensive loss	-	-	-	(533,803)	-	-	(533,803)
Stock based compensation	-	-	253,934	-	-	-	253,934
Sale of treasury stock	-	-	(101,206)	-	-	384,436	283,230
Stock dividends	918,336	96,535	(355,157)	-	(659,714)	-	-
Conversion Class C to Class A	1,370	(1,371)	1	-	-	-	-
Balance at December 31, 2011	19,277,596	2,027,195	19,487,565	654,443	22,546,623	(2,762,835)	61,230,587
Net earnings	-	-	-	-	16,712,518	-	16,712,518
Other comprehensive income	-	-	-	1,279,916	-	-	1,279,916
Stock based compensation	-	-	251,031	-	-	-	251,031
Exercise of stock options	1,371,506	63,782	(1,416,982)	-	-	-	18,306
Sale of treasury stock	-	-	(62,650)	-	-	382,401	319,751
Stock dividends	1,037,404	104,488	3,003,177	-	(4,145,069)	-	-
Conversion Class C to Class A	646	(645)	(1)	-	-	-	-
Balance at December 31, 2012	21,687,152	2,194,820	21,262,140	1,934,359	35,114,072	(2,380,434)	79,812,109
Net earnings	-	-	-	-	7,585,921	-	7,585,921
	-	-	-	(715,963)	-	-	(715,963)

Other comprehensive loss							
Stock based compensation	-	-	88,369	-	-	-	88,369
Exercise of stock options	719,572	422,422	(345,845)	-	-	(543,334)	252,815
Sale of treasury stock	-	-	428,794	-	-	299,143	727,937
Stock dividends	1,124,304	126,685	1,782,418	-	(3,033,406)	-	1
Conversion Class C to Class A	83,546	(83,545)	(1)	-	-	-	-
Balance at December 31, 2013	$23,614,574	$2,660,382	$23,215,875	$ 1,218,396	$39,666,587	$(2,624,625)	$87,751,189

See accompanying notes to consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012	2011
Cash flows from operating activities:			
Net earnings	$7,585,921	$16,712,518	$1,298,758
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Realized gains on investments and other assets	(1,418,051)	(1,424,510)	(2,464,353)
Other than temporary impairments	336,226	1,207,632	840,735
Depreciation and amortization	4,160,760	2,877,743	2,814,585
Provision for losses on real estate accounts and loans receivable	(584,873)	(963,169)	1,644,171
Amortization of premiums and discounts	103,032	(762,301)	(539,896)
Provision for deferred and other income taxes	416,269	953,394	524,868
Policy and pre-need acquisition costs deferred	(9,666,040)	(7,885,882)	(6,806,486)
Policy and pre-need acquisition costs amortized	3,841,565	4,234,271	4,624,148
Value of business acquired amortized	1,340,272	1,215,158	1,145,200
Servicing asset at amortized cost, additions	(2,494,254)	(2,797,470)	-
Amortization of mortgage servicing rights	447,623	-	-
Stock based compensation expense	88,369	251,031	253,934
Benefit plans funded with treasury stock	727,937	319,751	283,230
Change in assets and liabilities:			
Land and improvements held for sale	(36,345)	26,054	(9,680)
Future life and other benefits	19,182,046	20,508,725	22,262,508
Receivables for mortgage loans sold	15,668,188	(18,807,956)	(15,144,933)
Other operating assets and liabilities	(3,046,791)	6,751,217	(3,860,964)
Net cash provided by operating activities	36,651,854	22,416,206	6,865,825
Cash flows from investing activities:			
Securities held to maturity:			
Purchase - fixed maturity securities	(22,849,622)	(11,365,269)	(50,566,004)
Calls and maturities - fixed maturity securities	8,518,848	9,601,320	21,631,908
Securities available for sale:			
Purchase - equity securities	(2,807,367)	(1,685,983)	(4,574,717)
Sales - equity securities	4,528,862	3,028,509	4,161,140
Purchases of short-term investments	(19,827,619)	(51,823,941)	(70,895,829)
Sales of short-term investments	48,617,290	17,830,574	66,582,155
Sales (purchases) of restricted assets	2,777,715	(4,436,547)	473,665
Change in assets for perpetual care trusts	(255,204)	(265,435)	(266,056)
Amount received for perpetual care trusts	113,130	169,924	129,350
Mortgage, policy, and other loans made	(160,737,841)	(117,135,836)	(127,867,064)
Payments received for mortgage, policy, and other loans	133,260,148	131,565,100	103,865,163
Purchases of property and equipment	(3,570,334)	(3,022,393)	(765,633)
Disposal of property and equipment	33,900	30,524	2,296,247
Purchases of real estate held for investment	(26,749,586)	(143,278)	(441,444)
Sale of real estate held for investment	3,352,446	6,886,821	2,605,454
Cash received from reinsurance	2,466,175	34,485,224	12,990,444
Cash paid for purchase of subsidiaries, net of cash acquired	-	(180,591)	-
Net cash provided by (used in) investing activities	(33,129,059)	13,538,723	(40,641,221)

See accompanying notes to consolidated financial statements

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

	Years Ended December 31		
	2013	2012	2011
Cash flows from financing activities:			
Annuity contract receipts	$9,385,168	$8,939,017	$7,967,701
Annuity contract withdrawals	(14,866,251)	(13,915,777)	(13,910,925)
Proceeds from stock options exercised	252,815	18,306	-
Repayment of bank loans and notes and contracts payable	(2,292,037)	(1,534,612)	(1,957,389)
Proceeds from bank borrowings	13,314,594	241,875	3,615,085
Change in line of credit borrowings	(4,608,204)	(11,791,796)	16,400,000
Net cash provided by (used in) financing activities	1,186,085	(18,042,987)	12,114,472
Net change in cash and cash equivalents	4,708,880	17,911,942	(21,660,924)
Cash and cash equivalents at beginning of year	33,494,284	15,582,342	37,243,266
Cash and cash equivalents at end of year	$38,203,164	$33,494,284	$15,582,342
Non Cash Investing and Financing Activities			
Mortgage loans foreclosed into real estate	$3,930,297	$17,019,870	$9,228,249

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2013, 2012 and 2011

1) Significant Accounting Policies

General Overview of Business

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The presentation of certain amounts in prior years has been reclassified to conform to the 2013 presentation.

Principles of Consolidation

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

Investments

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

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

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

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

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

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

Real estate held for investment is carried at cost, less accumulated depreciation provided on a straight-line basis over the estimated useful lives of the properties, or is adjusted to a new basis for impairment in value, if any. Included are foreclosed properties which the Company intends to hold for investment purposes. These properties are recorded at the lower of cost or market value upon foreclosure.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2013, 2012 and 2011

1) Significant Accounting Policies (Continued)

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

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

Restricted assets are assets held in a trust account for future mortuary services and merchandise and consist of cash; participations in mortgage loans with Security National Life; mutual funds carried at cost; equity securities carried at fair market value; a surplus note with Security National Life. Restricted cash also represents escrows held for borrowers and investors under servicing and appraisal agreements relating to mortgage loans and funds held by warehouse banks in accordance with loan purchase agreements.

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

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

Cash and Cash Equivalents

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

Cemetery Land and Improvements

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

Property and Equipment

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

Recognition of Insurance Premiums and Other Considerations

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2013, 2012 and 2011

1) Significant Accounting Policies (Continued)

Deferred Policy Acquisition Costs and Value of Business Acquired

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

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

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

Mortgage Servicing Rights

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

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2013, 2012 and 2011

1) Significant Accounting Policies (Continued)

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

Derivatives

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

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

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

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

Allowance for Doubtful Accounts and Loan Losses and Impaired Loans

The Company records an allowance and recognizes an expense for potential losses from mortgage loans, other loans and receivables in accordance with generally accepted accounting principles.

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2013, 2012 and 2011

1) Significant Accounting Policies (Continued)

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

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

Loan Loss Reserve

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

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

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

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

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

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

Future Life, Annuity and Other Policy Benefits

Future policy benefit reserves for traditional life insurance are computed using a net level method, including assumptions as to investment yields, mortality, morbidity, withdrawals, and other assumptions based on the life

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Years Ended December 31, 2013, 2012 and 2011

1) Significant Accounting Policies (Continued)

Participating Insurance

Participating business constituted 2%, 2%, and 2% of insurance in force for 2013, 2012 and 2011, respectively. The provision for policyholders' dividends included in policyholder obligations is based on dividend scales anticipated by management. Amounts to be paid are determined by the Board of Directors.

Reinsurance

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

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

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

Pre-need Sales and Costs

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

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

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

Prearranged funeral and pre-need cemetery customer acquisition costs - costs incurred related to obtaining new pre-need contract cemetery and prearranged funeral services are accounted for under the guidance of the provisions based on accounting principles generally accepted in the United States of America. Obtaining costs, which include

only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral services, are deferred until the merchandise is delivered or services are performed.

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2013, 2012 and 2011

1) Significant Accounting Policies (Continued)

Mortgage Fee Income

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

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

- Failure to deliver original documents specified by the investor,
- The existence of misrepresentation or fraud in the origination of the loan,
- The loan becomes delinquent due to nonpayment during the first several months after it is sold,
- Early pay-off of a loan, as defined by the agreements,
- Excessive time to settle a loan,
- Investor declines purchase, and
- 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 its mortgage subsidiaries 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 regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

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

· 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 fair 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.

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1) Significant Accounting Policies (Continued)

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

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

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

Commercial Loans

Each quarter, management reviews the current commercial loans and determines if an allowance is required based on the Company's actual experience of losses on impaired commercial loans. To date, the Company has not incurred any significant losses. As a result, management has determined that no allowance is required on current commercial loans in its portfolio. The carrying value of all commercial loans is supported by appraisals and cash flow analysis of revenue received. Also, the Company has not accrued any interest income or capitalized any of the foreclosure costs on the impaired commercial loans.

Residential and Construction Loans

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

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

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

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

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1) Significant Accounting Policies (Continued)

Captive Insurance

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

Goodwill

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

Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset, and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. No impairment of long-lived assets has been recognized in the accompanying financial statements.

Income Taxes

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

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

Earnings Per Common Share

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

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1) Significant Accounting Policies (Continued)

Stock Based Compensation

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

Concentration of Credit Risk

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

Advertising Expense

The Company expenses advertising costs as incurred. The total amount charged to advertising expense for 2013, 2012 and 2011 was $4,850,000, $4,065,000 and $2,237,000, respectively.

Recent Accounting Pronouncements

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

Presentation of Comprehensive Income - On February 5, 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"), which requires an entity to report, either on the face of the statement where net income is presented or in the notes, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance in ASU 2013-02 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of this guidance did not have a material impact on the Company’s results of operations or financial position.

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2) Investments

The Company’s investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2013 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2013:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$2,284,261	$298,901	$-	$2,583,162
Obligations of states and political subdivisions	1,790,661	197,340	(9,404)	1,978,597
Corporate securities including public utilities	134,257,468	10,513,448	(1,394,919)	143,375,997
Mortgage-backed securities	4,522,081	206,617	(11,351)	4,717,347
Redeemable preferred stock	612,023	12,994	(5,900)	619,117
Total fixed maturity securities held to maturity	$143,466,494	$11,229,300	$(1,421,574)	$153,274,220

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2) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2013:				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	$4,783,936	$240,206	$(525,386)	$4,498,756
Total securities available for sale carried at estimated fair value	$4,783,936	$240,206	$(525,386)	$4,498,756
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$49,868,486			
Residential construction	12,912,473			
Commercial	41,653,009			
Less: Allowance for loan losses	(1,652,090)			
Total mortgage loans on real estate and construction loans held for investment	$102,781,878			
Real estate held for investment - net of depreciation	$99,760,475			
Policy and other loans at amortized cost:				
Policy loans	$7,520,376			
Other loans	12,472,805			
Less: Allowance for doubtful accounts	(269,175)			
Total policy and other loans at amortized cost	$19,724,006			
Short-term investments at amortized cost	$12,135,719			

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value

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

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2) Investments (Continued)

December 31, 2012:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	$20,281	$-	$(1,486)	$18,795
Common stock:				
Industrial, miscellaneous and all other	6,047,474	309,752	(970,909)	5,386,317
Total securities available for sale carried at estimated fair value	$6,067,755	$309,752	$(972,395)	$5,405,112
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$50,584,923			
Residential construction	3,161,112			
Commercial	34,956,031			
Less: Allowance for loan losses	(4,239,861)			
Total mortgage loans on real estate and construction loans held for investment	$84,462,205			
Real estate held for investment - net of depreciation	$64,254,030			
Policy and other loans at amortized cost:				
Policy loans	$8,075,101			
Other loans	12,618,445			
Less: Allowance for doubtful accounts	(505,030)			
Total policy and other loans at amortized cost	$20,188,516			
Short-term investments at amortized cost	$40,925,390			

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2) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturities securities, which are carried at amortized cost, at December 31, 2013 and 2012. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Loss
At December 31, 2013					
Redeemable Preferred Stock	$5,900	1	$-	0	$5,900
Obligations of States and Political Subdivisions	7,131	1	2,273	1	9,404
Corporate Securities	1,134,415	72	260,504	10	1,394,919
Mortgage and other asset-backed securities	3,109	1	8,242	1	11,351
Total unrealized losses	$1,150,555	75	$271,019	12	$1,421,574
Fair Value	$22,002,277		$2,308,464		$24,310,741
At December 31, 2012					
Redeemable Preferred Stock	$1,200	1	$-	0	$1,200
Obligations of States and Political Subdivisions	-	0	3,982	2	3,982
Corporate Securities	191,662	16	415,660	9	607,322
Mortgage and other asset-backed securities	-	0	76,056	3	76,056
Total unrealized losses	$192,862	17	$495,698	14	$688,560
Fair Value	$4,609,268		$3,972,091		$8,581,359

As of December 31, 2013, the average market value of the related fixed maturities was 94.5% of amortized cost and the average market value was 92.6% of amortized cost as of December 31, 2012. During 2013, 2012 and 2011, an other than temporary decline in market value resulted in the recognition of credit losses on fixed maturity securities of $120,000, $165,000 and $125,129, respectively.

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

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2) Investments (Continued)

Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at December 31, 2013 and 2012. The unrealized losses were primarily the result of decreases in market value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available for sale in a loss position:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Losses
At December 31, 2013					
Non-redeemable preferred stock	$-	0	$-	0	$-
Industrial, miscellaneous and all other	119,449	28	405,936	28	525,386
Total unrealized losses	$119,449	28	$405,936	28	$525,386
Fair Value	$993,612		$772,345		$1,765,957
At December 31, 2012					
Non-redeemable preferred stock	$686	1	$800	1	$1,486
Industrial, miscellaneous and all other	236,293	39	734,616	44	970,909
Total unrealized losses	$236,979	40	$735,416	45	$972,395
Fair Value	$1,422,436		$1,493,538		$2,915,974

As of December 31, 2013, the average market value of the equity securities available for sale was 77.1% of the original investment and the average market value was 75.0% of the original investment as of December 31, 2012. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations, new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During 2013, 2012, and 2011, an other than temporary decline in the market value resulted in the recognition of an impairment loss on equity securities of $100,304, $247,317 and $52,775, respectively.

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

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

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2) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2013, 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 2014	$ 4,045,462	$ 4,138,092
Due in 2015 through 2018	28,050,184	31,240,450
Due in 2019 through 2023	38,927,206	42,074,139
Due after 2023	67,309,538	70,485,075
Mortgage-backed securities	4,522,081	4,717,347
Redeemable preferred stock	612,023	619,117
Total held to maturity	$ 143,466,494	$ 153,274,220

The amortized cost and estimated fair value of available for sale securities at December 31, 2013, 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 2014	$ -	$ -
Due in 2015 through 2018	-	-
Due in 2019 through 2023	-	-
Due after 2023	-	-
Non-redeemable preferred stock	-	-
Common stock	4,783,936	4,498,756
Total available for sale	$ 4,783,936	$ 4,498,756

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2) Investments (Continued)

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

	2013	2012	2011
Fixed maturity securities held to maturity:			
Gross realized gains	$ 97,238	$ 470,874	$ 939,672
Gross realized losses	(41,164)	(3,875)	(162,716)
Other than temporary impairments	(120,000)	(165,000)	(125,129)
Securities available for sale:			
Gross realized gains	540,990	392,033	590,455
Gross realized losses	(2,678)	(5,705)	(118,417)
Other than temporary impairments	(100,304)	(247,317)	(52,775)
Other assets:			
Gross realized gains	824,203	794,346	1,295,217
Gross realized losses	(538)	(223,163)	(79,858)
Other than temporary impairments	(115,922)	(795,315)	(662,831)
Total	$ 1,081,825	$ 216,878	$ 1,623,618

The net carrying amount for sales of securities classified as held to maturity was $1,455,835, $2,174,300 and $12,341,156, for the years ended December 31, 2013, 2012 and 2011, respectively. The net realized gain related to these sales was $12,533, $271,364 and $530,637, for the years ended December 31, 2013, 2012 and 2011, respectively. Certain circumstances lead to these decisions to sell.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available-for-sale securities) at December 31, 2013, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	2013	2012	2011
Fixed maturity securities	$ 8,265,949	$ 7,731,051	$ 7,762,894
Equity securities	210,491	264,063	272,011
Mortgage loans on real estate	4,666,910	5,543,777	5,422,399
Real estate	6,658,185	4,927,128	3,741,263
Policy, student and other loans	799,703	830,683	835,312
	8,952,584	8,716,257	6,255,581

Short-term investments, principally gains on sale of mortgage loans			
Gross investment income	29,553,822	28,012,959	24,289,460
Investment expenses	(9,199,820)	(6,097,382)	(5,719,383)
Net investment income	$ 20,354,002	$ 21,915,577	$ 18,570,077

Net investment income includes net investment income earned by the restricted assets of the cemeteries and mortuaries of $341,430, $352,488 and $328,247 for 2013, 2012 and 2011, respectively.

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

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2) Investments (Continued)

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 $9,215,222 at December 31, 2013 and $9,190,012 at December 31, 2012. The restricted securities are included in various assets under investments on the accompanying consolidated balance sheets.

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0 % to 10.5%, maturity dates range from three months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At December 31, 2013, the Company has 36%, 22%, 9% and 9% of its mortgage loans from borrowers located in the states of Utah, California, Florida and Texas, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of $1,652,090 and $4,239,861 at December 31, 2013 and 2012, respectively.

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

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2) Investments (Continued)

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

Allowance for Credit Losses and Recorded Investment in Mortgage Loans
For the Years Ended December 31, 2013, and 2012

	Commercial	Residential	Residential Construction	Total
2013				
Allowance for credit losses:				
Beginning balance	$-	$4,193,674	$ 46,187	$4,239,861
Charge-offs	-	(2,670,794)	(137,629)	(2,808,423)
Provision	187,129	(158,033)	191,556	220,652
Ending balance	$187,129	$1,364,847	$ 100,114	$1,652,090
Ending balance: individually evaluated for impairment	$-	$152,745	$ -	$152,745
Ending balance: collectively evaluated for impairment	$187,129	$1,212,102	$ 100,114	$1,499,345
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$ -	$-
Mortgage loans:				
Ending balance	$41,653,009	$49,868,486	$ 12,912,473	$104,433,968
Ending balance: individually evaluated for impairment	$-	$1,518,327	$ -	$1,518,327
Ending balance: collectively evaluated for impairment	$41,653,009	$48,350,159	$ 12,912,473	$102,915,641
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$ -	$-
2012				
Allowance for credit losses:				
Beginning balance	$-	$4,338,805	$ 542,368	$4,881,173
Charge-offs	-	(560,699)	(514,442)	(1,075,141)
Provision	-	415,568	18,261	433,829
Ending balance	$-	$4,193,674	$ 46,187	$4,239,861
Ending balance: individually evaluated for impairment	$-	$692,199	$ -	$692,199
Ending balance: collectively evaluated for impairment	$-	$3,501,475	$ 46,187	$3,547,662

Ending balance: loans acquired with deteriorated credit quality	$-	$-	$ -	$-
Mortgage loans:				
Ending balance	$34,956,031	$50,584,923	$ 3,161,112	$88,702,066
Ending balance: individually evaluated for impairment	$-	$4,692,517	$ 1,346,126	$6,038,643
Ending balance: collectively evaluated for impairment	$34,956,031	$45,892,406	$ 1,814,986	$82,663,423
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$ -	$-

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2) Investments (Continued)

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

Age Analysis of Past Due Mortgage Loans
Years Ended December 31, 2013 and 2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days 1)	In Foreclosure 1)	Total Past Due	Current	Total Mortgage Loans	Allowance for Loan Losses
2013								
Commercial	$-	$-	$-	$4,973,745	$4,973,745	$36,679,264	$41,653,009	$(187,129)
Residential	1,646,953	1,604,847	5,867,501	1,518,327	10,637,628	39,230,858	49,868,486	(1,364,847)
Residential Construction	-	-	64,895	-	64,895	12,847,578	12,912,473	(100,114)
Total	$1,646,953	$1,604,847	$5,932,396	$6,492,072	$15,676,268	$88,757,700	$104,433,968	$(1,652,090)
2012								
Commercial	$581,984	$-	$143,252	$-	$725,236	$34,230,795	$34,956,031	$-
Residential	2,963,259	1,345,247	5,208,742	4,692,517	14,209,765	36,375,158	50,584,923	(4,193,674)
Residential Construction	-	-	288,468	1,346,126	1,634,594	1,526,518	3,161,112	(46,187)
Total	$3,545,243	$1,345,247	$5,640,462	$6,038,643	$16,569,595	$72,132,471	$88,702,066	$(4,239,861)

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

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2) Investments (Continued)

Impaired Mortgage Loans

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

	Impaired Loans For the Years Ended December 31, 2013, and 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2013					
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	-	-	-	-	-
Residential construction	-	-	-	-	-
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	1,518,327	1,518,327	152,745	1,518,327	-
Residential construction	-	-	-	-	-
Total:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	1,518,327	1,518,327	152,745	1,518,327	-
Residential construction	-	-	-	-	-
2012					
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	-	-	-	-	-
Residential construction	1,346,126	1,346,126	-	1,346,126	-
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	4,692,517	4,692,517	692,199	4,692,517	-
Residential construction	-	-	-	-	-
Total:					

Commercial	$ -	$ -	$ -	$ -	$ -
Residential	4,692,517	4,692,517	692,199	4,692,517	-
Residential construction	1,346,126	1,346,126	-	1,346,126	-

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2) Investments (Continued)

Credit Risk Profile Based on Performance Status

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

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

Mortgage Loan Credit Exposure
Credit Risk Profile Based on Payment Activity
As of December 31, 2013, and 2012

	Commercial		Residential		Residential Construction		Total	
	2013	2012	2013	2012	2013	2012	2013	20
Performing	$36,679,264	$34,812,779	$42,482,658	$40,683,664	$12,847,578	$1,526,518	$92,009,500	$77,02
Non-performing	4,973,745	143,252	7,385,828	9,901,259	64,895	1,634,594	12,424,468	11,67
Total	$41,653,009	$34,956,031	$49,868,486	$50,584,923	$12,912,473	$3,161,112	$104,433,968	$88,70

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and write off any income that had been accrued. Interest not accrued on these loans totals $678,000 and $1,925,000 as of December 31, 2013 and 2012, respectively.

The following is a summary of mortgage loans on a non-accrual status for the periods presented.

	Mortgage Loans on Non-accrual Status As of December 31, 2013, and 2012	
	2013	2012
Commercial	$ 4,973,745	$ 143,252
Residential	7,385,828	9,901,259
Residential construction	64,895	1,634,594
Total	$ 12,424,468	$ 11,679,105

Principal Amounts Due

The amortized cost and contractual payments on mortgage loans on real estate and construction loans held for investment by category as of December 31, 2013 are shown below. Expected principal payments may differ from contractual obligations because certain borrowers may elect to pay off mortgage obligations with or without early

payment penalties.

	Total	Principal Amounts Due in 2014	Principal Amounts Due in 2015-2018	Principal Amounts Due Thereafter
Residential	$ 49,868,486	$ 1,137,636	$ 13,466,462	$ 35,264,388
Residential Construction	12,912,473	12,445,469	467,004	-
Commercial	41,653,009	18,046,708	14,103,421	9,502,880
Total	$ 104,433,968	$ 31,629,813	$ 28,036,887	$ 44,767,268

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2) Investments (Continued)

Loan Loss Reserve

When a repurchase demand is received from a third party investor, the relevant data is reviewed and captured so that an estimated future loss can be calculated. The key factors that are used in the estimated loss calculation are as follows: (i) lien position, (ii) payment status, (iii) claim type, (iv) unpaid principal balance, (v) interest rate, and (vi) validity of the demand. Other data is captured and is useful for management purposes; the actual estimated loss is generally based on these key factors. The Company conducts its own review upon the receipt of a repurchase demand. In many instances, the Company is able to resolve the issues relating to the repurchase demand by the third party investor without having to make any payments to the investor.

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

	Years Ended December 31	
	2013	2012
Balance, beginning of period	$ 6,035,295	$ 2,337,875
Provisions for losses	1,846,285	4,053,051
Charge-offs	(2,375,048)	(355,631)
Balance, at December 31	$ 5,506,532	$ 6,035,295

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

3) Receivables

Receivables consist of the following:

	Years Ended December 31	
	2013	2012
Trade contracts	$ 9,993,755	$ 14,968,859
Receivables from sales agents	994,056	649,739
Held in Escrow – Southern Security	312,167	342,377
Other	1,601,227	1,788,894
Total receivables	12,901,205	17,749,869
Allowance for doubtful accounts	(1,248,633)	(1,190,592)
Net receivables	$ 11,652,572	$ 16,559,277

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4) Value of Business Acquired

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

	December 31					
		2013		2012		2011
Balance at beginning of year	$	9,829,082	$	10,996,050	$	8,996,134
Value of business acquired		192,035		48,190		3,145,116
Imputed interest at 7%		647,848		728,880		701,349
Amortization		(1,988,120)		(1,944,038)		(1,846,549)
Net amortization charged to income		(1,340,272)		(1,215,158)		(1,145,200)
Balance at end of year	$	8,680,845	$	9,829,082	$	10,996,050

Presuming no additional acquisitions, net amortization charged to income is expected to approximate $1,146,000, $887,000, $822,000, $756,000, and $684,000 for the years 2014 through 2018. Actual amortization may vary based on changes in assumptions or experience. As of December 31, 2013, value of business acquired is being amortized over a weighted average life of 7.3 years.

5) Property and Equipment

The cost of property and equipment is summarized below:

	December 31			
		2013		2012
Land and buildings	$	12,482,082	$	14,782,646
Furniture and equipment		14,301,713		13,226,209
		26,783,795		28,008,855
Less accumulated depreciation		(15,260,635)		(16,974,898)
Total	$	11,523,160	$	11,033,957

Depreciation expense for the years ended December 31, 2013, 2012 and 2011 was $1,621,069, $1,258,097 and $1,499,038 respectively.

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6) Bank and Other Loans Payable

Bank loans payable are summarized as follows:

	December 31	
	2013	2012
6.34% note payable in monthly installments of $13,556 including principal and interest, collateralized by real property with a book value of approximately $498,000, due November 2017.	$ 612,068	$ 748,612
5.75% note payable in monthly installments of $28,271 including principal and interest, collateralized by real property with a book value of approximately $6,033,000 due December 2014.	3,509,944	3,643,192
Bank prime rate less .75% (2.50% at December 31, 2013) note payable in quarterly installments of $75,000 plus interest collateralized by shares of Security National Life Insurance Company stock, paid in full in 2013.	-	225,000
Mark to market of interest rate swaps (discussed below) adjustment	58,310	93,572
3.85% note payable in monthly installments of $79,468 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due June 2015.	1,377,925	2,258,968
3.85% note payable in monthly installments of $86,059 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due December 2017.	3,891,926	-
4.40% note payable in monthly installments of $46,825 including principal and interest, collateralized by real property with a book value of approximately $12,450,000 due January 2026.	8,500,000	-
Revolving line-of-credit, interest payable at the prime rate minus .75% (2.5% as of December 31, 2013) secured by shares of Security National Life	-	4,608,204

Insurance Company stock, matures June 2014.				
Other collateralized bank loans payable		338,304		331,834
Other notes payable		961		961
Total bank and other loans		18,289,438		11,910,343
Less current installments		5,849,926		6,266,765
Bank and other loans, excluding current installments	$	12,439,512	$	5,643,578

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6) Bank and Other Loans Payable (Continued)

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

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

At December 31, 2013, the fair value of the interest rate swap was an unrealized loss of $58,310 and was computed based on the underlying variable Libor rate plus 1.65%, or 2.65% per annum. The unrealized loss resulted in a derivative liability of $58,310 and has been reflected in accumulated other comprehensive income. The change in accumulated other comprehensive income from the interest rate swap in 2013 was $35,262. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

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

The Company has a $2,000,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75% (2.50% at December 31, 2013), secured by the capital stock of Security National Life and maturing June 30, 2014, renewable annually. As of December 31, 2013, $697,001, was reserved for two outstanding letters of credit. As of December 31, 2013, there were no amounts outstanding under the revolving line-of-credit.

The Company has a $15,000,000 revolving line-of-credit with a bank with interest payable at the variable overnight Libor rate plus 2% (2.1875% at December 31, 2013), secured by bond investments of the Company and maturing June 30, 2014. As of December 31, 2013, $91,000 was reserved for an outstanding letter of credit. As of December 31, 2013, there were no amounts outstanding under the revolving line-of-credit.

The Company has a $2,150,000 revolving line-of-credit with a bank with interest payable at the prime rate plus 1.25% (4.5% at December 31, 2013), secured by the capital stock of Security National Life and maturing June 30, 2014. As of December 31, 2013, $1,250,000 was reserved for an outstanding letter of credit. As of December 31, 2013, there were no amounts outstanding under the revolving line-of-credit.

The Company has entered into a Construction and Term Loan Agreement (“Agreement”) between Zions First National Bank, a national banking association, and Dry Creek Property Development, Inc., the Company’s wholly owned

subsidiary. Under the terms of this Agreement the Company promises to pay Zions First National Bank the principal sum of $27,500,000 plus interest. These funds will be used for the construction of a 282-unit multifamily development in Sandy City Utah. As of December 31, 2013, the amount outstanding under this agreement was $0.

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6) Bank and Other Loans Payable (Continued)

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

2014	$5,849,926
2015	1,748,708
2016	1,399,264
2017	1,504,037
2018	247,065
Thereafter	7,540,438
Total	$18,289,438

Interest paid approximated interest expense in 2013, 2012 and 2011, which was $2,853,701, $3,744,293 and $1,961,249 respectively.

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

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

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

	December 31	
	2013	2012
Trust investments, at market value	$ 2,414,883	$ 2,090,111
Note receivables from Cottonwood Mortuary Singing Hills Cemetery and Memorial Estates - Pinehill eliminated in consolidation	1,881,565	1,927,926
Total trust assets	4,296,448	4,018,037
Cemetery perpetual care obligation	(3,266,131)	(3,153,001)
Fair value of trust assets in excess of trust obligations	$ 1,030,317	$ 865,036

The Company has established and maintains certain restricted trust investments to provide for future merchandise and service obligations incurred in connection with its pre-need sales. Also included in cash and cash equivalents are escrows held for borrowers under servicing agreements relating to mortgage loans and funds held by warehouse banks in accordance with loan purchase agreements.

Assets in the restricted asset account are summarized as follows:

	December 31	
	2013	2012
Cash and cash equivalents	$ 4,746,417	$ 7,617,143
Mutual funds	582,163	504,170
Fixed maturity securities	8,775	8,775
Equity securities	84,986	81,242
Participating in mortgage loans with Security National Life	1,248,639	1,155,628
Total	$ 6,670,980	$ 9,366,958

A surplus note receivable and interest, at December 31, 2013 and December 31, 2012 in the amount of $4,000,000 from Security National Life was eliminated in consolidation.

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8) Income Taxes

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

	December 31	
	2013	2012
Current	$ (1,578,071)	$ 613,328
Deferred	17,529,919	17,309,970
Total	$ 15,951,848	$ 17,923,298

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

	December 31	
	2013	2012
Assets		
Future policy benefits	$ (5,381,385)	$ (4,160,489)
Loan loss reserve	(2,147,547)	(2,353,765)
Unearned premium	(1,759,087)	(1,830,492)
Available for sale securities	(566,316)	(599,528)
Net operating loss	(873,412)	(1,099,500)
Deferred compensation	(1,057,551)	(1,238,270)
Deposit obligations	(1,043,964)	(1,060,205)
Other	(1,287,773)	(1,090,409)
Less: Valuation allowance	5,593,063	6,328,931
Total deferred tax assets	(8,523,972)	(7,103,727)
Liabilities		
Deferred policy acquisition costs	10,914,618	9,945,683
Basis difference in property and equipment	6,242,266	5,739,272
Value of business acquired	2,951,487	3,341,888
Deferred gains	3,545,692	2,790,709
Trusts	1,599,657	1,599,657
Tax on unrealized appreciation	800,171	996,488
Total deferred tax liabilities	26,053,891	24,413,697
Net deferred tax liability	$ 17,529,919	$ 17,309,970

The valuation allowance relates to differences between recorded deferred tax assets and liabilities and ultimate anticipated realization.

The valuation allowance decreased $735,868 during 2013 and increased $2,688,604 during 2012.

The Company paid $4,009,598, $1,900,000, and $174,811 in income taxes for 2013, 2012 and 2011, respectively.

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8) Income Taxes (Continued)

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

	2013	2012	2011
Current	$ 1,821,539	$ 2,707,962	$ 130,526
Deferred	416,267	1,930,813	(192,731)
Total	$ 2,237,806	$ 4,638,775	$ (62,205)

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

	2013	2012	2011
Computed expense at statutory rate	$3,340,067	$7,472,953	$410,225
Special deductions allowed small life insurance companies	-	-	(503,672)
Tax audit settlements	20,371	-	-
Other, net	(1,122,632)	(2,834,178)	31,242
Tax expense (benefit)	$2,237,806	$4,638,775	$(62,205)

At December 31, 2013, the Company had no significant unrecognized tax benefits. As of December 31, 2013, the Company does not expect any material changes to the estimated amount of unrecognized tax benefits in the next twelve months. Federal and state income tax returns for 2009 through 2013 are subject to examination by taxing authorities. An examination of the Company's 2009 through 2011 federal income tax returns was concluded September 10, 2013 without material adjustment. As part of the examination, the statute of limitations for 2009 was extended to September 15, 2014.

9) Reinsurance, Commitments and Contingencies

Reinsurance

The Company follows the procedure of reinsuring risks in excess of a specified limit, which ranged from $25,000 to $100,000 during the years 2013 and 2012. The Company is liable for these amounts in the event such reinsurers are unable to pay their portion of the claims. The Company has also assumed insurance from other companies having insurance in force amounting to approximately $1,566,336,000 (unaudited) at December 31, 2013 and approximately $1,665,573,000 (unaudited) at December 31, 2012.

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

reinsurance. On December 18, 2012, the Louisiana Department of Insurance approved the Coinsurance Agreement.

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

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9) Reinsurance, Commitments and Contingencies (Continued)

Reinsurance Terminated with North America Life Insurance Company

On December 1, 2013, in accordance with the terms of the Coinsurance Agreement, Security National Life, through TransWestern Life Insurance Company ("Trans-Western Life"), recaptured additional policies of Trans-Western Life from North American Life Insurance Company ("North American Life"). On December 10, 2013, pursuant to the Coinsurance Agreement, North America Life paid $2,500,000, less a ceding commission of $34,000 to Security National Life. On February 13, 2014, in accordance with the terms of the Coinsurance Agreement, Security National Life, through Trans Western Life, recaptured the remaining policies of Trans-Western Life from North American Life. Pursuant to the Coinsurance Agreement, North America Life paid $4,684,000 less a ceding commission of $57,000 to Security National Life, and the Reinsurance Agreement between Trans Western Life and North America Life was terminated.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses in years ended December 31, 2013 and 2012 were $1,846,000 and $4,053,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2013 and 2012, the balances were $5,507,000 and $6,035,000, respectively.

Settlement with Wells Fargo

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

SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser, including Wells Fargo Funding, and pay such amounts to Wells Fargo Funding. SecurityNational Mortgage is additionally required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 27 real estate properties with a total book value as of December 31, 2013 of $4,735,000.

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

SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo Funding and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo Funding purchased from SecurityNational Mortgage prior to December 31, 2009.

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9) Reinsurance, Commitments and Contingencies (Continued)

Mortgage Loan Loss Demands

Third Party Investors

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

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued $5,502,000 and $6,035,000 as of December 31, 2013 and 2012, respectively, to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against the Company.

The Company disagrees with the repurchase demands and notices of potential claims from third party investors and believes it has significant defenses to these demands. If SecurityNational Mortgage is unable to resolve the alleged claims by the third party investors on acceptable terms, legal action may ensue. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

JP Morgan Chase Indemnification Demand

The Company and its wholly owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, from JP Morgan Chase & Co. ("JP Morgan Chase") on behalf of EMC Mortgage, LLC ("EMC Mortgage"), relating to 21 mortgage loans that EMC Mortgage allegedly purchased as a third party investor from SecurityNational Mortgage. The notice also referenced a guaranty agreement, dated February 23, 2006, by the Company for the benefit of EMC Mortgage. The indemnification notice additionally stated that EMC Mortgage had been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the "Trust"), which was filed on September 13, 2011 in the Delaware Court of Chancery.

The lawsuit the Trust brought against EMC Mortgage contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust (including the 21 loans allegedly originated by SecurityNational Mortgage) contained breaches of representations and warranties with respect to the mortgage loans, as well as defaults and foreclosures in many of such loans. As a result of the alleged breaches of representations and warranties by EMC Mortgage, the complaint requests that EMC Mortgage be ordered to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans' outstanding principal balance and all

accrued but unpaid interest.

The indemnification notice from JP Morgan Chase further alleged that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit that the Trust brought against EMC based upon allegedly untrue statements of material fact related to information that was provided by SecurityNational Mortgage. To the extent the claims in the complaint relate to the 21 mortgage loans that SecurityNational Mortgage allegedly sold to EMC Mortgage, the Company believes it has significant defenses to such claims. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

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9) Reinsurance, Commitments and Contingencies (Continued)

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 55 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 55 mortgage loans.

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

Since the reserve account was established, funds had been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among 55 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. ("Lehman Holdings") claimed that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement.

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

been determined. As of December 31, 2013, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

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

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

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

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

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. Judge Nuffer also said that he may request a further hearing on the matter. The motion and cross motion are under advisement. SecurityNational Mortgage's motion in the Lehman Holdings case has been reset for hearing on April 22, 2014 before Judge Ted Stewart of the United States District Court for the District of Utah, with a trial, as may be necessary, set for August 11, 2014.

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9) Reinsurance, Commitments and Contingencies (Continued)

Non-Cancelable Leases

The Company leases office space and equipment under various non-cancelable agreements, with remaining terms up to five years. Minimum lease payments under these non-cancelable operating leases as of December 31, 2013, are approximately as follows:

Years Ending December 31	
2014	3,104,498
2015	2,444,254
2016	1,758,888
2017	1,326,789
2018	241,697
Total	$ 8,876,126

Total rent expense related to non-cancelable operating leases for the years ended December 31, 2013, 2012, and 2011 was approximately $4,307,000, $3,425,000, and $2,595,000, respectively.

Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of December 31, 2013, the Company's commitments were $18,000,000, for these loans of which $12,912,000 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees from the borrowers and the interest rate is generally 2% to 6.75% over the bank prime rate (3.25% as of December 31, 2013). Maturities range between six and twelve months.

At December 31, 2013, SecurityNational Mortgage was contingently liable under a standby letter of credit aggregating $1,250,000, to be used as collateral to cover any contingency relating to claims filed in states where SecurityNational Mortgage is licensed. The Company does not expect any material losses to result from the issuance of the standby letter of credit. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2013, the Company was contingently liable under a standby letter of credit aggregating $641,001, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's captive insurance program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2013, the Company was contingently liable under two standby letters of credit aggregating $139,220, issued as security deposits to guarantee payment of final bills for electric and gas utility services for a commercial real estate property owned by the Company in Wichita, Kansas.

The Company belongs to a captive insurance group for certain casualty insurance, worker compensation and liability programs. Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the insurance liabilities and related reserves, the captive insurance management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since captive insurance management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. At December 31, 2013, $524,034 of reserves was established related to such insurance programs versus $589,661 at December 31, 2012.

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.

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10) Retirement Plans

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

The Company's contributions are allocated to eligible employees based on the ratio of each eligible employee's compensation to total compensation for all eligible employees during each year. The Company did not make any contributions for 2013, 2012 and 2011. At December 31, 2013, the ESOP held 574,570 shares of Class A and 2,294,549 shares of Class C common stock of the Company. All shares held by the ESOP have been allocated to the participating employees and all shares held by the ESOP are considered outstanding for purposes of computing earnings per share.

The Company has three 401(k) savings plans covering all eligible employees, as defined above, which includes employer participation in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The plans allow participants to make pretax contributions up to a maximum of $17,500, $17,000 and $16,500 for the years 2013, 2012 and 2011, respectively or the statutory limits.

Beginning January 1, 2008, the Company elected to be a "Safe Harbor" Plan for its matching 401(k) contributions. The Company matched 100% of up to 3% of an employee's total annual compensation and matched 50% of 4% to 5% of an employee's annual compensation. The match was in Company stock. The Company's contribution for 2013, 2012 and 2011 was $749,898, $222,719 and $208,206, respectively under the "Safe Harbor" plan.

In 2001, the Company's Board of Directors adopted a Deferred Compensation Plan. Under the terms of the Plan, the Company will provide deferred compensation for a select group of management or highly compensated employees, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The Board has appointed a Committee of the Company to be the Plan Administrator and to determine the employees who are eligible to participate in the plan. The employees who participate may elect to defer a portion of their compensation into the plan. The Company may contribute into the plan at the discretion of the Company's Board of Directors. The Company did not make any contributions for 2013, 2012 and 2011.

The Company has a deferred compensation agreement with its past Chief Executive Officer. The deferred compensation is payable on the retirement or death of this individual either in annual installments over 10 years or in a lump sum settlement, if approved by the Board of Directors. The amount payable is $60,000 per year with cost of living adjustments each anniversary. The compensation agreement also provides that any remaining balance will be payable to his heirs in the event of his death. In addition, the agreement provides that the Company will pay the Group Health coverage for this individual and/or his spouse. In 2013, the Company decreased its liability for these future obligations by $0 and in 2012 decreased its liability by $1,349. The current balance as of December 31, 2013 was $598,426.

On July 16, 2004, the Company entered into an employment agreement with Scott M. Quist, its Chairman of the Board, President and Chief Executive Officer. The agreement is effective as of December 4, 2003 and has a five-year

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

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10) Retirement Plans (Continued)

In the event of a sale or merger of the Company and Mr. Quist is not retained in his current position, the Company would be obligated to continue Mr. Quist's current compensation and benefits for seven years following the merger or sale. The agreement further provides that Mr. Quist is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 65), (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of twenty years in annual installments in the amount equal to 75% of his then current rate of compensation. However, in the event that Mr. Quist dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed $264,000 and $87,467 in fiscal 2013 and 2012, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued is $1,437,242 and $1,173,242 as of December 31, 2013 and 2012, respectively.

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

In the event of a sale or merger of the Company and Mr. Beckstead is not retained in his current position, the Company would be obligated to continue Mr. Beckstead's current compensation and benefits for five years following the merger or sale. The agreement further provides that Mr. Beckstead is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 62½) (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to one-half of his then current annual salary. However, in the event that Mr. Beckstead dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed $-0- and $44,533 in fiscal 2013 and 2012, respectively, to cover the present value of the retirement benefit of the agreement. The liability accrued is $613,403 and $613,403, as of December 31, 2013 and 2012, respectively.

11) Capital Stock

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

Stockholders of both classes of common stock have received 5% stock dividends in the years 1990 through 2013, as authorized by the Company's Board of Directors.

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

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11) Capital Stock (Continued)

The following table summarizes the activity in shares of capital stock for the three-year period ended December 31, 2013:

	Class A	Class C
Balance at December 31, 2010	9,178,945	9,660,152
Exercise of stock options	-	-
Stock dividends	459,168	482,675
Conversion of Class C to Class A	685	(6,851)
Balance at December 31, 2011	9,638,798	10,135,976
Exercise of stock options	685,753	318,912
Stock dividends	518,702	522,440
Conversion of Class C to Class A	323	(3,227)
Balance at December 31, 2012	10,843,576	10,974,101
Exercise of stock options	359,786	2,112,110
Stock dividends	562,152	633,424
Conversion of Class C to Class A	41,773	(417,727)
Balance at December 31, 2013	11,807,287	13,301,908

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

	2013	2012	2011
Numerator:			
Net earnings	$ 7,585,921	$ 16,712,518	$ 1,298,758
Denominator:			
Denominator for basic earnings per share-weighted-average shares	11,751,428	10,812,967	10,572,201
Effect of dilutive securities			
Employee stock options	586,235	570,744	113,344
Dilutive potential common shares	586,235	570,744	113,344
	12,337,663	11,383,711	10,685,545

Denominator for diluted earnings (loss) per share-adjusted weighted-average shares and assumed conversions			
Basic earnings (loss) per share	$ 0.65	$ 1.55	$ 0.12
Diluted earnings (loss) per share	$ 0.61	$ 1.47	$ 0.12

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12) Stock Compensation Plans

The Company has three fixed option plans (the “2003 Plan”, the “2006 Plan” and the “2013 Plan”). Compensation expense for options issued of $88,369, $251,031 and $253,934 has been recognized under these plans for 2013, 2012 and 2011, respectively. As of December 31, 2013, the total unrecognized compensation expense related to the options issued in 2013 was $240,021, which is expected to be recognized over the vesting period of one year.

The weighted-average fair value of each option granted in 2013 under the 2013 Plan and the 2006 Plan, is estimated at $1.96 for the December 6, 2013 and December 7, 2013 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 67.93%, risk-free interest rate of 1.68%, and an expected term of 5.31 years.

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

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

The weighted-average fair value of each option granted in 2011 under the 2003 Plan and the 2006 Plan, is estimated at $0.52 and $0.71 for the December 2, 2012 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 59%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

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

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12) Stock Compensation Plans (Continued)

Activity of the stock option plans is summarized as follows:

	Number of Class A Shares	Weighted Average Exercise Price	Number of Class C Shares(1)
Outstanding at December 31, 2010	1,596,095	$2.61	3,438,355
Adjustment for the effect of stock dividends	95,073		171,920
Granted	346,500		-
Exercised	-		-
Cancelled	(41,125)		-
Outstanding at December 31, 2011	1,996,543	$2.40	3,610,275
Adjustment for the effect of stock dividends	43,928		245,145
Granted	347,000		-
Exercised	(1,041,276)		(525,000)
Cancelled	(123,134)		-
Reclass from A to C	(250,808)		2,508,085
Outstanding at December 31, 2012	972,253	$2.07	5,838,505
Adjustment for the effect of stock dividends	17,962		242,217
Granted	81,960		500,000
Exercised	(485,366)		(1,906,022)
Cancelled	(76,676)		(638,138)
Reclass from A to C	(105,000)		1,050,000
Outstanding at December 31, 2013	405,133	$2.41	5,086,562
Exercisable at end of year	319,009	$1.82	4,561,562
Available options for future grant	312,642		1,050,000
Weighted average contractual term of options outstanding at December 31, 2013	7.23 years	-	2.61 years
Weighted average contractual term of options exercisable at December 31, 2013	6.51 years		2.34 years
Aggregated intrinsic value of options outstanding at December 31, 2013	$893,398		$1,340,147
Aggregated intrinsic value of options exercisable at December 31, 2013	$893,172		$1,340,147

(1) Class “C” shares are converted to Class “A” shares on a 10 to 1 ratio. The Weighted Average Exercise Price is based on Class A Common shares.

The total intrinsic value (which is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date) of stock options exercised during the years ended December 31, 2013 and 2012 was $2,179,393 and $3,340,460, respectively.

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13) Statutory Financial Information and Dividend Limitations

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

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

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

	Net Income			Capital and Surplus	
	2013	2012	2011	2013	2012
Amounts by insurance subsidiary:					
Security National Life Insurance Company	$1,283,311	$391,533	$(34,795)	$29,597,289	$29,828,732
Memorial Insurance Company of America	237	159	(1,994)	1,083,237	1,084,067
Southern Security Life Insurance Company, Inc.	1,288	184	971	1,586,832	1,583,524
Trans-Western Life Insurance Company	1,906	2,113	-	497,878	495,972
Total	$1,286,742	$393,989	$(35,818)	$32,765,236	$32,992,295

The Utah, Arkansas, Mississippi and Texas Insurance Departments impose minimum risk-based capital requirements ("RBC") that were developed by the NAIC on insurance enterprises. The formulas for determining the RBC specify various factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio (the "Ratio") of the enterprise's regulatory total adjusted capital, as defined by the NAIC, to its authorized control level, as defined by the NAIC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The life insurance subsidiaries have a combined weighted Ratio that is greater than the first level of regulatory action as of December 31, 2013.

Generally, the net assets of the life insurance subsidiaries available for transfer to the Company are limited to the amounts of the life insurance subsidiaries net assets, as determined in accordance with statutory accounting practices,

which were $32,765,236 at December 31, 2013, exceed minimum statutory capital requirements; however, payments of such amounts as dividends are subject to approval by regulatory authorities.

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14) Business Segment Information

Description of Products and Services by Segment

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

Measurement of Segment Profit or Loss and Segment Assets

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

Factors Management Used to Identify the Enterprise's Reportable Segments

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

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14) Business Segment Information (Continued)

	2013				
	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
Revenues:					
From external sources:					
Revenue from customers	$51,322,567	$12,000,375	$127,950,021	$-	$191,272,963
Net investment income	15,877,784	268,923	4,207,295	-	20,354,002
Realized gains (losses) on investments and other assets	1,402,352	15,699	-	-	1,418,051
Other than temporary impairments	(336,226)	-	-	-	(336,226)
Other revenues	538,009	94,703	1,973,518	-	2,606,230
Intersegment revenues:					
Net investment income	7,220,282	1,356,825	262,074	(8,839,181)	-
Total revenues	76,024,768	13,736,525	134,392,908	(8,839,181)	215,315,020
Expenses:					
Death and other policy benefits	28,534,936	-	-	-	28,534,936
Increase in future policy benefits	19,594,890	-	-	-	19,594,890
Amortization of deferred policy and preneed acquisition costs and value of business acquired	4,811,300	370,537	-	-	5,181,837
Depreciation	401,893	426,641	792,535	-	1,621,069
General, administrative and other costs:					
Intersegment	24,000	141,367	199,193	(364,560)	-
Provision for loan losses	-	-	1,751,472	-	1,751,472
Costs related to funding mortgage loans	-	-	6,635,290	-	6,635,290
Other	18,753,753	10,467,717	110,096,627	1	139,318,098
Interest expense:					
Intersegment	802,352	1,664,096	6,008,174	(8,474,622)	-
Other	233,343	443,133	2,177,225	-	2,853,701
Total benefits and expenses	73,156,467	13,513,491	127,660,516	(8,839,181)	205,491,293
Earnings (losses) before income taxes	$2,868,301	$223,034	$6,732,392	$-	$9,823,727
Income tax (expense) benefit	399,304	-	(2,637,110)	-	(2,237,806)
Net earnings (losses)	$3,267,605	$223,034	$4,095,282	$-	$7,585,921
Identifiable assets	$591,465,834	$114,454,631	$50,250,677	$(137,413,688)	$618,757,454
Goodwill	$391,848	$285,191	$-	$-	$677,039

Expenditures for long-lived assets	$659,259	$1,100,195	$1,810,879	$-	$3,570,333

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14) Business Segment Information (Continued)

2012	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
Revenues:					
From external sources:					
Revenue from customers	$49,550,904	$10,864,497	$150,553,261	$-	$210,968,662
Net investment income	16,616,541	333,625	4,965,411	-	21,915,577
Realized gains (losses) on investments and other assets	1,415,556	8,954	-	-	1,424,510
Other than temporary impairments	(1,207,632)	-	-	-	(1,207,632)
Other revenues	482,325	136,189	540,538	-	1,159,052
Intersegment revenues:					
Net investment income	7,570,979	1,435,891	294,980	(9,301,850)	-
Total revenues	74,428,673	12,779,156	156,354,190	(9,301,850)	234,260,169
Expenses:					
Death and other policy benefits	24,246,088	-	-	-	24,246,088
Increase in future policy benefits	21,435,191	-	-	-	21,435,191
Amortization of deferred policy and preneed acquisition costs and value of business acquired	5,137,586	311,843	-	-	5,449,429
Depreciation	315,960	426,006	516,131	-	1,258,097
General, administrative and other costs:					
Intersegment	24,000	102,726	137,696	(264,422)	-
Provision for loan losses	-	-	4,239,418	-	4,239,418
Costs related to funding mortgage loans	-	-	6,931,045	-	6,931,045
Other	17,824,800	9,582,499	118,198,014	2	145,605,315
Interest expense:					
Intersegment	694,442	1,681,987	6,661,001	(9,037,430)	-
Other	159,659	455,449	3,129,185	-	3,744,293
Total benefits and expenses	69,837,726	12,560,510	139,812,490	(9,301,850)	212,908,876
Earnings (losses) before income taxes	$4,590,947	$218,646	$16,541,700	$-	$21,351,293
Income tax (expense) benefit	1,755,258	-	(6,394,033)	-	(4,638,775)
Net earnings (losses)	$6,346,205	$218,646	$10,147,667	$-	$16,712,518
Identifiable assets	$558,845,424	$116,368,747	$55,613,678	$(133,611,226)	$597,216,623
Goodwill	$391,848	$285,191	$-	$-	$677,039
Expenditures for long-lived assets	$400,605	$689,154	$2,131,861	$-	$3,221,620

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14) Business Segment Information (Continued)

2011	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
Revenues:					
From external sources:					
Revenue from customers	$49,898,032	$10,761,469	$77,605,105	$-	$138,264,606
Net investment income	15,855,355	159,186	2,555,536	-	18,570,077
Realized gains (losses) on investments and other assets	1,596,127	868,226	-	-	2,464,353
Other than temporary impairments	(840,735)	-	-	-	(840,735)
Other revenues	712,400	147,830	248,739	-	1,108,969
Intersegment revenues:					
Net investment income	5,832,691	1,691,197	258,062	(7,781,950)	-
Total revenues	73,053,870	13,627,908	80,667,442	(7,781,950)	159,567,270
Expenses:					
Death and other policy benefits	23,945,720	-	-	-	23,945,720
Increase in future policy benefits	22,258,241	-	-	-	22,258,241
Amortization of deferred policy and preneed acquisition costs and value of business acquired	5,396,016	373,332	-	-	5,769,348
Depreciation	479,634	520,015	499,389	-	1,499,038
General, administrative and other costs:					
Intersegment	24,000	103,494	130,011	(257,505)	-
Provision for loan losses	-	-	2,070,399	-	2,070,399
Costs related to funding mortgage loans	-	-	4,240,377	-	4,240,377
Other	17,472,713	9,827,197	69,286,435	-	96,586,345
Interest expense:					
Intersegment	668,047	1,905,559	4,950,839	(7,524,445)	-
Other	111,221	437,736	1,412,292	-	1,961,249
Total benefits and expenses	70,355,592	13,167,333	82,589,742	(7,781,950)	158,330,717
Earnings (losses) before income taxes	$2,698,278	$460,575	$(1,922,300)	$-	$1,236,553
Income tax (expense) benefit	(734,626)	-	796,831	-	62,205
Net earnings (losses)	$1,963,652	$460,575	$(1,125,469)	$-	$1,298,758
Identifiable assets	$504,744,743	$116,453,434	$27,913,480	$(126,061,216)	$523,050,441
Goodwill	$391,848	$285,191	$-	$-	$677,039

Expenditures for long-lived assets	$136,742	$255,116	$373,775	$-	$765,633

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15) Related Party Transactions

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

16) Fair Value of Financial Instruments

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

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we can access.
Level 2: Financial assets and financial liabilities whose values are based on the following:

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

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

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

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

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

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

Restricted Assets: A portion of these assets include mutual funds and equity securities that have quoted market prices. Also included are cash and cash equivalents and participations in mortgage loans. The carrying amounts reported in

the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

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

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

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16) Fair Value of Financial Instruments (Continued)

The items shown under Level 3 are valued as follows:

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

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

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

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

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

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

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

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

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16) Fair Value of Financial Instruments (Continued)

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

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the consolidated balance sheet at December 31, 2013.

	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				
Common stock	$4,498,756	$4,498,756	$-	$-
Total securities available for sale	4,498,756	4,498,756	-	-
Restricted assets of cemeteries and mortuaries	667,149	667,149	-	-
Cemetery perpetual care trust investments	695,616	695,616	-	-
Derivatives - interest rate lock commitments	1,511,111	-	-	1,511,111
Total assets accounted for at fair value on a recurring basis	$7,372,632	$5,861,521	$-	$1,511,111
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	$(48,000,668)	$-	$-	$(48,000,668)
Future policy benefits - annuities	(65,052,928)	-	-	(65,052,928)
Derivatives - bank loan interest rate swaps	(58,310)	-	-	(58,310)
- call options	(124,174)	(124,174)	-	-
- interest rate lock commitments	(23,203)	-	-	(23,203)
Total liabilities accounted for at fair value on a recurring basis	$(113,259,283)	$(124,174)	$-	$(113,135,109)

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16) Fair Value of Financial Instruments (Continued)

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

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2012	$(49,746,337)	$(65,171,687)	$ 2,961,465	$(93,572)
Total Losses (Gains):				
Included in earnings	1,745,669	118,759	-	-
Included in other comprehensive income (loss)	-	-	(1,473,557)	35,262
Balance - December 31, 2013	$(48,000,668)	$(65,052,928)	$ 1,487,908	$(58,310)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2013.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage servicing rights	$5,291,724	$-	$-	$ 5,291,724
Mortgage loans on real estate	89,000	-	-	89,000
Other real estate owned held for investment	660,784	-	-	660,784
Total assets accounted for at fair value on a nonrecurring basis	$6,041,508	$-	$-	$ 6,041,508

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16) Fair Value of Financial Instruments (Continued)

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

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

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

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2011	$(50,926,020)	$(65,281,586)	$ 1,694,541	$(117,812)
Total Losses (Gains):				

Included in earnings	1,179,683	109,899	-	-
Included in other comprehensive income (loss)	-	-	1,266,924	24,240
Balance - December 31, 2012	$(49,746,337)	$(65,171,687)	$ 2,961,465	$(93,572)

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16) Fair Value of Financial Instruments (Continued)

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

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

Fair Value of Financial Instruments Carried at Other Than Fair Value

ASC 825, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at December 31, 2013. The estimated fair value amounts for December 31, 2013 have been measured as of period-end, and have not been reevaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of December 31, 2013:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans:					
Residential	$48,503,639	$-	$-	$51,537,154	$51,537,154
Residential construction	12,812,359	-	-	12,812,359	12,812,359
Commercial	41,465,880	-	-	42,441,268	42,441,268

Mortgage loans, net	$102,781,878	$-	$-	$106,790,781	$106,790,781
Policy loans	7,520,376	-	-	7,520,376	7,520,376
Other loans	12,203,630	-	-	12,203,630	12,203,630
Short-term investments	12,135,719	-	-	12,135,719	12,135,719
Liabilities					
Bank and other loans payable	$18,231,128	$-	$-	$18,231,128	$18,231,128

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16) Fair Value of Financial Instruments (Continued)

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of December 31, 2012:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans:					
Residential	$46,391,249	$-	$-	$50,266,965	$50,266,965
Residential construction	3,114,925	-	-	3,114,925	3,114,925
Commercial	34,956,031	-	-	35,475,500	35,475,500
Mortgage loans, net	$84,462,205	$-	$-	$88,857,390	$88,857,390
Policy loans	8,075,101	-	-	8,075,101	8,075,101
Other loans	12,113,415	-	-	12,113,415	12,113,415
Short-term investments	40,925,390	-	-	40,925,390	40,925,390
Liabilities					
Bank and other loans payable	$11,816,771	$-	$-	$11,816,771	$11,816,771

The methods, assumptions and significant valuation techniques and inputs used to estimate the fair value of financial instruments are summarized as follows:

Mortgage Loans on Real Estate: The estimated fair value of the Company’s mortgage loans is determined using various methods. The Company’s mortgage loans are grouped into three categories: Residential, Residential Construction and Commercial. When estimating the expected future cash flows, it is assumed that all loans will be held to maturity, and any loans that are non-performing are evaluated individually for impairment.

Residential – The estimated fair value of mortgage loans originated prior to 2013 is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates from single family mortgages. The estimated fair value of mortgage loans originated in 2013 is determined from pricing of similar loans that were sold in December 2013.

Residential Construction – These loans are primarily short in maturity (4-6 months) accordingly, the estimated fair value is determined to be the net book value.

Commercial – The estimated fair value is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates for commercial mortgages.

Policy and Other Loans: The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Short-Term Investments: The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Bank and Other Loans Payable: The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

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17) Accumulated Other Comprehensive Income

The following summarizes the changes in accumulated other comprehensive income:

	December 31	
	2013	2012
Unrealized losses on available for-sale securities	$ (12,299)	$ (28,700)
Reclassification adjustment for net realized gains in net income	538,311	386,328
Net unrealized gains before taxes	526,012	357,628
Tax (expense) benefit	(221,221)	70,120
Net	304,791	427,748
Potential unrealized gains for derivative bank loans (interest rate swaps) before taxes	35,262	24,240
Tax expense	(9,073)	(8,242)
Net	26,189	15,998
Potential unrealized gains (losses) for derivative mortgage loans before taxes	(1,473,557)	1,266,924
Tax (expense) benefit	426,614	(430,754)
Net	(1,046,943)	836,170
Other comprehensive income (loss) changes	$ (715,963)	$ 1,279,916

The following is the accumulated balances of other comprehensive income as of December 31, 2013:

	Beginning Balance December 31, 2012	Change for the period	Ending Balance December 31, 2013
Unrealized net gains on available-for-salesecurities and trust investments	$ 41,550	$ 304,791	$ 346,341
Unrealized gains (losses) on derivative mortgage loans	1,954,567	(1,046,943)	907,624
Unrealized gains (losses) on derivative bank loan interest rate swaps	(61,758)	26,189	(35,569)
Other comprehensive income	$ 1,934,359	$ (715,963)	$ 1,218,396

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

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

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18) Derivative Commitments

The Company has adopted a strategy of selling "out of the money" call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the market value of the option. The liability for call options is adjusted to market value at each reporting date. The market value of outstanding call options as of December 31, 2013 and December 31, 2012 was $124,174 and $126,215, 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. Additional information on how the Company reports these derivatives is discussed in Note 1 of the Notes to Consolidated Financial Statements.

The following table shows the fair value of derivatives as of December 31, 2013 and December 31, 2012.

Fair Value of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	December 31, 2013		December 31, 2012		December 31, 2013		December 31, 2012	
	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	$1,511,111	other assets	$3,127,689	Other liabilities	$23,203	Other liabilities	$166,224
Call Options		-		-	Other liabilities	124,174	Other liabilities	126,215
Interest rate swaps		-		-	Bank loans payable	58,310	Bank loans payable	93,572
Total		$1,511,111		$3,127,689		$205,687		$386,011

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

Net Amount Gain (Loss) Recognized in OCI

Derivative - Cash Flow Hedging Relationships:	Years ended December 31 2013		2012	
Interest Rate Lock Commitments	$	(1,473,557)	$	1,266,924
Interest Rate Swaps		35,262		24,240
Sub Total		(1,438,295)		1,291,164
Tax Effect		(417,541)		438,996
Total	$	(1,020,754)	$	852,168

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19) Acquisitions

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

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

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

The following unaudited pro forma information has been prepared to present the results of operations of the Company assuming theacquisition of Trans-Western had occurred at the beginning of the years ended December 31, 2013, 2012 and 2011, respectively. This pro forma information is supplemental and does not necessarily present the operations of the Company that would have occurred had the acquisition occurred on those dates and may not reflect the operations that will occur in the future:

	For the Year Ended December 31 (unaudited)		
	2013	2012	2011
Total revenues	$215,315,020	$234,268,496	$159,620,617
Net earnings	$7,585,921	$16,713,955	$1,314,026
Net earnings per Class A equivalent common share	$0.65	$1.65	$0.13
Net earnings per Class A equivalent common share assuming dilution	$0.61	$1.57	$0.13

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20) Mortgage Servicing Rights

The following table presents the MSR activity for 2013 and 2012.

	December 31 2013	
	2013	2012
Amortized cost:		
Balance before valuation allowance at beginning of year	$ 2,797,470	$ -
MSRs received as proceeds from loan sales	2,494,254	2,797,470
Amortization	(447,623)	-
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance before valuation allowance at year end	$ 4,844,101	$ 2,797,470
Valuation allowance for impairment of MSRs:		
Balance at beginning of year	$ -	$ -
Additions	-	-
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance at year end	$ -	$ -
Mortgage servicing rights, net	$ 4,844,101	$ 2,797,470
Estimated fair value of MSRs at year end	$ 5,491,270	$ 2,797,470

The Company reports these MSRs pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements. The following table summarizes the Company’s estimate of future amortization of its existing MSRs carried at amortized cost. This projection was developed using the assumptions made by management in its December 31, 2013 valuation of MSRs. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

	Estimated MSR Amortization
2014	$ 587,969
2015	587,969
2016	587,969
2017	587,969
2018	587,969

Thereafter		1,904,256
Total	$	4,844,101

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21) Quarterly Financial Data (Unaudited)

	2013 Three Months Ended			
	March 31	June 30	September 30	December 31
Revenues	$54,852,234	$61,332,289	$50,552,791	$48,577,706
Benefits and expenses	51,624,611	56,862,769	48,588,507	48,415,406
Earnings before income taxes	3,227,623	4,469,520	1,964,284	162,300
Income tax benefit (expense)	(1,194,357)	(1,670,275)	(697,793)	1,324,619
Net earnings	2,033,266	2,799,245	1,266,491	1,486,919
Net earnings per common share	$0.19	$0.25	$0.11	$0.12
Net earnings per common share assuming dilution	$0.17	$0.24	$0.11	$0.12

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

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

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

None

Item 9A. Controls and Procedures

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

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

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

· Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company,

· Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the board of directors of the Company, and

· Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of December 31, 2013. Based on that assessment the Company believes that, at December 31, 2013, its internal control over financial reporting was effective.

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

(b) Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred in the fourth quarter of 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

On December 6, 2013, the Company's Board of Directors approved amendments to the Company's Bylaws. The new amendments to the Bylaws were effective as of December 6, 2013. The most important changes in the Bylaws were as follows: First, a new Article 13 was added entitled, "Forum for Adjudication of Disputes." This new article was added in view of the favorable decision by the Delaware Court of Chancery in upholding the enforceability of the forum selection bylaws in the Chevron/FedEx case. The plaintiffs in that case appealed the decision, but voluntarily dismissed their appeal.

More specifically, the new Article 13 provides that unless the Company consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by a director, officer or other employee of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim pursuant to any provision of the Utah Revised Business Corporation Act, or (iv) an action asserting a claim governed by the internal affairs doctrine, will be a state or federal court located within the State of Utah.

The Company believes the forum selection provision in the Company's Bylaws can greatly reduce the costs and complexities associated with certain types of multi-jurisdiction litigation. Moreover, it will provide greater certainty in outcomes in such litigation to the benefit of all the Company's stockholders.

Second, the amendments to the Company's Bylaws amended the indemnification provisions in Article 8 to include the indemnification of the Company's officers rather than indemnifying just the Company's directors as was the case before the amendments. Third, Section 3.15 of the Bylaws was amended to allow the participation by the Company's directors in Board of Directors meetings by means of other forms of communication (e.g., Skype) besides conference calls. As amended, Section 3.15 allows directors to participate in a Board meeting by means of a conference telephone call or similar communications equipment, or through the use of any other means of communication, by which all persons participating in the meeting can hear each other during the meeting.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

Name	Age	Position with the Company
Scott M. Quist	60	Chairman of the Board, President, Chief Executive Officer and Director
Garrett S. Sill	43	Chief Financial Officer and Treasurer
J. Lynn Beckstead, Jr.	60	Vice President Mortgage Operations and Director
Christie Q. Overbaugh	65	Senior Vice President of Internal Operations
Jason G. Overbaugh	39	Vice President, Assistant Secretary, National Marketing Director of Life Insurance and Director
Jeffrey R. Stephens	60	General Counsel and Corporate Secretary
S. Andrew Quist	33	Vice President, Associate General Counsel and Director
John L. Cook	59	Director
Gilbert A. Fuller	73	Director
Robert G. Hunter	54	Director
H. Craig Moody	62	Director
Norman G. Wilbur	75	Director

Directors

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

Scott M. Quist has served as Chairman of the Board and Chief Executive Officer of the Company since September 2012. Mr. Quist also serves as the Company's President, a position he has held since 2002. He has also served as a director of the Company since 1986. Mr. Quist served as First Vice President of the Company from 1986 to 2002. From 1980 to 1982, Mr. Quist was a tax specialist with Peat, Marwick, Mitchell, & Co., in Dallas, Texas. From 1986 to 1991, he was Treasurer and a director of The National Association of Life Companies, a trade association of 642 insurance companies until its merger with the American Council of Life Companies. Mr. Quist has been a member of the Board of Governors of the Forum 500 Section (representing small insurance companies) of the American Council of Life Insurance. He has also served as a regional director of Key Bank of Utah since November 1993. Mr. Quist is currently a director and a past president of the National Alliance of Life Companies, a trade association of over 200 life companies. Mr. Quist holds a B.S. degree in Accounting from Brigham Young University and received his law degree also from Brigham Young University. Mr. Quist's significant expertise and deep understanding of the technical, organizational and strategic business aspects of the insurance industry, his management expertise, his twelve year tenure as President of the Company and 27 year tenure as a director, and his years of business and leadership experience led the Board of Directors to conclude that he should be appointed as Chairman of the Board and Chief Executive Officer of the Company.

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

Jason G. Overbaugh has served as Vice President and Assistant Secretary of the Company since 2002. He has also served as a director of the Company since July 2013. Mr. Overbaugh has additionally served as a Vice President and National Marketing Director of Security National Life Insurance Company, a wholly owned subsidiary of the Company, since 2006. From 2003 to 2006, he served as a Vice President of Security National Life Insurance Company with responsibilities as an investment manager over construction lending and commercial real estate investments. From 2000 to 2003, he served as a Vice President of Memorial Estates, Inc., a wholly owned subsidiary of the Company, with responsibilities over operations and sales. In addition, Mr. Overbaugh has served since 2007 as a director of the LOMA Life Insurance Council, a trade association of life insurance companies. He is also a member of the NFDA Trade Association. Mr. Overbaugh received a B.S. degree in Finance from the University of Utah. Mr. Overbaugh's expertise in insurance and marketing, and his 17 years of experience with the Company in its insurance, real estate, and mortgage and cemetery operations, led the Board of Directors to conclude that he should serve as a director.

S. Andrew Quist has served as Vice President of the Company since 2010. He has also served as a director of the Company since July 2013. Mr. Quist has additionally served as the Company's Associate General Counsel since 2007, where his responsibilities have included the Company's regulatory matters and acquisitions. In addition, Mr. Quist has been Vice President and Chief Operating Officer since 2010, and Vice President from 2008 to 2010, of C&J Financial, LLC, a wholly owned subsidiary of the Company, which funds the purchase of funeral and burial policies from funeral homes after the death of the insureds. Mr. Quist has also served since 2013 as a director of the National Alliance of Life Companies (NALC), a national trade association of over 200 life insurance companies, where he also serves as Vice President and Treasurer. Mr. Quist further serves as President of the Utah Life Convention, a consortium of Utah domestic life insurers. Mr. Quist holds a B.S. degree in Accounting from Brigham Young University and received his law degree from the University of Southern California. Mr. Quist's expertise in insurance, legal, and regulatory matters led the Board of Directors to conclude that he should serve as a director.

John L. Cook has served as a director of the Company since December 6, 2013. Mr. Cook has served since 1982 as co-owner and operator of Cook Brothers Painting, Inc., a painting company that provides painting services for contractors and builders of residential and commercial properties. In addition, Mr. Cook attended the University of Utah. Mr. Cook's years of experience with the construction industry and construction projects led the Board of Directors to conclude that Mr. Cook should serve as a director. As a director Mr. Cook will advise the Board regarding the Company's investments in commercial and residential real estate projects, including Dry Creek at East Village, a 282 unit multifamily development in Sandy City, Utah. Moreover, Mr. Cook's extensive background in construction and building will be important as the Company continues to acquire new real estate holdings and develop its current portfolio of undeveloped land into future developments that could provide additional long term revenues for the Company.

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

director, led the Board of Directors to conclude that he should serve as a director.

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

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

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

The Board of Directors, Board Committees and Meetings

The Company's Bylaws provide that the Board of Directors shall consist of not less than five or more than twelve members. The term of office of each director is for a period of one year or until the election and qualification of his successor. A director is not required to be a resident of the State of Utah or a stockholder of the Company. The Board of Directors held a total of four meetings during the fiscal year ended December 31, 2013. Each of the directors attended 75% or more of the meetings of the Board of Directors during the 2013 fiscal year.

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

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

The Audit Committee directs the auditing activities of the Company's internal auditors and outside public accounting firm and approves the services of the outside public accounting firm. The Audit Committee consists of Messrs. Gilbert A. Fuller, H. Craig Moody and Norman G. Wilbur (Chairman of the committee). During 2013, the Audit Committee met on three occasions.

The Compensation Committee is responsible for recommending to the Board of Directors for approval the annual compensation of each executive officer of the Company and the executive officers of the Company's subsidiaries, developing policy in the areas of compensation and fringe benefits, contributions under the Employee Stock Ownership Plan, contributions under the 401(k) Retirement Savings Plans, Deferred Compensation Plan, granting of options under the stock option plans, and creating other employee compensation plans. The Compensation Committee consists of Messrs. Gilbert A. Fuller, Robert G. Hunter, M.D., H. Craig Moody and Norman G. Wilbur (Chairman of the committee). During 2013, the Compensation Committee met on two occasions.

The Executive Committee reviews Company policy, major investment activities and other pertinent transactions of the Company. The Executive Committee consists of Messrs. Gilbert A. Fuller, H. Craig Moody, S. Andrew Quist and Scott M. Quist (Chairman of the committee). During 2013, the Executive Committee met on one occasion.

The Nominating and Corporate Governance Committee identifies individuals qualified to become board members consistent with criteria approved by the board, recommends to the board the persons to be nominated by the board for election as directors at a meeting of stockholders, and develops and recommends to the board a set of corporate governance principles. The Nominating and Corporate Governance Committee consists of Messrs. John L. Cook, Gilbert A. Fuller, Robert G. Hunter, M.D., H. Craig Moody (Chairman of the committee), and Norman G. Wilbur. The Nominating and Corporate Governance Committee is composed solely of independent directors, as defined in the listing standards of the Nasdaq Stock Market. During 2013, the Nominating and Corporate Governance Committee met on three occasions.

Director Nominating Process

The process for identifying and evaluating nominees for directors include the following steps: (1) the Nominating and Corporate Governance Committee, Chairman of the Board or other board members identify a need to fill vacancies or add newly created directorships; (2) the Chairman of the Nominating and Corporate Governance Committee initiates a search and seeks input from board members and senior management and, if necessary, obtains advice from legal or other advisors (but does not hire an outside search firm); (3) director candidates, including any candidates properly proposed by stockholders in accordance with the Company's Bylaws, are identified and presented to the Nominating and Corporate Governance Committee; (4) initial interviews with candidates are conducted by the Chairman of the Nominating and Corporate Governance Committee; (5) the Nominating and Corporate Governance Committee meets to consider and approve final candidate(s) and conduct further interviews as necessary; and (6) the Nominating and Corporate Governance Committee makes recommendations to the board for inclusion in the slate of directors at the annual meeting. The evaluation process will be the same whether the nominee is recommended by a stockholder or by a member of the Board of Directors.

Meetings of Non-Management Directors

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

Executive Officers

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

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

Associate Member of LOMA (Life Office Management Association).

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

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

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

Corporate Governance

Corporate Governance Guidelines. The Board of Directors has adopted the Security National Financial Corporation Corporate Governance Guidelines. These guidelines outline the functions of the board, director qualifications and responsibilities, and various processes and procedures designed to insure effective and responsive governance. The Board of Directors has also adopted a written committee charter for its Audit Committee and Compensation Committee. The guidelines and committee charters are reviewed from time to time in response to regulatory requirements and best practices and are revised accordingly. The full text of the guidelines and the committee charters are available on the Company's website at www.securitynational.com. A copy of the Corporate Governance Guidelines may also be obtained at no charge by written request to the attention of Jeffrey R. Stephens, Secretary, Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.

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

Item 11. Executive Compensation

The following table sets forth, for each of the last three fiscal years, the compensation received by the Company's Chief Executive Officer, the Company's Chief Financial Officer, and the Company's three other most highly compensated executive officers who were serving as executive officers at the end of 2013 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Options Awards ($)	Non-Equity Incentive Plan Compen-sation ($)	Change in Pension Value Non-qualified Deferred Compensation Earnings (1) ($)	All Other Compen -sation (2) ($)	Total ($)
Scott M.	2013	$ 427,525	$ 121,200	--	--	--	$ 39,381	$ 588,106
Quist	2012	384,400	193,950	--	--	--	41,330	619,680
Chairman of the Board, President and Chief Executive Officer	2011	384,400	95,000	--	--	--	44,140	523,540
Garrett S.	2013	$ 161,273	$ 7,370	--	--	--	$ 17,499	$ 186,142
Sill	2012	143,342	12,030	--	--	--	19,120	174,492
Chief Financial Officer and Treasurer	2011	135,400	5,000	--	--	--	12,651	153,051
J. Lynn	2013	$ 265,997	$ 117,277	--	--	--	$ 31,098	$ 414,372
Beckstead,	2012	255,667	144,916	--	--	--	23,996	424,579
Jr. Vice President of Mortgage Operations	2011	247,583	26,381	--	--	--	22,969	296,933
Jeffrey R.	2013	$ 164,123	$ 8,100	--	--	--	$ 17,663	$ 189,886
Stephens	2012	156,833	16,850	--	--	--	19,926	193,609
General Counsel and Corporate Secretary	2011	152,792	30,100	--	--	--	19,354	202,246

S. Andrew	2013	$ 154,186	$ 7,725	--	--	--	$ 19,889	$ 181,800
Quist	2012	138,267	42,955	--	--	--	19,080	200,302
Vice President and Associate General Counsel	2011	126,296	18,325	--	--	--	17,447	162,068

(1) The amounts indicated under "Change in Pension Value and Non-qualified Deferred Compensation Earnings" consist of amounts contributed by the Company into a trust for the benefit of the Named Executive Officers under the Company's Deferred Compensation Plan.

(2) The amounts indicated under "All Other Compensation" consist of the following amounts paid by the Company for the benefit of the Named Executive Officers:

a) payments related to the operation of automobiles were for Scott M. Quist ($7,200 for each of the years 2013, 2012 and 2011); Garrett S. Sill ($-0- for each of the years 2013, 2012 and 2011); J. Lynn Beckstead Jr. ($-0- for each of the years 2013, 2012 and 2011); Jeffrey R. Stephens ($-0- for each of the years 2013, 2012 and 2011) and S. Andrew Quist ($-0- for each of the years 2013, 2012 and 2011). However, such payments do not include the furnishing of an automobile by the Company to Scott M. Quist and J. Lynn Beckstead Jr., nor the payment of insurance and property taxes with respect to the automobiles operated by the such executive officers;

b) group life insurance premiums paid by the Company to a group life insurance plan for Scott M. Quist and J. Lynn Beckstead Jr. ($191 for 2013, $207 for 2012, and $223 for 2011); Garrett S. Sill ($191 for 2013, $262 for 2012, and $158 for 2011); Jeffrey R. Stephens ($191 for 2013, $207 for 2012, and $223 for 2011) and S. Andrew Quist ($191 for 2013, $202 for 2012, and $219 for 2011);

c) life insurance premiums paid by the Company for the benefit of Scott M. Quist ($12,390 for 2013, $15,016 for 2012, and $15,016 for 2011); Garrett S. Sill ($-0- for each of the years 2013, 2012 and 2011, respectively); J. Lynn Beckstead Jr. ($4,200 for 2013, $4,500 2012, and $4,500 for 2011); Jeffrey R. Stephens ($-0- for each of the years 2013, 2012 and 2011, respectively); and S. Andrew Quist ($-0- for each of the years 2013, 2012 and 2011, respectively);

d) medical insurance premiums paid by the Company to a medical insurance plan: Scott M. Quist ($9,140 for 2013, $8,644 for 2012, and $11,637 for 2011); Garrett S. Sill ($10,302 for 2013, $12,441 for 2012, and $8,383 for 2011); J. Lynn Beckstead Jr. ($10,302 for 2013, $12,441 for 2012, and $11,637 for 2011); Jeffrey R. Stephens ($10,323 for 2013, $12,510 for 2012, and $11,550 for 2011); and S. Andrew Quist ($13,154 for 2013, $12,441 for 2012, and $11,637 for 2011);

e) long term disability insurance paid by the Company to a provider of such insurance; Scott M. Quist, Garrett S. Sill, J. Lynn Beckstead Jr., Jeffrey R. Stephens, and S. Andrew Quist ($260 for 2013, $262 for 2012 and $264 for 2011);

f) membership dues paid by the Company to Alpine Country Club for the benefit of J. Lynn Beckstead Jr. ($5,945 for 2013, $6,586 for 2012, and $6,645 for 2011);

g) contributions to defined contribution plans paid by the Company; Scott M. Quist ($10,200 for 2013, $10,000 for 2012, and $9,800 for 2011); Garrett S. Sill ($6,746 for 2013, $6,215 for 2012, and $3,846 for 2011); J. Lynn Beckstead Jr. ($10,200 for 2013, $-0- for 2012, and $-0- for 2011); Jeffrey R. Stephens ($6,889 for 2013, $6,947 for 2012, and $7,316 for 2011); and S. Andrew Quist ($6,284 for 2013, $6,175 for 2012, and $5,327 for 2011);

SUPPLEMENTAL ALL OTHER COMPENSATION TABLE

The following table sets forth all other compensation provided the Named Executive Officers for fiscal years 2013, 2012 and 2011.

Name of Executive Officer	Year	Perks and Other Personal Benefits	Tax Reimburse -ments	Discounted Securities Purchases	Payments/ Accruals on Termination Plans	Registrant Contributions to Defined Contribution Plans	Insurance Premiums	Dividends or Earnings on Stock or Option Awards	Other (1)
Scott M. Quist	2013	$7,200	--	--	--	$ 10,200	$ 21,981	--	--
	2012	7,200	--	--	--	10,000	24,130	--	--
	2011	7,200	--	--	--	9,800	27,140	--	--
Garrett S. Sill	2013	$-	--	--	--	$ 6,746	$ 10,753	--	--
	2012	-	--	--	--	6,215	12,905	--	--
	2011	-	--	--	--	3,846	8,805	--	--
J. Lynn Beckstead Jr.	2013	$5,945	--	--	--	$ 10,200	$ 14,953	--	--
	2012	6,586	--	--	--	-	17,410	--	--
	2011	6,645	--	--	--	-	16,324	--	--
Jeffrey R. Stephens	2013	$-	--	--	--	$ 6,889	$ 10,774	--	--
	2012	-	--	--	--	6,947	12,979	--	--
	2011	-	--	--	--	7,316	12,038	--	--
S. Andrew Quist	2013	$-	--	--	--	$ 6,284	$ 13,605	--	--
	2012	-	--	--	--	6,175	12,905	--	--
	2011	-	--	--	--	5,327	12,120	--	--

GRANTS OF PLAN-BASED AWARDS

The following table sets forth certain information regarding options granted to the named Executive Officers during the fiscal year ended December 31, 2013.

		Estimated Future Payouts Under Equity Incentive Plan Awards							
Name of Executive Officer	Grant Date	Threshold ($)	Target ($)	Maximum ($)	All Other Awards: Number of Securities Underlying Options (#)		Exercise or BasePrice of Option Awards ($/Sh) (3)	Closing Price on Grant Date ($/Sh) (3)	Grant Date Fair Value of Stock and Option Awards ($)
Scott M. Quist	12/6/13	--	--	--	52,500	(1)(2)	5.040	4.610	103,400
Garrett S. Sill	12/6/13	--	--	--	4,200	(1)	4.610	4.610	8,210
J. Lynn Beckstead, Jr.	12/6/13	--	--	--	1,575	(1)	4.610	4.610	3,079
Jeffrey R. Stephens	12/6/13	--	--	--	2,625	(1)	4.610	4.610	5,131
S. Andrew Quist	12/6/13	--	--	--	10,500	(1)	4.610	4.610	20,525

(1) The stock options have been adjusted for the 5% annual stock dividend declared December 6, 2013.

(2) On December 6, 2013 Scott Quist was granted stock options to purchase 500,000 shares of Class C common stock at an exercise price of $.504 per share or 50,000 shares of Class A common stock at an exercise price of $5.04 per share, or any combination thereof.

(3) Prices have been adjusted for the effect of the 5% annual stock dividend declared December 6, 2013.

OUTSTANDING EQUITY AWARDS AT FISCAL 2013 YEAR END

The following table sets forth information concerning outstanding equity awards held by Named Executive Officers at December 31, 2013.

	Optiion Awards					Stock Awards				
Name of Executive Officer	Option Grant Date	Number of Securities Underlying Unexercised Options Exercisable (1) (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (9) ($)	Option Expiration Date	Stock Award Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Scott M. Quist	3/25/05	108,593 (2)	--	$ 2.25	03/25/15	--	--	--	--	--
	12/03/10	121,551 (3)	--	1.63	12/03/15	--	--	--	--	--
	12/02/11	115,763 (4)	--	1.24	12/02/16	--	--	--	--	--
	4/13/12	110,250 (5) (7)	--	1.53	04/13/17	--	--	--	--	--
	12/6/13	--	52,500 (6) (8)	5.04	12/06/18	--	--	--	--	--
Garrett S. Sill	03/31/08	1,358	--	$ 3.01	03/31/18	--	--	--	--	--
	12/5/08	7,658	--	1.17	12/05/18	--	--	--	--	--
	12/3/10	6,946	--	1.58	12/03/20	--	--	--	--	--
	12/2/11	6,615	--	1.18	12/02/21	--	--	--	--	--
	4/13/12	6,300 (7)	--	1.48	04/13/22	--	--	--	--	--
	12/6/13	--	4,200 (8)	4.61	12/06/23	--	--	--	--	--
J. Lynn Beckstead Jr.	12/02/11	5,209	--	$ 1.12	12/02/21	--	--	--	--	--
	4/13/12	9,923 (7)	--	1.48	04/13/22	--	--	--	--	--
	12/6/13	--	1,575 (8)	4.61	12/06/23	--	--	--	--	--
Jeffrey R. Stephens	4/13/12	2,756 (7)	--	$ 1.41	04/13/22	--	--	--	--	--

	12/6/13	--		2,625	(8)	4.61	12/06/23	--	--	--	--	--
S. Andrew Quist	12/2/11	17,365		--		$ 1.12	12/02/21	--	--	--	--	--
	4/13/12	16,538	(7)	--		1.41	04/13/22	--	--	--	--	--
	12/6/13	--		10,500	(8)	4.61	12/06/23	--	--	--	--	--

(1) Except for options granted to Scott M. Quist after May 31, 2007, which have a five year term, such grants have ten year terms. The vesting of any unvested shares is subject to the recipient's continuous employment. This reflects the equivalent of Class A common shares.

(2) On March 25, 2005, Scott Quist was granted stock options to purchase either 70,000 shares of Class A common stock at an exercise price of $2.25 per share or 700,000 shares of Class C common stock at an exercise price of $.225 per share, or any combination thereof.

(3) On December 3, 2010, Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of $1.63 per share or 1,000,000 shares of Class C common stock at an exercise price of $.163 per share, or any combination thereof.

(4) On December 2, 2011, Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of $1.24 per share or 1,000,000 shares of Class C common stock at an exercise price of $.124 per share, or any combination thereof.

(5) On April 13, 2012 Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of $1.53 per share or 1,000,000 shares of Class C common stock at an exercise price of $.153 per share, or any combination thereof.

(6) On December 6, 2013 Scott Quist was granted stock options to purchase 50,000 shares of Class A common stock at an exercise price of $5.04 per share or 500,000 shares of Class C common stock at an exercise price of $.504 per share, or any combination thereof.

(7) Stock options vested at the rate of 25% of the total number of shares subject to the options on July 13, 2013 and 25% of the total number of shares on the last day of each three month period thereafter.

(8) Stock options vest at the rate of 25% of the total number of shares subject to the options on March 6, 2014 and 25% of the total number of shares on the last day of each three month period thereafter.

(9) Exercise prices have been adjusted for the effect of annual stock dividends.

OPTION AWARDS VESTING SCHEDULE

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

Grant Date	Vesting
3/25/05	These options vested on the grant date.
3/31/08	These options vested 25% per quarter over a one year period after the grant date.
12/05/08	These options vested 25% per quarter over a one year period after the grant date.
12/03/10	These options vested 25% per quarter over a one year period after the grant date.
12/02/11	These options vested 25% per quarter over a one year period after the grant date.
4/13/12	These options vested 25% per quarter over a one year period after the grant date.
12/06/13	These options vest 25% per quarter over a one year period after the grant date.

OPTION EXERCISES AND STOCK VESTED FOR FISCAL 2013

The following table sets forth all stock options exercised and value received upon exercise, and all stock awards vested and value realized upon vesting, by the Named Executive Officers during the year ended December 31, 2013.

	Option Awards		Stock Awards	
Name of Executive Officer	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Scott M. Quist	190,602	187,190	--	--
Garrett S. Sill	23,270	122,400	--	--
J. Lynn Beckstead, Jr.	--	--	--	--
Jeffrey R. Stephens	--	--	--	--
S. Andrew Quist	9,340	61,551	--	--

PENSION BENEFITS FOR FISCAL 2013

The following table sets forth the present value as of December 31, 2013 of the benefit of the Named Executive Officers under the defined benefit pension plan.

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

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information as of December 31, 2013 with respect to compensation plans (including individual compensation arrangements) under which the Company’s equity securities are authorized for issuance, aggregated as follows:

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

	A	B	C
Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity compensation plans approved by stockholders[1]	913,789 [2]	$ 2.41 [3]	417,642 [4]
Equity compensation plans not approved by stockholders	0	-	0

[1] This reflects the the 2003 Stock Option Plan (the “2003 Plan”), the 2006 Director Stock Option Plan (the “2006 Director Plan”) and the 2013 Stock Option Plan (the "2013 Plan"). The 2003 Plan was approved by stockholders at the annual stockholders meeting held on July 11, 2003, which reserved 500,000 shares of Class A common stock and 1,000,000 shares of Class C common stock for issuance thereunder. The 2006 Director Plan was approved by stockholders at the annual stockholders meeting held on December 7, 2006, which reserved 100,000 shares of Class A

common stock for issuance thereunder. The 2013 Plan was approved by stockholders at the annual stockholders meeting held on July 12, 2013, which reserved 450,000 shares of Class A common stock of which 150,000 shares of Class A common stock could be issued in place of up to 1,500,000 shares of Class C common stock for issuance thereunder. As a result of the stockholder approval of the 2013 Plan, the Company terminated the 2003 Plan.
[2] Assumes that 5,086,562 shares of Class C common stock issuable upon the exercise of certain outstanding options are converted into 508,656 shares of Class A common stock.
[3] The weighted average exercise prices reflect solely the shares of Class A common stock that will be issued upon exercise of outstanding options.
[4] This number includes 312,113 shares of Class A common stock and 105,000 shares of Class C common stock available for future issuance under the 2013 Plan, and 529 shares of Class A common stock available for future issuance under the 2006 Director Plan.

Retirement Plans

On December 8, 1988, the Company entered into a deferred compensation plan with George R. Quist, the former Chairman and Chief Executive Officer of the Company. The plan was later amended on three occasions with the third amendment effective February 1, 2001. Under the terms of the plan as amended, upon the retirement of Mr. Quist, the Company is required to pay him ten annual installments in the amount of $60,000. The $60,000 annual payments are to be adjusted for inflation in accordance with the United States Consumer Price Index each year.

The plan also provided that the Board of Directors may, in its discretion, pay the amounts due under the plan in a single, lump-sum payment. The Company accrued $-0- and $12,000 in fiscal 2013 and 2012, respectively, to cover the present value of anticipated retirement benefits under the employment agreement of $598,426 as of December 31, 2013. Mr. Quist passed away on September 6, 2012, pursuant to the plan, the unpaid installments will be paid to his designated beneficiaries.

Employment Agreements

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

In the event of a sale or merger of the Company and Mr. Quist is not retained in his current position, the Company would be obligated to continue paying Mr. Quist's current compensation and benefits for seven years following the merger or sale. The agreement further provides that Mr. Quist is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 65), (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of twenty years in annual installments in the amount equal to 75% of his then current rate of compensation. However, in the event that Mr. Quist dies prior to receiving all retirement benefits thereunder, the remaining benefits are to be paid to his heirs. The Company expensed $264,000 and $87,467 in fiscal 2013 and 2012, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued is $1,437,242 and $1,173,242 as of December 31, 2013 and 2012, respectively.

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

In the event of a sale or merger of the Company, and Mr. Beckstead was not retained in his current position, the Company would be obligated to continue paying Mr. Beckstead's current compensation and benefits for five years following the merger or sale. The agreement further provides that Mr. Beckstead is entitled to receive annual

retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 62½) (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to one-half of his then current annual salary. However, in the event that Mr. Beckstead dies prior to receiving all retirement benefits thereunder, the remaining benefits are to be paid to his heirs. The Company expensed $-0- and $44,533 in fiscal 2013 and 2012, respectively, to cover the present value of the retirement benefit of the agreement. The liability accrued is $613,403 and $613,403 as of December 31, 2013 and 2012, respectively.

Director Compensation

Directors of the Company (but not including directors who are employees) are currently paid a director's fee of $16,800 per year by the Company for their services and are reimbursed for their expenses in attending board and committee meetings. An additional fee of $750 is paid to each audit committee member for each audit committee meeting attended. Each director is provided with an annual grant of stock options to purchase 1,000 shares of Class A common stock, which occurred under the 2000 Director Stock Option Plan for years 2000 to 2005 and under the 2006 Director Stock Option Plan for years 2006 to 2013. During 2013 and 2012 each director was granted additional stock options to purchase 4,842 shares and 5,000 shares, respectively, of Class A common stock.

DIRECTOR COMPENSATION

The following table sets forth the compensation of the Company's non-employee directors for fiscal 2013.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
John L. Cook	$1,400	--	$11,904	--	--	--	$13,304
Robert G. Hunter	16,800	--	11,990	--	--	--	28,790
Gilbert A. Fuller	19,050	--	11,904	--	--	--	30,954
H. Craig Moody	19,050	--	12,001	--	--	--	31,051
Norman G. Wilbur	19,050	--	12,001	--	--	--	31,051

Employee 401(k) Retirement Savings Plan

In 1995, the Company's Board of Directors adopted a 401(k) Retirement Savings Plan. Under the terms of the 401(k) plan, effective as of January 1, 1995, the Company made discretionary employer matching contributions to its employees who choose to participate in the plan. The plan allowed the board to determine the amount of the contribution at the end of each year. During the period from January 1, 1995 to December 31, 2007 the Board had adopted a contribution formula specifying that such discretionary employer matching contributions would equal 50% of the participating employee's contribution to the plan to purchase Company's stock up to a maximum discretionary employee contribution of 1/2 of 1% of participating employees' compensation, as defined by the plan.

All persons who have completed at least one year's service with the Company and satisfy other plan requirements are eligible to participate in the 401(k) plan. All Company matching contributions are invested in the Company's Class A common stock. Also, the Company may contribute at the discretion of the Company's Board of Directors an Employer Profit Sharing Contribution to the 401(k) plan. The Employer Profit Sharing Contribution is to be divided among three different classes of participants in the plan based upon the participant's title in the Company. All amounts contributed to the plan are deposited into a trust fund administered by an independent trustee.

Beginning January 1, 2008, the Company elected to be a "Safe Harbor" Plan for its matching 401(k) contributions. The Company will match 100% of up to 3% of an employee's total annual compensation and 50% of 4% to 5% of an employee's annual compensation. The match is in shares of the Company's Class A common stock. The Company's

contribution for 2013, 2012 and 2011 was $749,898, $222,719 and $208,206, respectively, under the "Safe Harbor" plan.

Employee Stock Ownership Plan

Effective January 1, 1980, the Company adopted an employee stock ownership plan (the "ESOP Plan") for the benefit of career employees of the Company and its subsidiaries. The following is a description of the ESOP Plan, and is qualified in its entirety by the ESOP Plan, a copy of which is available for inspection at the Company's offices.

Under the ESOP Plan, the Company has discretionary power to make contributions on behalf of all eligible employees into a trust created under the ESOP Plan. Employees become eligible to participate in the ESOP Plan when they have attained the age of 19 and have completed one year of service (a twelve-month period in which the Employee completes at least 1,040 hours of service). The Company's contributions under the ESOP Plan are allocated to eligible employees on the same ratio that each eligible employee's compensation bears to total compensation for all eligible employees during each year. To date, the ESOP Plan has approximately 324 participants and had $-0- contributions payable to the Plan in 2013. Benefits under the ESOP Plan vest as follows: 20% after the second year of eligible service by an employee, an additional 20% in the third, fourth, fifth and sixth years of eligible service by an employee.

Benefits under the ESOP Plan will be paid out in one lump sum or in installments in the event the employee becomes disabled, reaches the age of 65, or is terminated by the Company and demonstrates financial hardship. The ESOP Plan Committee, however, retains discretion to determine the final method of payment. Finally, the Company reserves the right to amend or terminate the ESOP Plan at any time. The trustees of the trust fund under the ESOP Plan are Scott M. Quist (Chairman), S. Andrew Quist, and Robert G. Hunter, who each serve as a director of the Company.

Deferred Compensation Plan

In 2001, the Company's Board of Directors adopted a Deferred Compensation Plan. Under the terms of the Deferred Compensation Plan, the Company will provide deferred compensation for a select group of management or highly compensated employees, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The board has appointed a committee of the Company to be the plan administrator and to determine the employees who are eligible to participate in the plan. The employees who participate may elect to defer a portion of their compensation into the plan. The Company may contribute into the plan at the discretion of the Company's Board of Directors. The Company did not make any contributions for 2013, 2012 and 2011.

NON-QUALIFIED DEFERRED COMPENSATION FOR FISCAL 2013

The following table sets forth contributions to the deferred compensation account of the Named Executive Officers in fiscal 2013 and the aggregate balance of deferred compensation of the Named Executive Officers at December 31, 2013.

Name	Executive Contributions In Last FY ($)	Registrant Contributions In Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals Distributions ($)	Aggregate Balance at Last FYE ($)
Scott M. Quist	--	--	--	--	$348,184
Garrett S. Sill	--	--	--	--	--
J. Lynn Beckstead, Jr.	--	--	--	--	$176,210
Jeffrey R. Stephens	--	--	--	--	--
S. Andrew Quist	--	--	--	--	--

2003 Stock Option Plan

On July 11, 2003, the Company adopted the Security National Financial Corporation 2003 Stock Incentive Plan (the "2003 Plan"), which reserved 500,000 shares of Class A common stock and 1,000,000 shares of Class C common stock for issuance there under. The 2003 Plan was approved by the Board of Directors on May 9, 2003, and by the stockholders at the annual meeting of the stockholders held on July 11, 2003. The 2003 Plan allows the Company to grant options and issue shares as a means of providing equity incentives to key personnel, giving them a proprietary interest in the Company and its success and progress. On July 13, 2007, the stockholders approved an amendment to the 2003 Plan to increase the number of shares of Class A and Class C common stock reserved for issuance thereunder to 978,528 shares of Class A common stock and 2,110,775 shares of Class C common stock. On July 10, 2010, the stockholders approved an amendment to the 2003 plan to increase the number of shares of Class A and Class C common stock reserved for issuance there under to 1,478,528 shares of Class A common stock and 3,110,775 shares of Class C common stock.

The 2003 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both "incentive stock options", as defined under Section 422A of the Internal Revenue Code of 1986 and "non-qualified options" may be granted under the 2003 Plan. The exercise prices for the options granted are equal to or greater than the fair market value of the stock subject to such options as of the date of grant, as determined by the Company's Board of Directors. The options granted under the 2003 Plan are to reward certain officers and key employees who have been employed by the Company for a number of years and to help the Company retain these

officers by providing them with an additional incentive to contribute to the success of the Company.

The 2003 Plan is to be administered by the Board of Directors or by a committee designated by the board. The terms of options granted or stock awards or sales affected under the 2003 Plan are to be determined by the Board of Directors or its committee. The options shall be either fully exercisable on the date of grant or shall become exercisable thereafter in such installments as the board of the committee may specify. The Plan provides that if the shares of common stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of common stock as a stock dividend on its outstanding common stock, the number of shares of common stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price to reflect such subdivision, combination or stock dividend. In addition, the number of shares of common stock reserved for purposes of the plan shall be adjusted by the same proportion. No options may be exercised for a term of more than ten years from the date of grant.

Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the code, including a requirement that the option exercise price be no less than the fair market value of the option shares on the date of grant. The 2003 Plan provides that the exercise price for non-qualified options will not be less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company’s Board of Directors.

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

2006 Director Stock Option Plan

On December 7, 2006, the Company adopted the 2006 Director Stock Option Plan (the “Director Plan”) effective December 7, 2006. The Director Plan provides for the grant by the Company of options to purchase up to an aggregate of 100,000 shares of Class A common stock for issuance there under. The Director Plan provides that each member of the Company’s Board of Directors who is not an employee or paid consultant of the Company is automatically eligible to receive options to purchase the Company’s Class A common stock under the Director Plan.

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

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

2013 Stock Option Plan

On August 24, 2013, the Company adopted the Security National Financial Corporation 2013 Stock Option Plan (the “2013 Plan”), which reserved 450,000 shares of Class A common stock to be made available for issuance thereunder, of

which up to 1,500,000 shares of Class C common stock could be issued in place of up to 150,000 shares of Class A common stock. The 2013 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both “incentive stock options”, as defined under Section 422A of the Internal Revenue Code of 1986 and “non-qualified options” may be granted under the 2013 Plan.

The 2013 Plan is to be administered by the Board of Directors or by a committee designated by the Board. The terms of options granted or stock awards or sales affected under the 2013 Plan are to be determined by the Board of Directors or its committee. No options may be exercised for a term of more than ten years from the date of the grant. Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the Internal Revenue Code, including a requirement that the option exercise price be no less than the fair market value of the option shares on the date of grant. The 2013 Plan provides that the exercise price for non-qualified options will not be less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company’s Board of Directors.

The 2013 Plan has a term of ten years. The Board of Directors may amend or terminate the 2013 Plan at any time, from time to time, subject to approval of certain modifications to the 2013 Plan by the shareholders of the Company as may be required by law or the 2013 Plan.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company’s executive officers, directors and persons who own more than 10% of a registered class of the Company’s equity securities to file reports of ownership and periodic changes in ownership of the Company’s common stock with the Securities and Exchange Commission. Such persons are also required to furnish the Company with copies of all Section 16(a) reports they file.

Based solely on its review of the copies of stock reports received by it with respect to fiscal 2013, or written representations from certain reporting persons, the Company believes that its directors, executive officers and greater than 10% beneficial owners complied with all Section 16(a) filing requirements applicable to them, except that each of the Company’s officers and directors (with the exception of John L. Cook), through an oversight, filed one late Form 4 report disclosing the granting of stock options on December 6, 2013. In addition, Norman G. Wilbur, through an oversight, filed a late Form 4 report disclosing four transactions involving the sale of shares of Class A common stock in January 2013 and February 2013, and one transaction involving the exercise of stock options in February 2013.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth security ownership information of the Company's Class A and Class C common stock as of March 31, 2014, (i) for persons who own beneficially more than 5% of the Company's outstanding Class A or Class C common stock, (ii) each director of the Company, and (iii) for all executive officers, and directors of the Company as a group.

All directors and executive officers

	Class A Common Stock			Class C Common Stock			Class A and Class C Common Stock		
Name and Address (1)	Amount Beneficially Owned	Percent of Class		Amount Beneficially Owned	Percent of Class		Amount Beneficially Owned	Percent of Class	
Scott M. Quist (3)(5)(6)(7)(8)(10)	374,589	3.5	%	9,625,608	53.5	%	10,000,197	34.8	%
George R. and Shirley C. Quist Family Partnership, Ltd. (2)	1,107,113	10.3	%	5,210,421	39.2	%	6,317,534	26.3	%
Employee Stock Ownership Plan (ESOP) (4)	603,110	5.6	%	2,409,276	18.1	%	3,012,386	12.5	%
Estate of George R. Quist	497,217	4.6	%	605,081	4.6	%	1,102,298	4.6	%
Associated Investors (9)	63,175	*		1,017,070	7.7	%	1,080,245	4.5	%
Non-Qualified Deferred Compensation Plan (10)	669,602	6.2	%	-	-		669,602	2.8	%
401(k) Retirement Savings Plan (10)	649,375	6.0	%	-	*		649,375	2.7	%
Christie Q. Overbaugh (12)	209,730	2.0	%	175,130	1.3	%	384,860	1.6	%
J. Lynn Beckstead, Jr. (6)(7)(13)	208,792	1.9	%	-	*		208,792	*	
Jason G. Overbaugh (14)	102,348	*		-	*		102,348	*	
S. Andrew Quist (3)(10)(15)	82,753	*		-	*		82,753	*	
Jeffrey R. Stephens (6)(16)	57,425	*		-	*		57,425	*	
Garrett S. Sill (6)(7)(10)(17)	40,424	*		-	*		40,424	*	
Robert G. Hunter, M.D. (3)(18)	52,093	*		-	*		52,093	*	
H. Craig Moody (19)	50,442	*		-	*		50,442	*	
Norman G. Wilbur (20)	29,777	*		-	*		29,777	*	
Gilbert A. Fuller (21)	3,162	*		-	*		3,162	*	
John L. Cook (22)	1,534	*		-	*		1,534	*	
All directors and executive officers (12 persons) (3)(5)(6)(7)	1,213,069	11.1	%	9,800,738	54.5	%	11,013,807	38.1	%

* Less than 1%

(1) Unless otherwise indicated, the address of each listed stockholder is c/o Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.

(2)

This stock is owned by the George R. and Shirley C. Quist Family Partnership, Ltd., of which Scott M. Quist is the managing general partner and, accordingly, exercises sole voting and investment powers with respect to such shares.

(3) Does not include 603,110 shares of Class A common stock and 2,409,276 shares of Class C common stock owned by the Company's Employee Stock Ownership Plan (ESOP), of which Scott M. Quist, S. Andrew Quist and Robert G. Hunter are the trustees and accordingly, exercise shared voting and investment powers with respect to such shares.

(4) The trustees of the Employee Stock Ownership Plan (ESOP) consist of Scott M. Quist, S. Andrew Quist and Robert G. Hunter who exercise shared voting and investment powers.

(5) Does not include 63,175 shares of Class A common stock and 1,017,070 shares of Class C common stock owned by Associated Investors, a Utah general partnership, of which Scott M. Quist is the managing partner and, accordingly, exercises sole voting and investment powers with respect to such shares.

(6) Does not include 649,375 shares of Class A common stock owned by the Company's 401(k) Retirement Savings Plan, of which Scott M. Quist, J. Lynn Beckstead and Garrett S. Sill are members of the investment committee and, accordingly, exercise shared voting and investment powers with respect to such shares.

(7) Does not include 669,602 shares of Class A common stock owned by the Company's Deferred Compensation Plan, of which Scott M. Quist, J. Lynn Beckstead and Garrett S. Sill are members of the investment committee and, accordingly, exercise shared voting and investment powers with respect to such shares.

(8) Includes options to purchase 4,692,812 shares of Class C common stock granted to Scott M. Quist that are currently exercisable.

(9) The managing partner of Associated Investors is Scott M. Quist, who exercises sole voting and investment powers.

(10) The investment committee of the Company's Non-Qualified Deferred Compensation Plan consists of Scott M. Quist, J. Lynn Beckstead and Garrett S. Sill and, accordingly, exercised shared voting and investment powers with respect to such shares.

(11) The investment committee of the Company's 401(k) retirement savings plan consists of Scott Quist, J. Lynn Beckstead Jr. and Garrett S. Sill and, accordingly, exercise shared voting and investment powers with respect to such shares.

(12) Includes options to purchase 6,825 shares of Class A common stock granted to Ms. Overbaugh that are exercisable within 60 days of March 27, 2014.

(13) Includes options to purchase 15,525 shares of Class A common stock granted to Mr. Beckstead that are exercisable within 60 days of March 27, 2014.

(14) Includes options to purchase 10,894 shares of Class A common stock granted to Mr. Overbaugh that are exercisable within 60 days of March 27, 2014.

(15) Includes options to purchase 36,528 shares of Class A common stock granted to Andrew Quist that are exercisable within 60 days of March 27, 2014.

(16) Includes options to purchase 3,413 shares of Class A common stock granted to Mr. Stephens that are exercisable within 60 days of March 27, 2014.

(17) Includes options to purchase 1,050 shares of Class A common stock granted to Mr. Sill that are exercisable within 60 days of March 27, 2014.

(18) Includes options to purchase 44,328 shares of Class A common stock granted to Mr. Hunter that are exercisable within 60 days of March 27, 2014.

(19) Includes options to purchase 44,265 shares of Class A common stock granted to Mr. Moody that are exercisable within 60 days of March 27, 2014.

(20) Includes options to purchase 22,046 shares of Class A common stock granted to Mr. Wilbur that are exercisable within 60 days of March 27, 2014.

(21) Includes options to purchase 2,637 shares of Class A common stock granted to Mr. Fuller that are exercisable within 60 days of March 27, 2014.

(22) Includes options to purchase 1,534 shares of Class A common stock granted to Mr. Cook that are exercisable within 60 days of March 27, 2014.

The Company's executive officers and directors, as a group, own beneficially approximately 38.1% of the outstanding shares of the Company's Class A and Class C common stock.

Item 13. Certain Relationships and Related Transactions and Director Independence

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

On December 19, 2013, Mr. and Mrs. Scott M. Quist and Security National Life jointly purchased a house in St. George, Utah, pursuant to the terms of the Amendment to the Use and Buy Sale Agreement, dated February 15, 2007 (the "Agreement"), among Security National Life and Mr. and Mrs. Quist. The Amendment is dated December 6, 2013. Mr. Quist is the Company's Chairman, President and Chief Executive Officer. The house is to be used in place of the St. George condominium, which was purchased in 2007, for the entertainment of the Company's executive officers, employees, outside vendors and prospective customers.

The purchase price of the house was $695,000. Mr. Quist paid $185,000 of the purchase price plus closing costs, Security National Life paid $100,000, and Mr. Quist and his wife signed a note for $410,000, which is secured by a first trust deed on the property. The St. George condominium is in the process of being sold, with the proceeds from the sale to be applied toward the purchase price of the St. George house.

The other terms of the Agreement are to remain the same. Accordingly, Security National Life and Mr. and Mrs. Quist will continue to have the right to use the house in proportion to their respective contributions toward the purchase price, including furnishings and fixtures. Mr. Quist will be responsible for the care and maintenance of the house. The payment of taxes, insurance, utilities and homeowners' fees will be divided among Security National Life and Mr. and Mrs. Quist according to their respective ownership percentages in the house.

Upon the death, disability or retirement of Mr. Quist or his separation from employment with the Company, Mr. Quist or his estate will have the right to purchase Security National Life's share of the house at a purchase price equal to Security National Life's contribution to the purchase price of the house or the fair market value of its interest in the house, whichever is less. Security National Life's contribution to the purchase price of the house is equal to the amount of the accrued but unpaid bonus owed to Mr. Quist for fiscal year 2013, which he agreed to defer for the option to purchase Security National Life's interest in the house upon his death, disability or retirement or his separation from employment with the Company.

Item 14. Principal Accounting Fees and Services

The following table summarizes the fees of the Company's current independent auditors, billed to the Company for each of the last two fiscal years and for audit and other services. All of these fees were reviewed and approved by the Audit Committee of the Board of Directors:

Fee Category	2013	2012
Audit Fees (1)	$ 309,027	$ 371,425
Audit-Related Fees (2)	29,000	29,000
Tax Fees (3)	91,028	89,698
All Other Fees (4)	13,375	-
	$ 442,430	$ 490,123

(1)

Audit fees consist of aggregate fees billed for professional services rendered for the audit of the Company's annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent auditor in connection with statutory and regulatory filings for the years ended December 31, 2013 and 2012.

(2) Audit related fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees". These fees include review of registration statements, and audits of the Company's ESOP and 401(k) Plans.

(3) Tax fees consist of aggregate fees billed for professional services for tax compliance, tax advice, and tax planning.

(4) All other fees consist of aggregate fees billed for products and services by the independent auditor, other than those disclosed above.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

See “Index to Consolidated Financial Statements” under Item 8 above.

(a)(2) Financial Statement Schedules

II. Condensed Balance Sheets as of December 31, 2013 and 2012 and Condensed Statement of Earnings and Cash Flows for the years ended 2013, 2012 and 2011

IV. Reinsurance

V. Valuation and Qualifying Accounts

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

(a)(3) Exhibits

The following Exhibits are filed herewith pursuant to Rule 601 of Regulation S-K or are incorporated by reference to previous filings.

3.1	Articles of Restatement of Articles of Incorporation (3)
3.2	Amended Bylaws (5)
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 (4)
10.3	2006 Director Stock Option Plan (8)

10.4	2013 Stock Option Plan (12)
10.5	Deferred Compensation Plan (2)
10.6	Employment agreement with J. Lynn Beckstead, Jr. (6)
10.7	Employment agreement with Scott M. Quist (7)
10.8	Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (9)
10.9	Coinsurance Agreement between Security National Life Insurance Company and Mothe Life Insurance Company (10)
10.10	Certificate and Agreement of Contribution to Surplus between Security National Financial Corporation and Security National Life Insurance Company (10)
10.11	Agreement and Plan of Reorganization among Security National Financial Corporation and certain subsidiaries (11)
21	Subsidiaries of the Registrant
31.1	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101 INS	XBRL Instance Document*
101 SCH	XBRL Schema Document*
101 CAL	XBRL Calculation Linkbase Document*
101 DEF	XBRL Definition Linkbase Document*
101 LAB	XBRL Labels Linkbase Document*
101 PRE	XBRL Presentation Linkbase Document*

* The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be

expressly set forth by specific reference in such filing or document.

(1) Incorporated by reference from Registration Statement on Form S-1, as filed on September 29, 1987
(2) Incorporated by reference from Annual Report on Form 10-K, as filed on April 3, 2002
(3) Incorporated by reference from Report on Form 8-K/A, as filed on January 8, 2003
(4) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on September 5, 2003, relating to the Company’s Annual Meeting of Stockholders
(5) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
(6) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004
(7) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004
(8) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 1, 2007, relating to the Company’s Annual Meeting of Stockholders
(9) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009
(10) Incorporated by reference from Report on Form 8-K, as filed on December 27, 2012
(11) Incorporated by reference from Report on Form 10-Q, as filed on May 15, 2013
(12) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 5, 2013, relating to the Company’s Annual Meeting of Stockholders

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SECURITY NATIONAL FINANCIAL CORPORATION

Dated: March 31, 2014 : By:/s/ Scott M. Quist

Scott M. Quist
\Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ Scott M. Quist Scott M. Quist	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 31, 2014
/s/ Garrett S. Sill Garrett S. Sill	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 31, 2014
/s/ J. Lynn Beckstead, Jr. J. Lynn Beckstead, Jr.	Vice President and Director	March 31, 2014
/s/ Jason G. Overbaugh Jason G. Overbaugh	Vice President and Director	March 31, 2014
/s/ S. Andrew Quist S. Andrew Quist	Vice President and Director	March 31, 2014
/s/ John L. Cook John L. Cook	Director	March 31, 2014
/s/ Gilbert A. Fuller Gilbert A. Fuller	Director	March 31, 2014
/s/ H. Craig Moody H. Craig Moody	Director	March 31, 2014
/s/ Norman G. Wilbur Norman G. Wilbur	Director	March 31, 2014
/s/ Robert G. Hunter Robert G. Hunter	Director	March 31, 2014

Schedule II

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Balance Sheets

	December 31	
	2013	2012
Assets		
Cash	$3,439,321	$2,963,680
Investment in subsidiaries (equity method)	97,478,606	89,984,662
Receivables:		
Receivable from affiliates	9,507,403	11,580,198
Total receivables	9,507,403	11,580,198
Property and equipment, at cost, net of accumulated depreciation of $1,663,396 for 2013 and $1,661,177 for 2012.	309	2,219
Other assets	16,098	98,023
Total assets	$110,441,737	$104,628,782

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Balance Sheets (Continued)

	December 31	
	2013	2012
Liabilities and Stockholders' Equity Liabilities		
Bank loans payable:		
Current installments	$1,890,767	$5,789,226
Long-term	3,379,085	1,302,946
Notes and contracts payable:		
Current installments	961	961
Advances from affiliated companies	9,147,653	10,548,349
Other liabilities and accrued expenses	1,269,514	1,336,459
Income taxes	7,002,568	5,838,732
Total liabilities	22,690,548	24,816,673
Stockholders' Equity		
Class A common stock $2.00 par value; 20,000,000 shares authorized; issued 11,807,287 shares in 2013 10,843,576 shares in 2012	23,614,574	21,687,152
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 13,301,908 shares in 2013 and 10,974,101 shares in 2012	2,660,382	2,194,820
Additional paid-in capital	23,215,875	21,262,140
Accumulated other comprehensive income	1,218,396	1,934,359
Retained Earnings	39,666,587	35,114,072
Treasury stock at cost - (1,141,021 Class A shares and -0- Class C shares in 2013; 1,097,416 Class A shares and -0- Class C shares in 2012, held by affiliated companies)	(2,624,625)	(2,380,434)
Total stockholders' equity	87,751,189	79,812,109
Total Liabilities and Stockholders' Equity	$110,441,737	$104,628,782

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Statements of Earnings

	Year Ended December 31		
	2013	2012	2011
Revenue			
Net investment income	$ 11,658	$ 18,607	$ 13,319
Fees from affiliates	1,120,109	925,496	890,462
Other Income	30,002	686	870
Total revenue	1,161,769	944,789	904,651
Benefits and Expenses:			
General and administrative expenses	516,360	560,426	621,978
Interest expense	232,635	124,112	99,645
Total benefits and expenses	748,995	684,538	721,623
Earnings before income taxes, and earnings of subsidiaries	412,774	260,251	183,028
Income tax benefit (expense)	303,266	1,659,194	(483,651)
Equity in earnings (loss) of subsidiaries	6,869,881	14,793,073	1,599,381
Net earnings (loss)	$ 7,585,921	$ 16,712,518	$ 1,298,758

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Condensed Statements of Cash Flow

	Year Ended December 31		
	2013	2012	2011
Cash flows from operating activities:			
Net earnings	$7,585,921	$16,712,518	$1,298,758
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,910	11,351	97,636
Undistributed earnings of affiliates	6,869,881	14,793,073	1,599,381
Provision for income taxes	1,163,836	(2,644,194)	121,840
Provision for losses on loans & real estate	-	-	(21,646)
Receivables for mortgage loans held for sale	-	2,986,110	(2,986,110)
Stock based compensation expense	88,369	251,031	253,934
Benefit plans funded with treasury stock	727,937	319,751	283,230
Change in assets and liabilities:			
Accounts receivable	-	177,509	184,793
Other assets	72,346	-	(46,204)
Other liabilities	(66,945)	(22,533)	(131,277)
Net cash provided by operating activities	16,443,255	32,584,616	654,335
	-	-	-
Cash flows from investing activities:			
Payments, mortgage loans	--	--	8,400
Investment in subsidiaries	(15,079,788)	(29,586,144)	(3,198,757)
Net cash used in investing activities	(15,079,788)	(29,586,144)	(3,190,357)
Cash flows from financing activities:			
Advances from (to) affiliates	681,679	(2,770,019)	(1,962,849)
Proceeds from stock options exercised	252,815	18,306	--
Payments of notes and contracts payable	(1,898,324)	(1,146,997)	(1,077,246)
Proceeds from borrowings on notes and contracts payable	4,684,208	--	3,525,875
Change in line of credit borrowings	(4,608,204)	3,208,204	1,400,000
Net cash provided by (used in) financing activities	(887,826)	(690,506)	1,885,780
Net change in cash	475,641	2,307,966	(650,242)
Cash at beginning of year	2,963,680	655,714	1,305,956
Cash at end of year	$3,439,321	$2,963,680	$655,714

See accompanying notes to condensed financial statements.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Notes to Condensed Financial Statements

1) Bank Loans Payable

	December 31	
	2013	2012
Bank prime rate less .75% (2.50% at December 31, 2013) note payable quarterly installments of $75,000 plus interest collateralized by shares of Security National Life Insurance Company stock, paid in full in September 2013	-	225,000
3.85% note payable in monthly installments of $79,468 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due June 2015.	1,377,925	2,258,968
3.85% note payable in monthly installments of $86,059 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due December 2017.	3,891,926	-
Revolving line-of-credit, interest payable at the prime minus .75% secured by by shares of Security National Life Insurance Company stock, matures June 2014.	-	4,608,204
Total bank loans	5,269,851	7,092,172
	-	-
Less current installments	1,890,767	5,789,226
Bank loans, excluding current installments	$ 3,379,084	$ 1,302,946

2) Notes and Contracts Payable

Notes and contracts are summarized as follows:

	December 31	
	2013	2012
Other notes and contracts payable	961	961
Total notes and contracts	961	961
Less current installments	961	961
Notes and contracts, excluding current installments	-	-

The Company has a $2,000,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75% (2.50% at December 31, 2013), secured by the capital stock of Security National Life and maturing June 30, 2014, renewable annually. As of December 31, 2013 $697,001 was reserved for two outstanding letters of credit. As

of December 31, 2013 there were no amounts outstanding under the revolving line-of-credit.

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION
(Parent Company Only)
Condensed Financial Information

Notes to Condensed Financial Statements

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

2014	1,890,767
2015	1,316,151
2016	969,216
2017	1,093,717
2018	-
Thereafter	-
Total	$5,269,851

3) Advances from Affiliated Companies

	December 31	
	2013	2012
Non-interest bearing advances from affiliates:		
Cemetery and Mortuary subsidiary	$ 1,459,841	$ 1,459,841
Life insurance subsidiaries	7,687,812	9,088,508
	$ 9,147,653	$ 10,548,349

4) Dividends and Capital Contributions

In 2013, 2012 and 2011, SecurityNational Mortgage Company, a wholly owned subsidiary of the Registrant, paid to the registrant cash dividends of $1,309,712, $1,500,000, and $-0-, respectively.

In 2013, 2012 and 2011 the Registrant made a capital contribution to Security National Life Insurance Company, a wholly owned subsidiary of the Registrant, in the amount of $-0-, $4,684,204, and $3,525,875, respectively.

In 2013, 2012 and 2011 the Registrant made capital contributions to Green Street Mortgage Services, Inc., a wholly owned subsidiary of the Registrant, in the amount of $2,649,735, $1,500,000, and $-0-, respectively.

Schedule IV

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Reinsurance

	Direct Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
2013					
Life Insurance in force ($000)	$ 1,262,134	$ 75,181	$ 1,566,336	$ 2,753,289	56.9%
Premiums:					
Life Insurance	$ 49,421,429	$ 1,028,150	$ 1,935,376	$ 50,328,655	3.8%
Accident and Health Insurance	142,972	-	31	143,003	0.0%
Total premiums	$ 49,564,401	$ 1,028,150	$ 1,935,407	$ 50,471,658	3.8%
2012					
			$		58.9%
Life Insurance in force ($000)	$ 1,248,846	$ 87,684	$ 1,664,573	$ 2,825,735	
Premiums:					
Life Insurance	$ 47,121,650	$ 1,409,325	$ 2,345,324	$ 48,057,649	4.9%
Accident and Health Insurance	158,648	-	30	158,678	0.0%
Total premiums	$ 47,280,298	$ 1,409,325	$ 2,345,354	$ 48,216,327	4.9%
2011					
Life Insurance in force ($000)	$ 1,237,528	$ 87,441	$ 1,732,120	$ 2,882,207	60.1%
Premiums:					
Life Insurance	$ 41,498,338	$ 1,910,152	$ 8,696,242	$ 48,284,428	18.0%
Accident and Health Insurance	172,940	-	37	172,977	0.0%
Total premiums	$ 41,671,278	$ 1,910,152	$ 8,696,279	$ 48,457,405	18.0%

Schedule V

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Valuation and Qualifying Accounts

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions Disposals and Write-offs	Balance at End of Year
For the Year Ended December 31, 2013				
Accumulated depreciation on real estate	$7,441,418	$2,539,691	$(322,510)	$9,658,599
Allowance for losses on mortgage loans on real estate and construction loans held for investment.	4,239,861	220,652	(2,808,423)	1,652,090
Accumulated depreciation on property and equipment	16,974,898	1,621,069	(3,335,332)	15,260,635
Allowance for doubtful accounts on receivables	1,190,592	261,911	(203,870)	1,248,633
Allowance for doubtful accounts on collateral loans	505,030	207,616	(443,471)	269,175
For the Year Ended December 31, 2012				
Accumulated depreciation on real estate	$5,999,879	$1,619,646	$(178,107)	$7,441,418
Allowance for losses on mortgage loans on real estate and construction loans held for investment.	4,881,173	433,829	(1,075,141)	4,239,861
Accumulated depreciation on property and equipment	16,103,305	1,258,097	(386,504)	16,974,898
Allowance for doubtful accounts on receivables	2,278,969	208,472	(1,296,849)	1,190,592
Allowance for doubtful accounts on collateral loans	427,136	232,081	(154,187)	505,030
For the Year Ended December 31, 2011				
Accumulated depreciation on real estate	$4,940,227	$1,315,547	$(255,895)	$5,999,879
Allowance for losses on mortgage loans on real estate and construction loans held for investment.	7,070,442	1,235,720	(3,424,989)	4,881,173
Accumulated depreciation on property and equipment	16,235,255	1,499,038	(1,630,988)	16,103,305
Allowance for doubtful accounts on receivables	1,995,347	747,304	(463,682)	2,278,969
Allowance for doubtful accounts on collateral loans	380,506	171,838	(125,208)	427,136