

NATIONAL SECURITY GROUP INC

Form 10-Q

November 14, 2008

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For Quarterly Period Ended September 30, 2008**

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 0-18649**

**The National Security Group, Inc.**

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(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

63-1020300  
(IRS Employer  
Identification No.)

661 East Davis Street

Elba, Alabama  
(Address of principal executive offices)

36323  
(Zip-Code)

Registrant's Telephone Number including Area Code (334) 897-2273

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in rule 12b-2 of the Act). (Check One) Large accelerated Filer  Accelerated Filer  Non-accelerated Filer  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 close of the period covered by this report.

Class

Outstanding November 14, 2008

**Common Stock, \$1.00 par value**

**2,466,600 shares**

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THE NATIONAL SECURITY GROUP, INC

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**Part I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

THE NATIONAL SECURITY GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	(Dollars in thousands)	
	As of September 30, 2008	As of December 31, 2007
<b>ASSETS</b>		
	<i>(unaudited)</i>	
Investments		
Fixed maturities held-to-maturity, at amortized cost (estimated fair value: 2008 - \$12,836; 2007 - \$17,155)	\$ 13,071	\$ 17,310
Fixed maturities available-for-sale, at estimated fair value (cost: 2008 - \$63,604; 2007 - \$67,388)	59,053	66,777
Equity securities available-for-sale, at estimated fair value (cost: 2008 - \$6,309; 2007 - \$7,635)	11,380	14,991
Mortgage loans on real estate, at cost	496	492
Investment real estate, at book value (accumulated depreciation: 2008 - \$18; 2007 - \$18)	4,987	4,586
Policy loans	943	920
Other invested assets	7,066	2,103
Short-term investments	250	1,027
<b>Total Investments</b>	<b>97,246</b>	<b>108,206</b>
Cash	2,884	3,299
Accrued investment income	867	794
Policy receivables, less allowance for credit losses (2008 - \$40; 2007 - \$110)	14,940	8,801
Accounts receivable, less allowance for credit losses (2008 - \$0; 2007 - \$10)	-	570
Reinsurance recoverable	5,980	917
Deferred policy acquisition costs	10,164	8,993
Property and equipment, net	2,859	2,930

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Deferred income tax asset	1,122	0
Accrued income tax recoverable	3,239	-
Other assets	1,461	1,075
<b>Total Assets</b>	<b>\$ 140,762</b>	<b>\$135,585</b>

*The Notes to Financial Statements are an integral part of these statements*

(Dollars in thousands)		
	As of September 30, 2008	As of December 31, 2007
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<i>(unaudited)</i>		
Property and casualty benefit and loss reserves	\$ 23,411	\$ 11,973
Accident and health benefit and loss reserves	1,054	926
Life and annuity benefit and loss reserves	27,947	27,538
Unearned premiums	34,240	22,442
Policy and contract claims	540	608
Other policyholder funds	1,334	1,309
Short-term debt	-	900
Long-term debt	12,372	12,372
Accrued income taxes	-	1,079
Deferred income tax liability	-	1,231
Other liabilities	4,758	6,760
<b>Total Liabilities</b>	<b>105,656</b>	<b>87,138</b>
Contingencies	-	-
<b>Shareholders' Equity</b>		
Preferred stock, \$1 par value, 500,000 shares authorized, none issued or outstanding	-	-
Class A common stock, \$1 par value, 2,000,000 shares authorized, none issued or outstanding	-	-
Common stock, \$1 par value, 10,000,000 shares authorized		
2,466,600 shares issued and outstanding	2,467	2,467
Additional paid-in capital	4,951	4,951
Accumulated other comprehensive (loss) income	(613)	4,864
Retained earnings	28,301	36,165
<b>Total Shareholders' Equity</b>	<b>35,106</b>	<b>48,447</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 140,762</b>	<b>\$ 135,585</b>



*The Notes to the Financial Statements are an integral part of these statements.*

THE NATIONAL SECURITY GROUP, INC.

## CONSOLIDATED UNAUDITED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Three Months		Nine Months	
	Ended September 30		Ended September 30	
	2008	2007	2008	2007
<b>REVENUES</b>				
Net premiums earned	\$ 11,707	\$ 15,913	\$ 42,261	\$ 46,362
Net investment income	1,332	1,216	3,894	3,629
Net realized investment (losses) gains	(1,452)	(4)	(1,304)	529
Other Income	254	261	927	820
<b>Total Revenues</b>	<b>11,841</b>	<b>17,386</b>	<b>45,778</b>	<b>51,340</b>
<b>BENEFITS AND EXPENSES</b>				