

NATIONAL SECURITY GROUP INC
Form 10-Q
May 15, 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 March 31, 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.

(Exact name of registrant as specified in its charter)

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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 May 15, 2008
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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 March 31, 2008	As of December 31, 2007
ASSETS		
	<i>(unaudited)</i>	
Investments		
Fixed maturities held-to-maturity, at amortized cost (estimated fair value: 2008 - \$13,880; 2007 - \$17,155)	\$ 13,876	\$ 17,310
Fixed maturities available-for-sale, at estimated fair value (cost: 2008 - \$67,036; 2007 - \$67,388)	66,999	66,777
Equity securities available-for-sale, at estimated fair value (cost: 2008 - \$7,635 2007 - \$7,635)	13,968	14,991
Mortgage loans on real estate, at cost	489	492
Investment real estate, at book value (accumulated depreciation: 2008 - \$18; 2007 - \$18)	4,636	4,586
Policy loans	925	920
Other invested assets	4,560	2,103
Short-term investments	519	1,027
Total Investments	105,972	108,206
Cash	4,398	3,299
Accrued investment income	868	794
Policy receivables, less allowance for credit losses (2008 - \$42; 2007 - \$110)	15,002	8,801
Accounts receivable, less allowance for credit losses (2008 - \$0; 2007 - \$10)	-	570
Reinsurance recoverable	728	917
Deferred policy acquisition costs	8,946	8,993
Property and equipment, net	3,012	2,930
Other assets	939	1,075
Total Assets	\$ 139,865	\$ 135,585

(Dollars in thousands)		
	As of March 31, 2008	As of December 31, 2007
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>(unaudited)</i>		
Property and casualty benefit and loss reserves	\$ 12,948	\$ 11,973
Accident and health benefit and loss reserves	967	926
Life and annuity benefit and loss reserves	27,705	27,538
Unearned premiums	29,051	22,442
Policy and contract claims	563	608
Other policyholder funds	1,313	1,309
Short-term debt	900	900
Long-term debt	12,372	12,372
Accrued income taxes	790	1,079
Other liabilities	5,347	6,760
Deferred income tax	418	1,231
Total Liabilities	92,374	87,138
Contingencies	-	-
Shareholders' Equity		
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 income	3,681	4,864
Retained earnings	36,392	36,165
Total Shareholders' Equity	47,491	48,447
Total Liabilities and Shareholders' Equity	\$ 139,865	\$ 135,585

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

THE NATIONAL SECURITY GROUP, INC.

CONSOLIDATED UNAUDITED STATEMENTS OF INCOME (LOSS)

(In thousands, except per share amounts)

	Three Months	
	Ended March 31	
	2008	2007
REVENUES		
Net premiums earned	\$16,586	\$15,557
Net investment income	1,321	1,213
Net realized investment gains	66	206
Other Income	321	301
Total Revenues	18,294	17,277
EXPENSES		
Policyholder benefits paid or provided	10,560	9,208
Policy acquisition costs	3,253	3,061
General insurance expenses	2,615	2,602
Insurance taxes, licenses and fees	494	496
Interest expense	286	267
Total Expenses	17,208	15,634
Income from Continuing Operations		
Before Income Tax Expense	1,086	1,643
INCOME TAX EXPENSE		
Current	711	405
Deferred	(407)	(86)
	304	319
Income From Continuing Operations	782	1,324
Loss from Discontinued Operations, Net of Income Tax Expense Before Minority Interest	-	(282)
Minority Interest in Discontinued Operations	-	141
Net Loss from Discontinued Operations	-	(141)
Net Income (Loss)	\$ 782	\$1,183
Basic and diluted earnings (loss) per common share:		
Earnings from Continuing Operations Per Share	\$0.32	\$0.54
Loss from Discontinued Operations Per Share	-	(0.06)

Net earnings (loss) per common share	\$0.32	\$0.48
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The Notes to Financial Statements are an integral part of these statements.

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THE NATIONAL SECURITY GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except per share amounts)

			Accumulated Other Comprehensive	Common	Paid-in
	Total	Retained Earnings	Income	Stock	Capital
Balance at December 31, 2006	\$ 45,379	\$ 32,345	\$ 5,616	\$ 2,467	\$ 4,951
Comprehensive Income					
Net income for 2007	6,040	6,040			
Other comprehensive loss (net of tax)					
Unrealized loss on securities, net of reclassification adjustment of \$1,014	(664)		(664)		
Unrealized loss on interest rate swap	(88)		(88)		
Total Comprehensive Income	5,288				
Cash dividends	(2,220)	(2,220)			
Balance at December 31, 2007	\$ 48,447	\$ 36,165	\$ 4,864	\$ 2,467	\$ 4,951
Comprehensive Income					
Net income three months ended 3/31/2008	782	782			
Other comprehensive loss (net of tax)					
Unrealized loss on securities, net of reclassification adjustment of \$47	(1,041)		(1,041)		
Unrealized loss on interest rate swap	(142)		(142)		
Total Comprehensive Loss	(401)				
Cash dividends	(555)	(555)			
Balance at March 31, 2008 (Unaudited)	\$ 47,491	\$ 36,392	\$ 3,681	\$ 2,467	\$ 4,951

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

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THE NATIONAL SECURITY GROUP, INC.

CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months	
	Ended March 31,	
	2008	2007
Cash Flows from Operating Activities		
Income from continuing operations	\$ 782	\$ 1,183
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Change in accrued investment income	(74)	(54)
Change in reinsurance receivables	189	355
Change in deferred policy acquisition costs	47	(419)
Change in income tax payable	(289)	(595)
Change in deferred income tax expense	-	(86)
Depreciation expense	123	213
Change in policy liabilities and claims	1,183	(1,076)
Other, net	(344)	385
Net cash provided by (used in) operating activities	1,617	(94)
Cash Flows from Investing Activities		
Cost of investments acquired	(10,620)	(8,133)
Sale and maturity of investments	11,917	8,045
(Purchase) sale of property and equipment	(1,256)	(117)
Net cash provided by (used in) investing activities	41	(205)
Cash Flows from Financing Activities		
Change in other policyholder funds	(4)	10
Change in notes payable	-	