

NATIONAL SECURITY GROUP INC  
Form DEF 14A  
April 02, 2007

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_)**

Filed by the Registrant;

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**The National Security Group, Inc.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

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(3) Filing Party:

(4) Date Filed:





661 East Davis Street, Elba, Alabama 36323

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**MAY 4, 2007**

**To the Stockholders of The National Security Group, Inc.:**

Notice is hereby given of the Annual Meeting of Stockholders of The National Security Group, Inc., a Delaware corporation (the "Company"), to be held at the principal executive offices of the Company, 661 East Davis Street, Elba, Alabama, on Friday, May 4, 2007, at 10:00 a.m. for the purpose of considering and acting upon the following:

1. To elect four (4) members to the Board of Directors to serve three-year terms and until their successors are duly elected and qualified;
2. To ratify selection of independent auditors;
3. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

The close of business on March 12, 2007, has been fixed as the record date for determination of stockholders entitled to notice of and to vote at the Annual Meeting of Stockholders. Stockholders are cordially invited to attend the Annual Meeting in person.

The Company's Proxy Statement is submitted herewith, together with the Annual Report for the year ended December 31, 2006.

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BY ORDER OF THE BOARD OF DIRECTORS

**/s/ Bette Ham**

**Bette Ham**  
Secretary

Elba, Alabama

March 29, 2007

**YOUR VOTE IS IMPORTANT**

WHETHER OR NOT YOU EXPECT TO ATTEND IN PERSON, WE URGE YOU TO VOTE YOUR SHARES AT YOUR EARLIEST CONVENIENCE. THIS WILL ENSURE THE PRESENCE OF A QUORUM AT THE MEETING. AN ADDRESSED ENVELOPE FOR WHICH NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES IS ENCLOSED IF YOU WISH TO VOTE BY MAIL. EARLY SUBMITTAL OF YOUR PROXY WILL NOT PREVENT YOU FROM VOTING YOUR SHARES IN PERSON IF YOU DESIRE TO ATTEND, AS YOUR PROXY IS REVOCABLE AT YOUR OPTION.



661 East Davis Street, Elba, Alabama 36323

**PROXY STATEMENT**

FOR ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 4, 2007

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of The National Security Group, Inc. (the Company), to be voted at the Annual Meeting of the stockholders of the Company to be held at 10:00 a.m. (Central Time) on May 4, 2007, at the Conference Center located adjacent to the principal executive offices of the Company, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders (Annual Meeting). This Proxy Statement, dated March 29, 2007, is being mailed to holders of the Company common stock on or about March 12, 2007.

At the Annual Meeting, the stockholders of the Company will vote on matters noted in the proxy. If the enclosed proxy is properly signed and returned, your shares will be voted on all matters that properly come before the Annual Meeting for a vote. If instructions are specified in your signed proxy with respect to matters being voted upon, your shares will be voted in accordance with your instructions. If no instructions are so specified, your shares will be voted "FOR" the election of the persons nominated as directors in the proxy statement and FOR the ratification of selection of independent auditors. So far as is now known, there is no business to be acted upon at the Annual Meeting other than as set forth above, and it is not anticipated that other matters will be brought before the Annual Meeting. If, however, other appropriate matters are duly brought before the Annual Meeting, the persons appointed as proxy agents will have discretion to vote or act thereon according to their own judgment.

Whether or not you attend the Annual Meeting, your vote is important. Accordingly, you are asked to sign and return the accompanying proxy, regardless of the number of shares you own. Shares can be voted at the Annual Meeting only if the holder is present or represented by proxy. Shares of common stock represented by a properly executed and returned proxy will be treated as present at the Annual Meeting for purposes of determining a quorum without regard to whether the proxy is marked as casting a vote for or against or abstaining with respect to a particular matter. In addition, shares of common stock represented by "broker non-votes" (i.e., shares of common stock held in record name by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote, (ii) the broker or nominee does not have discretionary voting power or (iii) the record holder has indicated that it does not have authority to vote such shares on the matter) generally will be treated as present for the purposes of determining a quorum. The affirmative vote of the holders of a majority of the outstanding shares of common stock of the Company present in person or represented by proxy at the Annual Meeting and entitled to vote thereon is required for the election of the nominees to the Board of Directors. With respect to this matter, an abstention will have the same effect as a negative vote, but because shares held by brokers will not be considered entitled to vote on matters as to which brokers would hold authority, a broker non-vote will have no effect on the vote.

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The Board of Directors has fixed the close of business on March 12, 2007, as the record date for the determination of stockholders who are entitled to notice of, and to vote at the Annual Meeting and any adjournments thereof. On the record date, the Company had outstanding 2,466,600 shares of common stock, the holders of which are entitled to one vote per share. No shares of any other class of common stock are issued or outstanding.

The Company has retained Registrar and Transfer Company to assist in the distribution of proxy materials and solicitation of votes. The Company bears all costs associated with the distribution and solicitation.

### **REVOCABILITY OF PROXY**

A proxy may be revoked at any time prior to its exercise (i) by filing with the Secretary of the Company either an instrument revoking the proxy or a duly executed proxy bearing a later date or (ii) by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting by itself will not revoke a proxy.

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**ITEM 1: ELECTION OF DIRECTORS AND MANAGEMENT INFORMATION**

The Bylaws of the Company provide that the Board of Directors shall be divided into three classes as nearly equal in number as possible. The term of each director is three years and the terms are staggered to provide for the election of one class of directors each year. A total of four Directors will be elected at the Annual Meeting. The Nominees have been nominated by the Board of Directors for election to serve three-year terms: Carolyn Brunson, Frank B. O Neil, Donald Pittman and L. Brunson White. All of the Nominees are currently serving as Directors of the Company.

The persons named in the enclosed proxy intend to vote **"FOR"** the election of the Nominees unless the proxy is marked to indicate that such authorization is expressly withheld. Should any of the Nominees be unable to accept nomination or election (which the Board of Directors does not expect) or should any other vacancy have occurred in the Board, it is the intention of the persons named in the enclosed proxy to vote for the election of the person or persons whom the Board of Directors recommends.

The following tables set forth the names and certain information concerning the Nominees and each other Director who will continue to serve (the "Continuing Directors") as a Director of the Company after the Annual Meeting:

**NOMINEES**

<b>Name</b>	<b>Positions Held with the Company</b>	<b>Age at December 31, 2006</b>	<b>Director/Advisory Board Since*</b>
Carolyn Brunson	Director	80	1978
Frank B. O'Neil	Director	53	2004
Donald Pittman	Director	46	2002
L. Brunson White	Director	50	2002

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS**

**A VOTE "FOR" THE ELECTION OF THE ABOVE NOMINEES AS DIRECTORS.**

**CONTINUING DIRECTORS**

<b>Name</b>	<b>Age at December 31, 2006</b>	<b>Director Since*</b>	<b>End of Present</b>
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	<b>2006</b>		<b>Term</b>
Winfield Baird	74	1964	2008
Fleming G. Brooks	61	2004	2009
Jack E. Brunson	50	1999	2009
W. L. Brunson, Jr.	48	1999	2008
Fred Clark, Jr.	47	1996	2008
Mickey L. Murdock	64	1976	2008
Paul Wesch	50	2002	2008
Walter Wilkerson	59	1984	2009

\*In 1990 National Security Insurance Company was reorganized as a holding company system pursuant to a plan of exchange whereby The National Security Group, Inc., (the "Company"), became the holding company for National Security Insurance Company (the "Life Company"), and its prior subsidiaries: National Security Fire & Casualty Company (the "Fire Company"), and NATSCO, Inc. ("NATSCO"). Subsequently Omega One, Inc. ( Omega One ) was formed as a wholly owned subsidiary of the Fire Company. The Company also owns 50% of The Mobile Attic, Inc. References to tenure with the Company (in the above table and in the following biographical section) include the individual's tenure with the Life Company prior to the reorganization.

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Nominees

CAROLYN BRUNSON presently serves as the Managing Partner of Brunson Properties (formerly the W. L. Brunson Estate), a family partnership engaged in investments.

FRANK B. O NEIL is Senior Vice President, Corporate Communications and Investor Relations and Assistant Corporate Secretary of ProAssurance Corporation of Birmingham, Alabama. He is a member of National Investor Relations Institute and the American Society of Corporate Secretaries and is a member of the Board of Directors of the Alabama Insurance Planning Commission.

DONALD PITTMAN has been in the private practice of law since June of 1988, in Enterprise, Alabama. He is a member of the Coffee County, State of Alabama and American Bar Associations.

L. BRUNSON WHITE is Vice President and Chief Information Officer of Energen Corporation, a diversified energy company, based in Birmingham, Alabama. Mr. White has worked for Energen Corporation for 25 years in the areas of planning, development and technology.

Continuing Non-Employee Directors

WINFIELD BAIRD is a Chartered Financial Analyst, and currently a financial advisor with Baird Financial Management in Birmingham, Alabama. He previously served as President of Investment Counselors of Alabama, Inc. He was formerly a partner and manager at the Birmingham office of J. C. Bradford & Company.

FLEMING G. BROOKS is President of Brooks Peanut Company, Inc. of Samson, Alabama and various affiliates of that Company. He either serves currently or has served in the past, various positions with associations of the agricultural community.

FRED CLARK, JR. is currently Chief Operating Officer of The Alabama Municipal Electric Authority in Montgomery, Alabama. He was formerly Executive Director of The Electric Cities of Alabama, Executive Director of the Alabama Farmers Federation, President of Alabama Rural Electric Association of Cooperatives, Montgomery, Alabama, State Director for U. S. Senator Richard Shelby, Legislative Representative for National Rural Electric Cooperative Association and Legislative Assistant to U. S. Senator Howell Heflin.

PAUL WESCH currently serves on the Board of Directors and is General Counsel and Executive Vice President of The Mitchell Company, Inc., a southeastern real estate development firm in Mobile, Alabama. He is a member of the Mobile County, State of Alabama and American Bar Associations.

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WALTER WILKERSON is a certified public accountant and partner in the firm of Brunson, Wilkerson, Bowden & Associates, P.C. in Enterprise, Alabama

### Employee Directors

JACK E. BRUNSON, has served as a director since 1999 and as President of the Fire Company since 1997. He also serves on the Boards of Directors of the Fire Company and Omega One. He joined the Company in 1982. Mr. Brunson is a Chartered Property and Casualty Underwriter.

W. L. BRUNSON, JR., has served as a director since 1999 and as President and Chief Executive Officer of the Company since 2000. He also holds the position of President of the Life Company. He joined the Company in 1983. Mr. Brunson is also a Director of the Fire Company, NATSCO, the Life Company, Omega One and The Mobile Attic, Inc. Mr. Brunson is a member of the Alabama State Bar.

MICKEY L. MURDOCK has served as a director since 1976 and as Chief Operating Officer and Senior Vice President. From 1982 to 2002 he served as Chief Financial Officer and Treasurer of the Company. Prior to that time, he served as Vice President and Controller of the Company. He joined the Company in 1970. Mr. Murdock is also a Director of the Life Company, the Fire Company, Omega One, NATSCO, and The Mobile Attic, Inc. Mr. Murdock is a Certified Public Accountant.

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**INFORMATION ABOUT THE BOARD AND ITS COMMITTEES**Corporate Governance

The system of governance followed by the Company is codified in the Policy on Corporate Governance, Senior Financial Officers' Code of Ethics and the charters of the Nominating and Audit Committees of the Board of Directors. The guidelines provided in these documents are intended to give surety that the Board will have the necessary power and practices in place to review and evaluate the Company's business operations and to make decisions that are independent of the Company's management.

The corporate governance documents, including committee charters, are reviewed periodically and updated when necessary to reflect changes in practice and regulatory requirements. The Board has five committees: an Audit Committee, a Compensation Committee, a Dividend Committee, a Nominating Committee and an Executive Committee. The corporate governance policy and code ethics are both posted on the Company's website at [www.nationalsecuritygroup.com/investor](http://www.nationalsecuritygroup.com/investor). If you would like to receive a copy of the corporate governance documents, send your request in writing to The National Security Group, Inc., Office of the Corporate Secretary, 661 East Davis Street, Elba, AL 36323.

Meetings and Executive Sessions of the Board

The Board of Directors holds regularly scheduled quarterly meetings. The table below provides current membership and meeting information for each of the Board committees for the calendar year.

<b>Name</b>	<b>Audit</b>	<b>Compensation</b>	<b>Dividend</b>	<b>Nominating</b>	<b>Executive</b>
Winfield Baird				X	X
Fleming G. Brooks			X*	X	
Carolyn E. Brunson			X		X
J. E. Brunson			X		
W. L. Brunson, Jr.					X
Fred Clark, Jr.		X		X*	X
Mickey L. Murdock					
Frank B. O'Neil		X			
Donald Pittman	X*				
Paul C. Wesch		X*			
L. Brunson White	X				
Walter P. Wilkerson	X				X
Total meetings in calendar year 2006	6	3	4	1	0

\* Committee Chairperson



During the last full calendar year, the Board of Directors of the Company held four regularly scheduled and no special meetings. Executive sessions of independent directors followed each regularly scheduled board meeting. All directors attended at least 75% of the meetings of the Board of Directors and the committees on which they served during calendar year 2006. The Company has not adopted a formal policy regarding Board members' attendance at the Company's annual shareholder meetings; however, the Company encourages all Board members to attend the annual shareholder meetings. Each of the Company's directors attended the 2006 Annual Meeting of Shareholders.

The following provides a description of each committee of the Board of Directors. Each of the committees has authority to engage legal counsel or other experts or consultants at its discretion when it is believed the services of said persons are necessary to carry out the committee's responsibilities. The Board of Directors has determined that each member of each committee meets the standards of independence under the NASDAQ listing standards.

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Compensation Committee

The primary responsibilities of the Compensation Committee include: responsibility for recommending officers, setting the salaries of officers, director's fees and officer bonuses to the Board of Directors for full consideration.

Audit Committee

The Audit Committee assists the Board in its supervisory function, specifically in the oversight of the quality and integrity of the accounting, auditing, and reporting practices of the Company. Responsibilities include overseeing the Company's internal accounting function as well as compliance with applicable legal, ethical and regulatory requirements. The Committee is also charged with the appointment, compensation, retention and oversight of the Company's independent auditor. The Committee has confidence in the expertise and knowledge of management and the independent auditor. The Committee relies on management and the independent auditor in carrying out the duties with which it is charged. The Committee's duties are described in detail in the Audit Committee Charter. The Board has designated Walter P. Wilkerson as the audit committee financial expert as defined by the Securities and Exchange Commission rules.

Dividend Committee

The key responsibility of the Dividend Committee is to determine the amount of dividends paid to shareholders and recommend such payments for consideration to the full Board.

Nominating Committee

The key responsibilities of the Nominating Committee are to determine the slate of director nominees for election to the Company's Board of Directors and identify and propose candidates to fill vacancies occurring between annual shareholder meetings. No procedure has been established by the committee for considering nominations by the stockholders.

Executive Committee

The Executive Committee is empowered by the by-laws to act with the authority of the full board when necessary should events arise in which the full board is unavailable. There have been no meetings of the Executive Committee.

Independent Directors

The Board evaluates the independence of each director in accordance with applicable laws and regulations, the listing standards of the NASDAQ Stock Market and the standards set forth in the Policy on Corporate Governance. The Board has determined that the following directors are considered independent based on the aforementioned guidelines: Winfield Baird, Fleming G. Brooks, Fred Clark, Jr., Frank B. O Neil, Donald L. Pittman, Paul C. Wesch, L. Brunson White and Walter P. Wilkerson.

*Shareholder Communications with Directors*

A shareholder who would like to communicate directly with the Board, a committee of the Board, the non-employee directors as a group or with an individual director, should send the communication to:

The National Security Group, Inc.

Office of the Corporate Secretary

Board of Directors [or committee name, the non-employee directors as a group or director's name, as appropriate]

661 East Davis Street

Elba, Alabama 36323

All communications will be compiled by the Corporate Secretary of the Company and submitted to the Board on a periodic basis.

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**DIRECTORSPURVII#146; REMUNERATION**

Non-employee directors are currently paid an annual fee of \$17,000 (\$20,000 for the Chairman), plus \$1,000 per meeting attended and mileage reimbursement of \$.345 per mile. In addition the following committee fees will be paid for each Board Committee on which he/she serves: (1) telephonic meetings - \$250, (2) meetings held before/after a regular Board meeting - \$250, (3) meetings other than (1) and (2) above, requiring travel and physical presence - \$500 plus travel. Employee directors are excluded from compensation.

Effective January 1, 2006, a new deferred compensation plan was adopted. This plan allows the director to defer from 1% to 100% of the otherwise cash compensation into an elective account for investment into selected mutual funds. All accounts under the plan are funded with the director's quarterly compensation and do not represent claims against specific assets of the company.

**STOCK OWNERSHIP OF DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS**

The following table sets forth information as of December 31, 2006, as to the number of shares of Company common stock beneficially owned by (a) each of the Company's directors, (b) the nominees for director and (c) the directors and executive officers of the Company as a group.

**SHARES OF COMMON STOCK BENEFICIALLY OWNED**

<b>Names</b>	<b>Number of Shares Owned</b>	<b>1</b>	<b>Percent of Common Stock</b>
Winfield Baird	118,409		4.80%
Carolyn E. Brunson	389,175	2	15.78%
J. E. Brunson	67,015		