

SECURITY NATIONAL FINANCIAL CORP
Form 10-Q
November 14, 2013

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

FORM 10-Q

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

For the quarter ended September 30, 2013, or

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

For the Transition Period from _____ to _____

Commission file number: 000-09341

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

UTAH
(State or other jurisdiction of incorporation or
organization)

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

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

84123
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

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

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

Class A Common Stock, \$2.00 par value	11,242,385
Title of Class	Number of Shares Outstanding as of November 14, 2013
Class C Common Stock, \$.20 par value	12,669,983
Title of Class	Number of Shares Outstanding as of November 14, 2013

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	Page No.
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012 (unaudited)	3-4
Condensed Consolidated Statements of Earnings for the Three and Nine Months Ended September 30, 2013 and 2012 (unaudited)	5
Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012 (unaudited)	6
Condensed Consolidated Statements of Stockholders' Equity as of September 30, 2013 and September 30, 2012 (unaudited)	7
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012 (unaudited)	8
Notes to Condensed Consolidated Financial Statements (unaudited)	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3. Quantitative and Qualitative Disclosures about Market Risk	53
Item 4. Controls and Procedures	53
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	54
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3. Defaults Upon Senior Securities	55
Item 4. Mine Safety Disclosures	55
Item 5. Other Information	55
Item 6. Exhibits, Financial Statements and Reports on Form 8-K	57
Signature Page	58

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

Part I -- Financial Information

Item 1. Financial statements

Assets	September 30 2013	December 31 2012
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 144,709,482	\$ 129,449,410
Equity securities, available for sale, at estimated fair value	5,129,640	5,405,112
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of \$4,150,360 and \$4,239,861 for 2013 and 2012	90,971,516	84,462,205
Real estate held for investment, net of accumulated depreciation of \$8,700,030 and \$7,441,418 for 2013 and 2012	99,596,061	64,254,030
Policy and other loans, net of allowances for doubtful accounts of \$419,050 and \$505,030 for 2013 and 2012	19,548,139	20,188,516
Short-term investments	18,457,264	40,925,390
Accrued investment income	2,633,249	2,393,941
Total investments	381,045,351	347,078,604
Cash and cash equivalents	35,537,048	33,494,284
Mortgage loans sold to investors	75,949,895	94,597,969
Receivables, net	12,560,422	16,559,277
Restricted assets	15,488,017	9,366,958
Cemetery perpetual care trust investments	2,286,108	2,090,111
Receivable from reinsurers	14,336,802	14,529,144
Cemetery land and improvements	10,593,642	11,079,755
Deferred policy and pre-need contract acquisition costs	44,046,261	39,913,465
Mortgage servicing rights, net	4,336,016	2,797,470
Property and equipment, net	11,157,912	11,033,957
Value of business acquired	8,904,133	9,829,082
Goodwill	677,039	677,039
Other	4,490,941	4,169,508
Total Assets	\$ 621,409,587	\$ 597,216,623

See accompanying notes to condensed consolidated financial statements.

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

	September 30 2013	December 31 2012
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$448,437,839	\$438,003,813
Unearned premium reserve	5,222,250	5,383,800
Bank and other loans payable	16,325,863	11,910,343
Deferred pre-need cemetery and mortuary contract revenues	13,283,084	13,412,339
Cemetery perpetual care obligation	3,242,236	3,153,001
Accounts payable	1,618,821	2,026,433
Other liabilities and accrued expenses	29,894,013	25,591,487
Income taxes	17,263,487	17,923,298
Total liabilities	535,287,593	517,404,514
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 11,242,385 shares in 2013 and 10,843,576 shares in 2012	22,484,770	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 12,669,983 shares in 2013 and 10,974,101 in 2012	2,533,997	2,194,820
Additional paid-in capital	21,305,603	21,262,140
Accumulated other comprehensive income, net of taxes	1,312,472	1,934,359
Retained earnings	41,213,800	35,114,072
Treasury stock at cost - 1,125,516 Class A shares in 2013 and 1,097,416 Class A shares in 2012	(2,728,648)	(2,380,434)
Total stockholders' equity	86,121,994	79,812,109
Total Liabilities and Stockholders' Equity	\$621,409,587	\$597,216,623

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Revenues:				
Insurance premiums and other considerations	\$ 12,593,886	\$ 12,045,553	\$ 37,920,272	\$ 36,915,237
Net investment income	5,254,047	5,570,951	15,281,108	16,721,369
Net mortuary and cemetery sales	2,887,855	2,619,605	9,024,671	8,121,244
Realized gains on investments and other assets	194,727	222,621	1,177,487	580,607
Other than temporary impairments on investments	(30,000)	(440,315)	(205,922)	(530,315)
Mortgage fee income	28,897,521	43,456,537	101,660,436	105,075,705
Other	754,755	272,951	1,879,262	715,490
Total revenues	50,552,791	63,747,903	166,737,314	167,599,337
Benefits and expenses:				
Death benefits	6,144,319	5,914,468	19,464,984	16,024,565
Surrenders and other policy benefits	632,374	453,838	2,061,202	1,566,828
Increase in future policy benefits	5,079,645	5,642,818	14,494,056	17,694,810
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,178,579	1,094,886	3,764,103	3,853,189
Selling, general and administrative expenses:				
Commissions	14,361,623	23,486,730	52,809,618	58,766,750
Salaries	8,492,420	6,924,095	24,237,358	19,358,604
Provision for loan losses and loss reserve	395,605	1,763,090	1,663,895	3,263,437
Costs related to funding mortgage loans	1,544,229	1,980,512	5,190,829	5,141,164
Other	9,626,035	8,749,357	29,568,910	24,340,043
Interest expense	667,237	1,142,428	2,352,319	2,758,313
Cost of goods and services sold-mortuaries and cemeteries	466,441	463,386	1,468,613	1,334,369
Total benefits and expenses	48,588,507	57,615,608	157,075,887	154,102,072
Earnings before income taxes	1,964,284	6,132,295	9,661,427	13,497,265
Income tax expense	(697,793)	(2,142,249)	(3,562,425)	(4,252,003)
Net earnings	\$ 1,266,491	\$ 3,990,046	\$ 6,099,002	\$ 9,245,262
Net earnings per Class A Equivalent common share (1)	\$ 0.11	\$ 0.39	\$ 0.55	\$ 0.92
Net earnings per Class A Equivalent common share-assuming dilution (1)	\$ 0.11	\$ 0.36	\$ 0.52	\$ 0.92
Weighted-average Class A equivalent common share outstanding (1)	11,307,249	10,104,202	11,097,776	10,059,548
	11,828,052	11,000,772	11,666,680	10,072,952

Weighted-average Class A equivalent common shares
outstanding-assuming dilution (1)

(1) Net 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 share 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.

See accompanying notes to condensed consolidated financial statements.

5

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2013	2012	2013	2012
Net earnings	\$ 1,266,491	\$ 3,990,046	\$ 6,099,002	\$ 9,245,262
Other comprehensive income:				
Net unrealized losses on derivative instruments	(982,064)	(2,184,088)	(799,028)	(260,238)
Net unrealized gains on available for sale securities	44,199	82,521	177,141	98,681
Other comprehensive loss	(937,865)	(2,101,567)	(621,887)	(161,557)
Comprehensive income	\$ 328,626	\$ 1,888,479	\$ 5,477,115	\$ 9,083,705

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
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	-	-	-	-	9,245,262	-	9,245,262
Other comprehensive loss	-	-	-	(161,557)	-	-	(161,557)
Grant of stock options	-	-	187,510	-	-	-	187,510
Sale of treasury stock	-	-	(97,983)	-	-	344,961	246,978
Conversion Class C to Class A	646	(645)	(1)	-	-	-	-
Balance at September 30, 2012	\$ 19,278,242	\$ 2,026,550	\$ 19,577,091	\$ 492,886	\$ 31,791,885	\$(2,417,874)	\$ 70,748,780
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	-	-	-	-	6,099,002	-	6,099,002
Other comprehensive loss	-	-	-	(621,887)	-	-	(621,887)
Grant of stock options	-	-	66,711	-	-	-	66,711
Exercise of stock options	714,572	422,422	(344,545)	-	-	(543,334)	249,115
Sale of treasury stock	-	-	321,824	-	-	195,120	516,944
Dividends	(200)	-	(526)	-	726	-	-
Conversion Class C to Class A	83,246	(83,245)	(1)	-	-	-	-

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Balance at September 30, 2013	\$22,484,770	\$2,533,997	\$21,305,603	\$ 1,312,472	\$41,213,800	\$(2,728,648)	\$86,121,994
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See accompanying notes to condensed consolidated financial statements.

7

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

	Nine Months Ended September	
	2013	2012
Cash flows from operating activities:		
Net cash provided by operating activities	\$43,181,923	\$34,508,526
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(22,178,297)	(10,022,393)
Calls and maturities - fixed maturity securities	6,684,365	6,721,257
Securities available for sale:		
Purchase - equity securities	(2,347,616)	(1,077,129)
Sales - equity securities	3,127,298	2,318,410
Purchase of short-term investments	(16,369,471)	(11,921,131)
Sales of short-term investments	38,837,597	10,604,937
Sales (purchases) of restricted assets	(6,068,005)	537,969
Changes in assets for perpetual care trusts	(187,387)	(196,621)
Amount received for perpetual care trusts	89,235	107,979
Mortgage, policy, and other loans made	(118,810,066)	(87,585,273)
Payments received for mortgage, policy and other loans	99,118,375	104,728,438
Purchase of property and equipment	(2,717,237)	(1,880,302)
Disposal of property and equipment	350	14,769
Purchase of real estate	(27)	