

NATIONAL SECURITY GROUP INC
Form 10-Q
August 13, 2014
Table of Contents

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 June 30, 2014

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)

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 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, 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

As of August 13, 2014, there were 2,507,452 shares, \$1.00 par value, of the registrant's common stock outstanding.

1

Table of Contents

THE NATIONAL SECURITY GROUP, INC.

INDEX

PART I. FINANCIAL INFORMATION

	Page No.
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets	<u>4</u>
Condensed Consolidated Statements of Income	<u>5</u>
Condensed Consolidated Statements of Comprehensive Income (Loss)	<u>6</u>
Condensed Consolidated Statements of Changes in Shareholders' Equity	<u>7</u>
Condensed Consolidated Statements of Cash Flows	<u>8</u>
Notes to Condensed Consolidated Financial Statements	<u>9</u>
Review Report of Independent Registered Public Accounting Firm	<u>31</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>32</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>42</u>
Item 4. Controls and Procedures	<u>43</u>

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	<u>43</u>
Item 1A. Risk Factors	<u>43</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>43</u>
Item 3. Defaults Upon Senior Securities	<u>43</u>
Item 4. Mine Safety Disclosures	<u>43</u>
Item 5. Other Information	<u>43</u>
Item 6. Exhibits	<u>43</u>

SIGNATURE	<u>45</u>
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Table of Contents

Cautionary Statement Regarding Forward-Looking Statements

Any statement contained in this report which is not a historical fact, or which might otherwise be considered an opinion or projection concerning the Company or its business, whether expressed or implied, is meant as and should be considered a forward-looking statement as that term is defined in the Private Securities Litigation Reform Act of 1995. The following report contains forward-looking statements that are not strictly historical and that involve risks and uncertainties. Such statements include any statements containing the words “expect,” “plan,” “estimate,” “anticipate” or other words of a similar nature. Management cautions investors about forward-looking statements. Forward-looking statements involve certain evaluation criteria, such as risks, uncertainties, estimates, and/or assumptions made by individuals informed of the Company and industries in which we operate. Any variation in the preceding evaluation criteria could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, without limitation, the following:

The insurance industry is highly competitive and the Company encounters significant competition in all lines of business from other insurance companies. Many of the competing companies have more abundant financial resources than the Company.

Insurance is a highly regulated industry. It is possible that legislation may be enacted which would have an adverse effect on the Company's business.

The Company is subject to regulation by state governments for each of the states in which it conducts business. The Company cannot predict the subject of any future regulatory initiative(s) or its (their) impact on the Company's business.

The Company is rated by various insurance rating agencies. If a rating is downgraded from its current level by one of these agencies, sales of the Company's products and stock price could be adversely impacted.

The Company's financial results are adversely affected by increases in policy claims received by the Company. While a manageable risk, this fluctuation is often unpredictable.

The Company's investments are subject to a variety of risks. Investments are subject to defaults and changes in market value. Market value can be affected by changes in interest rates, market performance and the economy.

The Company mitigates risk associated with life policies through implementing effective underwriting and reinsurance strategies. These factors mitigate, not eliminate, risk related to mortality and morbidity exposure. The Company has established reserves for claims and future policy benefits based on amounts determined by independent actuaries. There is no assurance that these estimated reserves will prove to be sufficient or that the Company will not incur claims exceeding reserves, which could result in operating losses and loss of capital.

The Company mitigates risk associated with property and casualty policies through implementing effective underwriting and reinsurance strategies. The Company obtains reinsurance which increases underwriting capacity and limits the risk associated with policy claims. The Company is subject to credit risk with regard to reinsurers as reinsurance does not alleviate the Company's liability to its insured's for the ceded risks. The Company utilizes a third-party to develop a reinsurance treaty with reinsurers who are reliable and financially stable. However, there is no guarantee that booked reinsurance recoverable will actually be recovered. A reinsurer's insolvency or inability to make payments due could have a material adverse impact on the financial condition of the Company.

The Company's ability to continue to pay dividends to shareholders is contingent upon profitability and capital adequacy of the insurance subsidiaries. The insurance subsidiaries operate under regulatory restrictions that could

limit the ability to fund future dividend payments of the Company. An adverse event or series of events could materially impact the ability of the insurance subsidiaries to fund future dividends, and consequently, the Board of Directors would have to suspend the declaration of dividends to shareholders.

The Company is subject to the risk of adverse settlements or judgments resulting from litigation of contested claims. It is difficult to predict or quantify the expected results of litigation because the outcome depends on decisions of the court and jury that are based on facts and legal arguments presented at the trial.

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

THE NATIONAL SECURITY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands)

	June 30, 2014 (UNAUDITED)	December 31, 2013
ASSETS		
Investments		
Fixed maturities held-to-maturity, at amortized cost (estimated fair value: 2014 - \$783; 2013 - \$853)	\$728	\$812
Fixed maturities available-for-sale, at estimated fair value (cost: 2014 - \$81,984; 2013 - \$79,074)	85,092	79,434
Equity securities available-for-sale, at estimated fair value (cost: 2014 - \$2,420; 2013 - \$2,420)	4,888	4,374
Trading securities	19	19
Mortgage loans on real estate, at cost	229	333
Investment real estate, at book value	4,288	4,218
Policy loans	1,480	1,443
Company owned life insurance	5,996	5,858
Other invested assets	3,478	3,559
Total Investments	106,198	100,050
Cash	6,179	4,987
Accrued investment income	802	817
Policy receivables and agents' balances, net	12,176	10,276
Reinsurance recoverable	789	1,501
Deferred policy acquisition costs	8,960	8,776
Property and equipment, net	1,991	2,077
Accrued income tax recoverable	—	6
Deferred income tax asset, net	3,609	4,654
Other assets	2,563	836
Total Assets	\$143,267	\$133,980
LIABILITIES AND SHAREHOLDERS' EQUITY		
Property and casualty benefit and loss reserves	\$9,328	\$8,734
Accident and health benefit and loss reserves	2,694	2,651
Life and annuity benefit and loss reserves	31,163	30,696
Unearned premiums	30,512	27,301
Policy and contract claims	896	842
Other policyholder funds	1,483	1,447
Short-term notes payable and current portion of long-term debt	1,166	1,866
Long-term debt	21,164	20,889
Accrued income taxes	52	—
Other liabilities	6,441	6,082
Total Liabilities	104,899	100,508
Contingencies		
Shareholders' equity		

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Common stock	2,508	2,495
Additional paid-in capital	5,267	5,147
Accumulated other comprehensive income	2,915	936
Retained earnings	27,678	24,894
Total Shareholders' Equity	38,368	33,472
Total Liabilities and Shareholders' Equity	\$143,267	\$133,980

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

Table of Contents

THE NATIONAL SECURITY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share amounts)

	Three months ended June 30, 2014	Six months ended June 30,
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