

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C.

FORM 10-Q

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

For Quarter Ended September 30, 2001

Commission File Number: 0-9341

SECURITY NATIONAL FINANCIAL CORPORATION  
Exact Name of Registrant.

UTAH

87-0345941

(State or other jurisdiction  
of incorporation or organization)

IRS Identification Number

5300 South 360 West, Salt Lake City, Utah

84123

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including Area Code

(801) 264-1060

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

YES  NO

Indicate 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

3,874,566

Title of Class

Number of Shares Outstanding as of  
September 30, 2001

Class C Common Stock, \$.20 par value

5,762,729

Title of Class

Number of Shares Outstanding as of  
September 30, 2001

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10Q

QUARTER ENDED SEPTEMBER 30, 2001

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
Revenues:	2001	2000	2001	2000
-----	----	----	----	----
Insurance premiums and other considerations	\$10,019,159	\$9,921,476	\$3,435,975	\$3,321,587
Net investment income	9,600,420	8,946,121	3,040,440	3,051,914
Net mortuary and cemetery sales	9,250,976	7,532,068	2,880,537	2,345,776
Realized gains on investments and other assets	120,006	37,294	116,020	5,727
Mortgage fee income	26,763,907	17,095,397	9,574,016	5,987,232
Other	105,495	85,909	50,497	19,220
	-----	-----	-----	-----
Total revenues	55,859,963	43,618,265	19,097,485	14,731,456
Benefits and expenses:				-----
Death benefits	3,951,069	3,237,944	1,160,311	753,519
Surrenders and other policy benefits	1,155,853	1,193,033	319,299	(169,173)
Increase in future policy benefits	4,172,498	4,434,555	1,628,704	2,224,220
Amortization of deferred policy acquisition costs and cost of insurance acquired	2,920,863	3,560,269	971,917	1,242,677
General and administrative expenses:				
Commissions	20,487,597	13,607,401	7,228,474	4,668,286
Salaries	7,065,512	5,873,284	2,825,330	1,940,123
Other	8,663,668	7,052,318	2,694,761	2,414,573
Interest expense	2,175,012	1,487,213	558,330	593,099
Cost of goods and services sold of the mortuaries and cemeteries	3,162,785	2,403,645	899,293	742,985
	-----	-----	-----	-----
Total benefits and expenses	53,754,857	42,849,662	18,286,419	14,410,309
Earnings before income taxes	2,105,106	768,603	811,066	321,147
Income tax expense	(572,559)	(189,467)	(217,899)	(79,151)
Minority interest (income) loss of subsidiary	47,196	(48,026)	12,010	(17,366)
	-----	-----	-----	-----
Net earnings	\$1,579,743	\$531,110	\$605,177	\$224,630
	=====	-----	=====	=====
Net earnings per common share	\$0.35	\$0.12	\$0.14	\$0.05
	=====	=====	=====	=====
Weighted average outstanding common shares	4,450,839	4,290,775	4,450,839	4,238,724
	=====	=====	=====	=====
Net earnings per common share-assuming dilution	\$0.35	\$0.12	\$0.14	\$0.05
	=====	=====	=====	=====
Weighted average outstanding common shares assuming-dilution	4,451,366	4,328,662	4,451,510	4,299,717
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

	September 30, 2001 (Unaudited)	December 31, 2000
	-----	-----
Assets:		
- - - - -		
Insurance-related investments:		
Fixed maturity securities held to maturity, at amortized cost	\$28,281,815	\$39,384,168
Fixed maturity securities available for sale, at market	23,307,682	23,504,989
Equity securities available for sale, at market	2,484,807	2,774,077
Mortgage loans on real estate	15,758,876	17,435,178
Real estate, net of accumulated depreciation	8,147,910	8,564,395
Policy, student and other loans	11,293,258	11,277,742
Short-term investments	5,868,358	1,027,927
	-----	-----
Total insurance-related investments	95,142,706	103,968,476
Restricted assets of cemeteries and mortuaries	5,226,724	4,841,819
Cash	7,644,473	11,275,030
Receivables:		
Trade contracts	6,381,552	5,342,380
Mortgage loans sold to investors	43,280,514	26,886,162
Receivable from agents	2,104,422	2,225,784
Receivable from officers	105,200	111,500
Other	1,250,414	3,503,320
	-----	-----
Total receivables	53,122,102	38,069,146
Allowance for doubtful accounts	(1,689,106)	(1,656,223)
	-----	-----
Net receivables	51,432,996	36,412,923
Policyholder accounts on deposit with reinsurer	7,254,114	7,434,750
Land and improvements held for sale	8,350,834	8,485,523
Accrued investment income	1,333,057	1,302,552
Deferred policy acquisition costs	12,556,615	12,043,527
Property, plant and equipment, net	10,841,091	10,824,700
Cost of insurance acquired	7,821,388	8,729,264
Excess of cost over net assets of acquired subsidiaries	1,090,418	1,172,599
Other	586,627	695,683
	-----	-----
Total assets	\$209,281,043	\$207,186,846
	=====	=====

See accompanying notes to consolidated financial statements.

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

	September 30, 2001 (Unaudited)	December 31, 2000
	-----	-----
<b>Liabilities:</b>		
-----		
Future life, annuity, and other policy benefits	\$140,449,413	\$140,000,344
Unearned premium reserve	1,729,590	1,754,980
Bank loans payable	8,198,263	9,805,118
Notes and contracts payable	3,862,274	4,240,830
Estimated future costs of pre-need sales	7,905,901	7,119,544
Payable to endowment care fund	43,238	--
Accounts payable	1,052,051	1,242,407
Funds held under reinsurance treaties	1,388,100	1,417,216
Other liabilities and accrued expenses	4,923,489	4,115,920
Income taxes	6,990,842	6,124,512
	-----	-----
Total liabilities	176,543,161	175,820,871
Minority interest	4,178,645	4,624,614
<b>Stockholders' Equity:</b>		
-----		
Common stock:		
Class A: \$2 par value, authorized 10,000,000 shares, issued 5,107,630 shares in 2001 and 5,107,631 shares in 2000	10,215,260	10,215,262
Class C: \$0.20 par value, authorized 7,500,000 shares, issued 5,827,805 shares in 2001 and 2000	1,165,561	1,165,561
	-----	-----
Total common stock	11,380,821	11,380,823
Additional paid-in capital	10,054,714	10,054,714
Accumulated other comprehensive income, net of deferred taxes	1,074,886	836,751
Retained earnings	9,411,049	7,831,306
Treasury stock at cost (1,233,064 Class A shares and 65,078 Class C shares in 2001 and 2000 held by affiliated companies)	(3,362,233)	(3,362,233)
	-----	-----
Total stockholders' equity	28,559,237	26,741,361
	-----	-----
Total liabilities and stockholders' equity	\$209,281,043	\$207,186,846
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended 2001	September 30, 2000
	----	----
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$(5,594,384)	\$5,024,387
	-----	-----
Cash flows from investing activities:		
Securities held to maturity:		
Purchase - fixed maturity securities	(402,995)	(4,798,597)
Calls and maturities - fixed maturity securities	11,555,252	4,000,900
Securities available for sale:		
Purchases - equity securities	--	(120,812)
Sales - equity securities	11,382	--
Calls and maturities - fixed maturity securities	1,064,816	1,321,827
Purchases of short-term investments	(13,415,431)	(4,988,744)
Sales of short-term investments	8,575,000	5,385,814
Purchases of restricted assets	(384,905)	(458,668)
Mortgage, policy, and other loans made	(2,741,158)	(1,977,673)
Payments received for mortgage, policy, and other loans	4,606,735	3,991,477
Purchases of property, plant, and equipment	(776,042)	(698,952)
Purchases of real estate	(49,472)	(845,408)
	-----	-----
Net cash provided by (used in) investing activities	8,043,182	811,164
	-----	-----
Cash flows from financing activities:		
Annuity receipts	5,368,875	6,616,212
Annuity withdrawals	(9,462,819)	(10,705,423)
Repayment of bank loans and notes and contracts payable	(1,985,411)	(1,674,226)
Net change in line of credit for financing of mortgage loans	--	(8,537,023)
Purchase of treasury stock	--	(815,121)
	-----	-----
Net cash (used in) provided by financing activities	(6,079,355)	(15,115,581)
	-----	-----
Net change in cash	(3,630,557)	(9,280,030)
Cash at beginning of period	11,275,030	12,422,864
	-----	-----
Cash at end of period	\$7,644,473	\$3,142,834
	=====	=====

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
September 30, 2001  
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2000, included in the Company's Annual Report on Form 10-K (file number 0-9341).

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

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

2. Comprehensive Income

For the nine months ended September 30, 2001 and 2000, total comprehensive income amounted to \$1,817,878 and \$700,326, respectively. For the three months ended September 30, 2001, total comprehensive income amounted to \$628,622 and \$534,953, respectively.

3. Capital Stock

In accordance with SFAS 128, the basic and diluted earnings per share amounts were calculated as follows:

	Nine Months Ended September 30, 2001	2000
	----	----
Numerator:		
Net income	\$1,579,743	\$531,110
	=====	=====
Denominator:		
Denominator for basic earnings per share-- weighted-average shares	4,450,839	4,290,775
	-----	-----
Effect of dilutive securities:		
Employee stock options	527	37,887
Stock appreciation rights	--	--
	-----	-----
Dilutive potential common shares	527	37,887
	-----	-----
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	4,451,366	4,328,662
	=====	=====
Basic earnings per share	\$0.35	\$0.12
	=====	=====
Diluted earnings per share	\$0.35	\$0.12
	=====	=====

There are no dilutive effects on net income for purpose of this calculation.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
September 30, 2001  
(Unaudited)

3. Capital Stock

	Three Months Ended September 30, 2001 ----	2000 ----
Numerator:		
Net income	\$605,177 =====	\$224,630 =====
Denominator:		
Denominator for basic earnings per share-- weighted-average shares	4,450,839 -----	4,238,724 -----
Effect of dilutive securities:		
Employee stock options	671	60,993
Stock appreciation rights	--	--
Dilutive potential common shares		
Dilutive potential common shares	671 -----	60,993 -----
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	4,451,510 =====	4,299,717 =====
Basic earnings per share	\$0.14 =====	\$0.05 =====
Diluted earnings per share	\$0.14 =====	\$0.05 =====

There are no dilutive effects on net income for purpose of this calculation.



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
September 30, 2001  
(Unaudited)

4. Business Segment

	Life Insurance -----	Cemetery/ Mortuary -----	Mortgage -----	Corporate -----	Reconciling Items -----	Consolidated -----
For the Nine Months Ended						
September 30, 2001						
Revenues from						
external customers .	\$ 15,462,026	\$ 10,117,519	\$ 30,280,254	\$ 164	\$ --	\$ 55,859,963
Intersegment revenues .	2,823,155	--	--	2,878,394	(5,701,549)	--
Segment profit	(101,476)	237,561	1,489,157	479,864	--	2,105,106
Identifiable assets	196,852,974	36,825,841	5,712,935	3,299,250	(33,409,957)	209,281,043
For the Nine Months Ended						
September 30, 2000						
Revenues from						
external customers	16,126,298	8,097,388	19,394,507	72	--	43,618,265
Intersegment revenues	2,338,051	--	--	2,905,826	(5,243,877)	--
Segment profit	292,744	(373,705)	(134,015)	983,579	--	768,603
Identifiable assets	194,296,776	34,311,249	3,224,196	2,952,276	(31,241,308)	203,543,189
For the Three Months Ended						
September 30, 2001						
Revenues from						
external customers	5,131,849	3,246,750	10,718,861	25	--	19,097,485
Intersegment revenues	912,630	--	--	897,216	(1,809,846)	--
Segment profit	18,674	81,685	926,422	(215,715)	--	811,066
For the Three Months Ended						
September 30, 2000						
Revenues from						
external customers	5,344,140	2,536,565	6,850,737	14	--	14,731,456
Intersegment revenues	837,007	--	--	973,207	(1,810,214)	--
Segment profit	178,400	(166,598)	(3,027)	312,372	--	321,147

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
September 30, 2001  
(Unaudited)

Item 2. Management's Discussion and Analysis

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 interest sensitive products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on lower interest rates by originating and refinancing mortgage loans.

During the nine months ended September 30, 2001, Security National Mortgage Company ("SNMC") experienced increases in revenue and expenses due to the increase in loan volume of its operations. SNMC is a mortgage lender incorporated under the laws of the State of Utah. SNMC is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SNMC obtains loans primarily from independent brokers and correspondents. SNMC funds the loans from internal cash flows and lines of credit from financial institutions. SNMC receives fees from origination points paid by the borrowers and service and release premiums received from third party investors who purchase the loans from SNMC. SNMC sells all of its loans to third party investors and does not retain servicing to these loans. SNMC pays the brokers and correspondents a commission for loans that are brokered through SNMC. SNMC originated and sold 5,812 (\$836,124,000) and 3,735 (\$496,095,000) loans respectively for the nine months ended September 30, 2001 and 2000.

Results of Operations

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Total revenues increased by \$12,242,000, or 28.1%, to \$55,860,000 for the nine months ended September 30, 2001, from \$43,618,000 for the nine months ended September 30, 2000. Contributing to this increase in total revenues was a \$9,669,000 increase in mortgage fee income, a \$654,000 increase in net investment income, and a \$1,719,000 increase in net mortuary and cemetery sales.

Insurance premiums and other considerations increased by \$98,000, or 1.0%, to \$10,019,000 for the nine months ended September 30, 2001, from \$9,921,000 for the comparable period in 2000. This increase was primarily due to additional premiums from increased sales of traditional life products of the Company.

Net investment income increased by \$654,000, or 7.3%, to \$9,600,000 for the nine months ended September 30, 2001, from \$8,946,000 for the comparable period in 2000. This increase was primarily attributable to additional interest earned as a result of a greater number of loan originations during the nine months of 2001.

Net mortuary and cemetery sales increased by \$1,719,000, or 22.8%, to \$9,251,000 for the nine months ended September 30, 2001, from \$7,532,0900 for the comparable period in 2000. This increase was primarily due to additional pre-need cemetery sales.

Realized gains on investments and other assets increased by \$83,000, or 221.8%, to \$120,000 for the nine months ended September 30, 2001, from \$37,000 for the comparable period in 2000. This increase was the result of the condemnation of Company property for highway improvements.

Mortgage fee income increased by \$9,669,000, or 56.6%, to \$26,764,000 for the nine months ended September 30, 2001, from \$17,095,000 for the comparable period in 2000. This increase was primarily attributable to a greater number of loan originations during the nine months of 2001 due to lower interest rates resulting in more borrowers refinancing their mortgage loans.

Total benefits and expenses were \$53,755,000, or 96.2%, of total revenues for the nine months ended September 30, 2001, as compared to \$42,850,000, or 98.2%, of total revenues for the comparable period in 2000.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$413,000, or 4.7%, to \$9,279,000 for the nine months ended September 30, 2001, from \$8,866,000 for the comparable period in 2000. This increase was primarily the result of an increase in death claims.

Amortization of deferred policy acquisition costs and cost of insurance acquired decreased by \$639,000, or 18.0%, to \$2,921,000 for the nine months ended September 30, 2001, from \$3,560,000 for the comparable period in 2000. This decrease was primarily due to the adjustment of the amortization rate to the Company's current actuarial assumptions.

General and administrative expenses increased by \$9,684,000, or 36.5%, to \$36,217,000 for the nine months ended September 30, 2001, from \$26,533,000 for the comparable period in 2000. This increase primarily resulted from an increase in commissions and other expenses due to additional mortgage loan originations having been made by the Company's mortgage subsidiary during the nine months of 2001.

Interest expense increased by \$688,000, or 46.2%, to \$2,175,000 for the nine months ended September 30, 2001, from \$1,487,000 for the comparable period in 2000. This increase was primarily due to additional warehouse lines of credit required for the additional mortgage loan originations by the Company's mortgage subsidiary.

Cost of goods and services sold of the mortuaries and cemeteries increased by \$759,000, or 31.6%, to \$3,163,000 for the nine months ended September 30, 2001, from \$2,404,000 for the comparable period in 2000. This increase was primarily due to additional pre-need cemetery sales.

#### Third Quarter of 2001 Compared to Third Quarter of 2000

Total revenues increased by \$4,366,000, or 29.6%, to \$19,097,000 for the three months ended September 30, 2001, from \$14,731,000 for the three months ended September 30, 2000. Contributing to this increase in total revenues was a \$3,587,000 increase in mortgage fee income, a \$114,000 increase in insurance premiums and other considerations and a \$535,000 increase in net mortuary and cemetery sales.

Insurance premiums and other considerations increased by \$114,000, or 3.4%, to \$3,436,000 for the three months ended September 30, 2001, from \$3,322,000 for the comparable period in 2000. This increase was primarily due to additional premiums from increased sales of traditional life products of the Company.

Net investment income decreased by \$12,000, or .4%, to \$3,040,000 for the three months ended September 30, 2001, from \$3,052,000 for the comparable period in 2000. This decrease was the result of lower interest income earnings due to lower interest rates on short-term and long-term investments.

Net mortuary and cemetery sales increased by \$535,000, or 22.8%, to \$2,881,000 for the three months ended September 30, 2001, from \$2,346,000 for the comparable period in 2000. This increase was primarily due to additional pre-need cemetery sales.

Realized gains on investments and other assets increased by \$111,000, or 1,925.8% to \$116,000 for the nine months ended September 30, 2001, from \$5,000 for the comparable period in 2000. This increase was the result of the condemnation of Company property for highway improvements.

Mortgage fee income increased by \$3,587,000, or 59.9%, to \$9,574,000 for the three months ended September 30, 2001, from \$5,987,000 for the comparable period in 2000. This increase was primarily attributable to a greater number of loan originations during the third quarter of 2001, due to lower interest rates resulting in more borrowers refinancing their mortgage loans.

Total benefits and expenses were \$18,286,000, or 95.8%, of total revenues for the three months ended September 30 2001, as compared to \$14,410,000, or 97.8%, of total revenues for the comparable period in 2000.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$300,000, or 10.7%, to \$3,108,000 for the three months ended September 30, 2001, from \$2,808,000 for the comparable period in 2000. This increase was primarily the result of an increase in death claims.

Amortization of deferred policy acquisition costs and cost of insurance acquired decreased by \$271,000 or 21.8%, to \$972,000, for the three months ended September 30, 2001, from \$1,243,000 for the comparable period in 2000. This decrease was in line with actuarial assumptions.

General and administrative expenses increased by \$3,726,000 or 41.3%, to \$12,749,000 for the three months ended September 30, 2001, from \$9,023,000 for the comparable period in 2000. This increase primarily resulted from an increase in commissions and other expenses due to additional mortgage loan originations having been made by the Company's mortgage subsidiary during the third quarter of 2001.

Interest expense decreased by \$35,000, or 5.9%, to \$558,000 for the three months ended September 30, 2001, from \$593,000 for the comparable period in 2000. This decrease was the result of lower interest expense on borrowings due to the decrease in lending rates.

Cost of mortuaries and cemeteries goods and services sold increased by \$156,000, or 21.0%, to \$899,000 for the three months ended September 30, 2001, from \$743,000 for the comparable period in 2000. This increase was primarily due to additional pre-need cemetery sales.

#### Liquidity and Capital Resources

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

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held-to-maturity in the portfolio to help in this timing; however, to date, that has not been necessary. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products. The Company's investment philosophy is intended to provide a rate of return which will persist during the expected duration of policyholder and cemetery and mortuary liabilities regardless of future interest rate movements.

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and warehouse mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the life insurance subsidiaries amounted to \$51,589,000 as of September 30, 2001, compared to \$62,859,000 as of

December 31, 2000. This represents 54% and 60% of the total insurance-related investments as of September 30, 2001, and December 31, 2000, 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 nine categories used for rating bonds. At September 30, 2001, .79% (\$409,000) and at December 31, 2000, .68% (\$429,000) of the Company's total investment in bonds were invested in bonds in rating categories three through nine, which are considered non-investment grade.

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

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At September 30, 2001, and December 31, 2000, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity and bank debt and notes payable was \$40,620,000 as of September 30, 2001, as compared to \$40,787,000 as of December 31, 2000. Stockholders' equity as a percent of capitalization increased to 70% as of September 30, 2001, from 66% as of December 31, 2000.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2000 was 15% as compared to a rate of 10% for 1999. The 2001 lapse rate is approximately the same as 2000.

At September 30, 2001, \$22,846,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of insurance regulatory authorities.

### Item 3. Quantitative and Qualitative Disclosure of Market Risk

There have been no significant changes since the annual report Form 10-K filed for the year ended December 31, 2000.

Part II Other Information:

Item 1. Legal Proceedings

An action was brought against the Company in May 2001, by Glenna Brown Thomas individually and as personal representative of the Estate of Lynn W. Brown (Third Judicial Court, Salt Lake County, State of Utah, 010904432). The action asserts that Memorial Estates delivered to Lynn W. Brown three stock certificates representing 2,000 shares in 1970 and 1971. Mr. Brown died in 1972. It is asserted that at the time the 2,000 shares were issued and outstanding, such represented a 2% ownership of Memorial Estates. It is alleged Mr. Brown was entitled to preemptive rights and that after the issuance of the stock to Mr. Brown there were further issuances of stock without providing written notice to Mr. Brown or his estate with respect to an opportunity to purchase more stock. It is asserted among the other things that the plaintiff "has the right to a transfer of Brown's shares to Thomas on Defendants' (which includes Security National Financial Corporation as well as Memorial Estates, Inc.) books and to restoration of Brown's proportion of share ownership in Memorial at the time of his death by issuance and delivery to Thomas of sufficient shares of Defendant's publicly traded and unrestricted stock in exchange for the 2,000 shares of Memorial stock and payment of all dividends from the date of Thomas's demand, as required by Article XV of the Articles of Incorporation." Based on present information, the Company intends to vigorously defend the matter, including an assertion that the statute of limitations bars the claims.

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

Item 2. Changes in Securities

NONE

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information

NONE

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3. A. Articles of Restatement of Articles of Incorporation (8)
- B. Bylaws (1)

- 4. A. Specimen Class A Stock Certificate (1)
- B. Specimen Class C Stock Certificate (1)
- C. Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)
- 10. A. Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1)
- B. Deferred Compensation Agreement with George R. Quist (2)
- C. 1993 Stock Option Plan (3)
- D. Promissory Note with Key Bank of Utah (4)
- E. Loan and Security Agreement with Key Bank of Utah (4)
- F. General Pledge Agreement with Key Bank of Utah (4)

- G. Note Secured by Purchase Price Deed of Trust and Assignment of Rents with the Carter Family Trust and the Leonard M. Smith Family Trust (5)
- H. Deed of Trust and Assignment of Rents with the Carter Family Trust and the Leonard M. Smith Family Trust (5)
- I. Promissory Note with Page and Patricia Greer (6)
- J. Pledge Agreement with Page and Patricia Greer (6)
- K. Promissory Note with Civil Service Employees Insurance Company (7)
- L. Deferred Compensation Agreement with William C. Sargent (8)
- M. Employment Agreement with Scott M. Quist. (8)
- N. Acquisition Agreement with Consolidare Enterprises, Inc., and certain shareholders of Consolidare. (9)
- O. Agreement and Plan of Merger between Consolidare Enterprises, Inc., and SSLIC Holding Company. (10)
- P. Administrative Services Agreement with Southern Security Life Insurance Company. (11)
- Q. Promissory Note with George R. Quist. (12)
- R. Settlement Agreement with Capitol Indemnity Corporation, George A. Fait, and Joel G. Fait. (13)

- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on June 29, 1987.
  - (2) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1989.
  - (3) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1994.
  - (4) Incorporated by reference from Report on Form 8-K, as filed on February 24, 1995.
  - (5) Incorporated by reference from Annual Report on Form 10K, as filed on March 31, 1995.
  - (6) Incorporated by reference from Report on Form 8-K, as filed on May 1, 1995.
  - (7) Incorporated by reference from Report on Form 8-K, as filed on January 16, 1996.
  - (8) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1998.
  - (9) Incorporated by reference from Report on Form 8-K, as filed on May 11, 1998.
  - (10) Incorporated by reference from Report on Form 8-K, as filed on January 4, 1999.
  - (11) Incorporated by reference from Report on Form 8-K, as filed on March 4, 1999.
  - (12) Incorporated by reference from Annual Report on Form 10-K, as filed on April 14, 1999.
  - (13) Incorporated by reference from Quarterly Report on Form 10-Q, as filed on August 21, 2000.
- (b) Reports on Form 8-K:

NONE

SIGNATURES

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

REGISTRANT  
SECURITY NATIONAL FINANCIAL CORPORATION  
Registrant

DATED: November 16, 2001

By: George R. Quist,  
-----  
Chairman of the Board,  
President and Chief Executive Officer  
(Principal Executive Officer)

DATED: November 16, 2001

By: Stephen M. Sill  
-----  
Vice President, Controller and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)



