

NATIONAL SECURITY GROUP INC
Form 10-K/A
March 04, 2011

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

FORM 10-K/A
Amendment No. 1

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

Edgar Filing: NATIONAL SECURITY GROUP INC - Form 10-K/A

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

Explanatory Note

This Form 10-K/A is filed to amend Item 6 and Item 8 of the Registrant's Form 10-K for the year ended December 31, 2009 (the "2009 10-K") to report that the financial statements included in the 2009 Form 10-K for the year ended December 31, 2008 are unaudited.

The 2009 Form 10-K, as filed with the SEC on March 26, 2010, includes the audit report of the Registrant's independent auditors, Warren, Averett, Kimbrough & Marino LLC ("Warren Averett"), dated March 26, 2010, on the consolidated financial statements of the Registrant and its subsidiaries for the year ended December 31, 2009 and related financial schedules. The report refers to the audit of the consolidated financial statements of Registrant and subsidiaries for the year ended December 31, 2008, that was performed by the Registrant's predecessor auditor, Barfield, Murphy, Shank, & Smith, P.C. ("Barfield Murphy"). By letter dated December 15, 2010, Registrant received the following comment from the staff of the Securities and Exchange Commission regarding the 2009 Form 10-K:

The audit report of Warren, Averett, Kimbrough & Marino, LLC references the report of another auditor for the year ended December 31, 2008. Please file this report as reissued by the other auditor as required by Rule 2-05 of Regulation S-X.

Rule 2-05 of SEC Regulation S-X requires the separate report of the predecessor auditor to be filed in registrant's 2009 10-K. Barfield Murphy has advised the Registrant that it is not able to reissue its audit report on the 2008 financial statements for inclusion in the 2009 10-K because it is no longer independent for the reasons described below.

Registrant is a party to certain litigation involving the 2007 sale of its investment in a 50% owned subsidiary, Mobile Attic, Inc. As disclosed in Part II, Item 1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, Registrant and the other then shareholders of Mobile Attic, Inc. sold 61% of its outstanding stock to Bagley Family Revocable Trust pursuant to a Stock Purchase Agreement executed in April 2007. Under the terms of the Stock Purchase Agreement, the sellers made certain warranties regarding the financial condition of Mobile Attic, Inc. and agreed to jointly and severally indemnify purchaser for damages resulting from any breach of those warranties. Barfield Murphy was the auditor for both the Registrant and also performed a separate audit for Mobile Attic, Inc. for the years ended December 31, 2006 and 2005.

On January 9, 2009, Bagley Family Revocable Trust filed a complaint against the other sellers of the stock of Mobile Attic, Inc. that included, among other claims, a claim for damages resulting from a breach of certain warranties regarding the financial statements of Mobile Attic, Inc. and regarding the financial condition of Mobile Attic, Inc. The purchaser also included a complaint against Barfield Murphy for negligence in the preparation of the financial statements of Mobile Attic, Inc. The purchaser did not name the Registrant in its complaint, but notified Registrant of a claim for indemnity for breach of warranty by separate letter in February 2009. Registrant requested documentation supporting the indemnity claim in response to the letter; no documentation was provided. In July 2009, Registrant filed a complaint in intervention in the Mobile Attic litigation requesting the Court to find that Registrant is not liable for indemnity under the Stock Purchase Agreement. Registrant's complaint also included a third party claim against Barfield Murphy for indemnity for any liability sustained by Registrant in the litigation as a result of the negligence of Barfield Murphy in its audit of the financial statements of Mobile Attic, Inc. In August 2010, Registrant amended its complaint to dismiss the claim against Barfield Murphy without prejudice, and Barfield Murphy has agreed to toll the statute of limitation as of the date Registrant filed its complaint.

Barfield Murphy has taken the position that it is not able to reissue its audit report on the 2008 consolidated financial statements for inclusion in the 2009 Form 10-K because it is no longer independent due to its adverse position with the Registrant in the Mobile Attic litigation. Registrant believes that Barfield Murphy was independent at the time it

issued its audit report, dated March 27, 2009, with respect to the consolidated financial statements for the year ended December 31, 2008. Registrant's decision to intervene in the Mobile Attic litigation was made, and its claim against Barfield Murphy as the auditor of Mobile Attic, Inc. was first asserted, three months after the date of Barfield Murphy's audit report (March 27, 2009).

Due to the predecessor auditor's refusal to reissue their audit report, registrant has engaged its current auditor, Warren Averett, to audit its 2008 consolidated financial statements. Warren Averett did not audit the 2008 consolidated financial statements in connection with its audit of Registrant's 2009 consolidated financial statements; however, Warren Averett has advised Registrant that it should be able to perform an audit of the 2008 consolidated financial statements because it was able to perform such audit procedures as it deemed necessary to issue its 2009 audit report and because Warren Averett received cooperation from Barfield Murphy in making inquiries and reviewing work papers associated with Barfield Murphy's audit of the 2008 consolidated financial statements.

Registrant intends to file a subsequent amendment to the 2009 10-K to include its audited consolidated financial statements for the year ended December 31, 2008. The Registrant usually releases its prior year earnings in February. Although neither the Registrant nor Warren Averett expect any significant reclassifications or adjustments resulting from the audit of the 2008 consolidated financial statements, the Registrant will delay its release of earnings for the year ended December 31, 2010, to allow Warren Averett additional time to audit the 2008 consolidated financial statements and to complete its audit of the 2010 consolidated financial statements. The earnings release will be distributed, and the 2010 Form 10-K will be filed, on or before March 31, 2011. The Registrant expects to file the 2009 Form 10-K amendment including the audited 2008 consolidated financial statements no later than March 31, 2011.

Except as otherwise expressly set forth herein, all of the information in this Form 10-K/A is as of March 26, 2010, the date the Company filed the 2009 10-K with the SEC. This Form 10-K/A 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. Accordingly, this Form 10-K/A 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 this Form 10-K/A, the information contained in the 2009 10-K is unchanged and may be reviewed under the filing made on March 26, 2010.

Item 6. Selected Financial Data

Selected financial information presented in the tables below is unaudited for the period ended December 31, 2008 and as of December 31, 2008.

Five-Year Financial Information:

(Amounts in thousands, except per share)

Operating results	2009	2008 (unaudited)	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 (unaudited)	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