

NATIONAL SECURITY GROUP INC

Form 10-Q

November 14, 2007

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 Quarterly Period Ended September 30, 2007

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

63-1020300
(IRS Employer

Incorporation or Organization)

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 ☒

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 September 30, 2007

Common Stock, \$1.00 par value

2,466,600 shares

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, 2007 (unaudited)	As of December 31, 2006
ASSETS		
Investments		
Fixed maturities held-to-maturity, at amortized cost (estimated fair value: 2007 - \$16,434; 2006 - \$18,172)	\$ 16,853	\$ 18,764
Fixed maturities available-for-sale, at estimated fair value (cost: 2007 - \$59,602; 2006- \$62,980)	59,265	61,935
Equity securities available-for-sale, at estimated fair value (cost: 2007 - \$7,097 2006 - \$7,224)	16,011	16,119
Mortgage loans on real estate, at cost	496	504
Investment real estate, at book value (accumulated depreciation: 2007 - \$18; 2006 - \$18)	4,507	4,154
Policy loans	900	845
Other invested assets	2,267	2,346
Short-term investments	8,059	508
Total Investments	108,358	105,175
Cash	3,764	1,106
Accrued investment income	801	786
Policy receivables, less allowance for credit losses (2007 - \$110; 2006 - \$110)	6,453	3,098
Accounts receivable, less allowance for credit losses (2007 - \$0; 2006- \$10)	-	2,047
Inventory	-	447
Reinsurance recoverable	1,239	2,242
Deferred policy acquisition costs	8,756	7,922
Property and equipment, net	2,453	11,242
Other assets	1,217	846
Total Assets	\$ 133,041	\$ 134,911

LIABILITIES AND SHAREHOLDERS' EQUITY

Property and casualty benefit and loss reserves	\$ 10,912	\$ 12,498
Accident and health benefit and loss reserves	902	824
Life and annuity benefit and loss reserves	27,283	26,265
Unearned premiums	22,884	17,818
Policy and contract claims	636	412
Other policyholder funds	1,291	1,275
Short-term debt	466	11,580
Long-term debt	12,372	9,279
Accrued income taxes	1,804	1,205

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Other liabilities	4,201	5,645
Deferred income tax	1,912	2,031
Total Liabilities	84,663	88,832
Contingencies	-	-
Minority interest	-	700
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	5,792	5,616
Retained earnings	35,168	32,345
Total Shareholders' Equity	48,378	45,379
Total Liabilities and Shareholders' Equity	\$ 133,041	\$ 134,911

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 Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
REVENUES				
Net premiums earned	\$ 15,913	\$ 15,297	\$ 46,362	\$ 44,543
Net investment income	1,216	1,144	3,629	3,354
Net realized investment (losses) gains	(4)	770	529	1,870
Other Income	261	308	820	937
Total Revenues	17,386	17,519	51,340	50,704
BENEFITS AND EXPENSES				
Policyholder benefits paid or provided	8,927	9,026	28,259	29,272
Policy acquisition costs	3,091	2,980	9,326	8,523
General insurance expenses	2,222	1,968	6,821	6,531
Insurance taxes, licenses and fees	797	556	1,880	1,624
Interest expense	296	269	807	790
Total Expenses	15,333	14,799	47,093	46,740
Income from Continuing Operations Before Income Tax Expense	2,053	2,720	4,247	3,964
INCOME TAX EXPENSE (BENEFIT)				
Current	635	823	1,254	1,294
Deferred	(87)	(16)	(176)	(188)
	548	807	1,078	1,106
Income From Continuing Operations	1,505			