

NATIONAL SECURITY GROUP INC
Form 10-Q/A
May 15, 2015

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

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

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

For Quarterly Period Ended March 31, 2015

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 (IRS Employer
Incorporation or Organization) Identification No.)

661 East Davis Street 36323
Elba, Alabama (Zip-Code)
(Address of principal executive offices)

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 May 14, 2015, there were 2,507,452 shares, \$1.00 par value, of the registrant's common stock outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A to The National Security Group, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, originally filed with the Securities and Exchange Commission on May 14, 2015 (the "Form 10-Q"), is being filed solely to make a correction in the "Overview" section of Management's Discussion and Analysis (MD&A) section of Part 1, Item 2 found on pages 31 and 32 of the Form 10-Q.

A table in the MD&A overview contained a mathematical formula error in the non-GAAP measure "Pretax Income From Insurance Operations" presented for the Three Months Ended March 31, 2015 compared to Three Months Ended March 31, 2014. The result of the error was to cause an overstatement of the non-GAAP measure Pretax Income From Insurance Operations of \$284,000 and \$176,000 for the three months ended March 31, 2015 and March 31, 2014 respectively. The associated commentary in the MD&A was also amended to reflect this correction.

Note that this error had no impact on the consolidated financial statements and notes presented in Part 1, Item 1 of our original filing.

In accordance with applicable SEC rules, this Amendment No. 1 includes new certifications as required by Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, from our Chief Executive Officer and Chief Financial Officer dated as of the date of filing of this Amendment No. 1.

We are not amending any other part of the Form 10-Q. This Amendment No. 1 to the Form 10-Q speaks as of the original filing date of the Form 10-Q, does not reflect subsequent events that may have occurred after the original filing date, and does not modify or update in any way disclosures made in the original Form 10-Q except as described above.

Overview-Three Months Ended March 31, 2015 compared to Three Months Ended March 31, 2014

Financial results for the three months ended March 31, 2015 and 2014 were as follows:

| Consolidated Financial Summary (dollars in thousands) | Three months ended March 31, | |
|--|------------------------------|-----------|
| | 2015 | 2014 |
| Gross premiums written | \$ 16,540 | \$ 16,170 |
| Net premiums written | \$ 15,034 | \$ 14,392 |
| Net premiums earned | \$ 14,706 | \$ 13,824 |
| Net investment income | 974 | 948 |
| Net realized investment gains | 142 | 88 |
| Other income | 158 | 154 |
| Total Revenues | 15,980 | 15,014 |
| Policyholder benefits and settlement expenses | 8,262 | 7,864 |
| Amortization of deferred policy acquisition costs | 899 | 898 |
| Commissions | 2,055 | 2,027 |
| General and administrative expenses | 2,006 | 2,026 |
| Taxes, licenses and fees | 655 | 530 |
| Interest expense | 317 | 386 |
| Total Benefits, Losses and Expenses | 14,194 | 13,731 |
| Income Before Income Taxes | 1,786 | 1,283 |
| Income tax expense | 478 | 284 |
| Net Income | \$ 1,308 | \$ 999 |
| Income Per Common Share | \$0.52 | \$0.40 |
| Reconciliation of Net Income to non-GAAP Measurement | | |
| Net income | \$ 1,308 | \$ 999 |
| Income tax expense | 478 | 284 |
| Realized investment gains, net | (142 |) (88 |
| Pretax Income From Insurance Operations | \$ 1,644 | \$ 1,195 |

Premium Revenue:

For the quarter ended March 31, 2015, gross written premium was up 2.3% compared to the same period in 2014. Moderate premium revenue growth in our property and casualty segment is the contributor to the consolidated growth in premium revenue.

For the three months ended March 31, 2015, net premium written was up 4.5% compared to the three months ended March 31, 2014. Growth in property and casualty segment gross premiums written of 3.0%, coupled with a reduction in catastrophe reinsurance cost of 11.2% were the factors contributing to the increase in net premium written and earned.

Net Income:

For the three months ended March 31, 2015, the Company had net income of \$1,308,000, \$0.52 per share, compared to net income of \$999,000, \$0.40 per share, for the same period in 2014, an increase of \$309,000. Results for the first quarter of 2015 were reflective of good results from insurance operations primarily driven by fewer reported claims from early spring cat events and a lower frequency of non-cat wind and hail losses. Reported claims from cat events were down \$385,000 compared to the same period in 2014. In addition, claims reported from non-cat wind and hail losses in the first three months of 2015 were down \$416,000 compared to the first three months of 2014.

Pretax income from insurance operations:

A primary non-GAAP financial measure used by management is pretax income from insurance operations. This

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measure consists of net income before income taxes adjusted for realized investment gains and losses. This measure provides a means of comparing the results of our core insurance operations without the impact of items that are more unpredictable and less consistent from year to year. A reconciliation of pretax income from insurance operations is presented in the table above.

For the three months ended March 31, 2015, pretax income from insurance operations was \$1,644,000 compared to \$1,195,000 for the three months ended March 31, 2014, an increase of \$449,000. The primary factor contributing to the increase in pretax income from insurance operations was the 6.4% increase in net premiums earned in the first quarter of 2015 compared to the first quarter of 2014. A slight reduction in the loss ratio of policyholder benefits as a percent of premium earned also contributed to the improved results. Policyholder benefits were 56.2% of net earned premium revenue in the first quarter of 2015 compared to 56.9% for the same period in 2014. The reduction in incurred losses was primarily driven by reduced wind related property losses resulting from a calmer early spring storm season. Finally, a reduction in general and administrative expenses also contributed to the improved insurance operating results. For the first quarter of 2015, general and administrative expenses were 13.6% of net premiums earned compared to 14.7% for the same period in 2014. A continued focus by management to improve efficiency and implement cost saving measures to reduce general and administrative expenses was the primary reason for the decline.

Overview - Balance Sheet highlights at March 31, 2015 compared to December 31, 2014

| Selected Balance Sheet Highlights (dollars in thousands) | March 31, 2015 | December 31, 2014 |
|---|----------------|-------------------|
| Invested Assets | \$111,795 | \$109,549 |
| Cash | \$7,108 | \$6,426 |
| Total Assets | \$147,016 | \$144,865 |
| Policy Liabilities | \$75,551 | \$74,115 |
| Total Debt | \$19,072 | \$19,572 |
| Accumulated Other Comprehensive Income | \$3,020 | \$2,772 |
| Shareholders' Equity | \$44,213 | \$42,757 |
| Book Value Per Share | \$17.63 | \$17.05 |

Invested Assets:

Invested assets as of March 31, 2015 were \$111,795,000 up \$2,246,000, or 2.1%, compared to December 31, 2014. The increase in invested assets was primarily due to the investment of positive cash flow from insurance operations coupled with increases in market values of available for sale securities. The increase in market value of available for sale securities also contributed to the increase in accumulated other comprehensive income to \$3,020,000 as of March 31, 2015, up \$248,000 compared to December 31, 2014.

Cash:

The Company, primarily through its insurance subsidiaries, had \$7,108,000 in cash and cash equivalents at March 31, 2015, compared to \$6,426,000 at December 31, 2014. Property and casualty segment underwriting profitability for the quarter ended March 31, 2015, coupled with growth in property and casualty segment premium revenue, contributed to \$2,933,000 in positive cash flow from operations for the quarter ended March 31, 2015. Similarly, property and casualty segment underwriting profitability help drive positive cash flow from operations the same period in 2014 totaling \$2,498,000.

Total Assets:

Total assets as of March 31, 2015 were \$147,016,000 compared to \$144,865,000 at December 31, 2014. The increase in invested assets and cash during the first quarter of 2015 were the primary contributors to the increase in total assets.

Debt Outstanding:

Total debt at March 31, 2015 was \$19,072,000 compared to \$19,572,000 at December 31, 2014. Debt was reduced \$500,000 during the first quarter in 2015. The primary reason for the decline was the reduction of balances in revolving lines of credit in the Holding Company.

Shareholders' Equity:

Shareholders' equity as of March 31, 2015 was \$44,213,000 up \$1,456,000 compared to December 31, 2014 Shareholders' equity of \$42,757,000. Book value per share was \$17.63 at March 31, 2015, compared to \$17.05 per share at December 31, 2014, an increase of \$0.58. The primary factors contributing to the increase in Shareholders' equity were net income of \$1,308,000 and other comprehensive income of \$248,000. The increase in other comprehensive income was primarily driven by increases in market values of available for sale investment securities.

Item 6. Exhibits

- 31.1 Certification Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed by the undersigned duly authorized officer, on its behalf and in the capacity indicated.

The National Security Group, Inc.
/s/ Brian R. McLeod
Brian R. McLeod
Chief Financial Officer and Treasurer

/s/ William L. Brunson, Jr.
William L. Brunson, Jr.
President, Chief Executive Officer and Director

Date: May 15, 2015