

NATIONAL SECURITY GROUP INC
Form 10-K/A
March 31, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
Amendment No. 2

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2009

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

63-1020300

(State or Other Jurisdiction of
Incorporation or Organization)

(IRS Employer
Identification No.)

661 East Davis Street
Elba, Alabama

36323

(Address of principal executive offices)

(Zip-Code)

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

Securities registered pursuant to Section 12 (b) of the Act:

None

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, par value \$1.00 per share

Global Market (EXCHANGE)

The NASDAQ

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange 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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of the last business day of the registrant's most recently completed second fiscal quarter, based upon the bid price of these shares on NASDAQ on such date, was \$15,850,514

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 March 26, 2010
Common Stock, \$1.00 par value	2,466,600 shares

Documents Incorporated by Reference

Annual Report of The National Security Group, Inc. on Form 10-K for the fiscal year ended December 31, 2009, as filed with the Securities and Exchange Commission on March 26, 2010

Explanatory Note

This Amendment number 2 on Form 10-K/A amends the annual report of The National Security Group, Inc. (the “Company”) on Form 10-K/A -1 for the fiscal year ended December 31, 2009 as amended by the Form 10-K/A-1, as filed with the Securities and Exchange Commission on March 4, 2011. This amendment is being filed primarily to include the Company’s audited consolidated financial statements for the year ended December 31, 2008 and accompanying report of Warren, Averett, Kimbrough & Marino, LLC (WAKM), which references their audit of the Company’s 2008 consolidated financial statements.

Due to the predecessor auditor’s refusal to reissue their audit report, registrant engaged its current auditor, WAKM to audit its 2008 consolidated financial statements. Registrant has filed this amendment to the 2009 10-K to include its audited consolidated financial statements for the year ended December 31, 2008. There are no significant reclassifications or adjustments resulting from the audit of the 2008 consolidated financial statements.

Except as otherwise expressly set forth herein and in registrant’s amendment on Form 10-K/A-1 filed with the SEC on March 4, 2011, all of the information in this Form 10-K/A-2 is consistent with filing dated March 26, 2010, the date the Company originally filed the 2009 10-K with the SEC. This Form 10-K/A-2 continues to speak as of the date of the 2009 10-K and does not reflect any subsequent information or events other than as expressly set forth otherwise in this Form 10-K/A-2. Accordingly, this Form 10-K/A-2 should be read in conjunction with our filings made with the SEC subsequent to the filing of the 2009 10-K, including any amendments to those filings. Among other things, forward-looking statements made in the 2009 10-K have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the 2009 10-K, other than this amendment.

Except as amended by the Form 10-K/A-1 and this Form 10-K/A-2, the information contained in the 2009 10-K is significantly unchanged and may be reviewed in conjunction with the filing made on March 26, 2010.

Item 6. Selected Financial Data

Five-Year Financial Information:

(Amounts in thousands, except per share)

Operating results	2009	2008	2007	2006	2005
Net premiums earned	\$ 59,594	\$ 56,264	\$ 62,250	\$ 58,874	\$ 53,563
Net investment income	5,289	4,368	4,749	4,463	3,964
Net realized investment (losses) gains	357	(1,049)	1,493	2,565	3,493
Other income	764	1,107	1,071	1,211	1,416
Total revenues	\$ 66,004	\$ 60,690	\$ 69,563	\$ 67,113	\$ 62,436
Net income (loss)	\$ 4,224	\$ (5,204)	\$ 6,040	\$ 4,250	\$ 1,558
Net income (loss) per share	\$ 1.71	\$ (2.11)	\$ 2.45	\$ 1.72	\$ 0.63

Other Selected Financial Data

	2009	2008	2007	2006	2005
Total shareholders' equity	\$ 41,168	\$ 34,648	\$ 48,447	\$ 45,379	\$ 43,556
Book value per share	\$ 16.69	\$ 14.04	\$ 19.64	\$ 18.39	\$ 17.66
Dividends per share	\$ 0.600	\$ 0.900	\$ 0.900	\$ 0.885	\$ 0.865
Net change in unrealized capital gains (net of tax)	\$ 3,520	\$ (6,147)	\$ (664)	\$ (244)	\$ (2,544)
Total assets	\$ 131,396	\$ 124,890	\$ 135,585	\$ 134,911	\$ 139,226

Quarterly Information:

	Premiums	Investment & Other Income	Realized Investment Gains (Losses)	Claims and Benefit Payments	Net Income (Loss)	Net Income (Loss) Per Share
2009						
1st QTR	\$ 15,220	\$ 1,378	\$ 1	\$ 7,792	\$ 1,481	\$ 0.60
2nd QTR	15,373	1,566	(231)	11,314	92	0.04
3rd QTR	14,357	1,584	79	9,131	651	0.26
4th QTR	14,644	1,525	508	7,602	2,000	0.81
	\$ 59,594	\$ 6,053	\$ 357	\$ 35,839	\$ 4,224	\$ 1.71
2008						
1st QTR	\$ 16,586	\$ 1,642	\$ 66	\$ 10,560	\$ 782	\$ 0.32
2nd QTR	13,968	1,593	82	10,812	(36)	(0.01)

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3rd QTR	11,707	1,586	(1,452)	15,795	(6,945)	(2.82
4th QTR	14,003	654	255	7,579	995	0.40
	\$ 56,264	\$ 5,475	\$ (1,049)	\$ 44,746	\$ (5,204)	\$ (2.11

Item 8. Financial Statements and Supplementary Data

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All other Schedules are not required under related instructions or are not applicable and therefore have been omitted.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
The National Security Group, Inc.
Elba, Alabama

We have audited the accompanying consolidated balance sheets of The National Security Group, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and financial statement schedules presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The National Security Group, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedules listed in the accompanying index appearing under Item 8, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Warren, Averett, Kimbrough & Marino, LLC

Birmingham, Alabama
March 31, 2011

The National Security Group, Inc.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

December 31,

ASSETS	2009	2008
Investments		
Fixed maturities held-to-maturity, at amortized cost (estimated fair value: 2009 - \$6,080; 2008 - \$10,995)	\$ 5,942	\$ 10,952
Fixed maturities available-for-sale, at estimated fair value (cost: 2009 - \$69,796; 2008 - \$61,796)	70,269	58,107
Equity securities available-for-sale, at estimated fair value (cost: 2009 - \$5,851; 2008 - \$5,467)	9,035	7,569
Trading securities	374	253
Receivable for securities	96	513
Mortgage loans on real estate, at cost	1,041	502
Investment real estate, at book value (accumulated depreciation: 2009 - \$18; 2008 - \$18)	4,815	4,754
Policy loans	1,018	968
Company owned life insurance	5,197	1,957
Other invested assets	3,933	4,557
Total Investments	101,720	90,132
Cash	4,686	3,027
Accrued investment income	802	804
Policy receivables and agents' balances, less allowance (2009 - \$0; 2008 - \$59)	9,700	9,179
Reinsurance recoverable	784	4,146
Deferred policy acquisition costs	10,210	9,825
Property and equipment, net	2,537	2,844
Deferred income tax asset	-	1,839
Accrued income tax recoverable	-	2,321
Other assets	957	773
Total Assets	\$ 131,396	\$ 124,890

See accompanying notes to consolidated financial statements

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The National Security Group, Inc.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

December 31,

LIABILITIES AND SHAREHOLDERS' EQUITY	2009	2008
Property and casualty benefit and loss reserves	\$ 12,646	\$ 14,436
Accident and health benefit and loss reserves	1,612	1,222
Life and annuity benefit and loss reserves	28,579	28,045
Unearned premiums	27,381	27,764
Policy and contract claims	535	503
Other policyholder funds	1,347	