

NATIONAL SECURITY GROUP INC
Form DEF 14A
April 04, 2014

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

SCHEDULE 14A INFORMATION

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 under §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)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

The filing fee of \$ was calculated on the basis of the information that follows:

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (3) Proposed maximum aggregate value of transaction:
- (4) Total fee paid:
- (5)

- o Fee paid previously with preliminary materials.
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for
- o which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

661 East Davis Street, Elba, Alabama 36323
Notice of Annual Meeting of Stockholders
May 16, 2014

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 16, 2014, at 10:00 a.m. for the purpose of considering and acting upon the following:

1. The election of four (4) members to the Board of Directors to serve three-year terms until their successors are duly elected and qualified (Proposal One);
2. To ratify selection of independent auditors (Proposal Two);
3. To approve, on an advisory basis, the compensation of the Company's named executive officers, as disclosed in this proxy statement (Proposal Three);
4. The transaction of such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

The close of business on March 14, 2014, 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.

In addition to voting by proxy, you may use the internet to transmit your voting instructions. Online voting is available at www.proxyvote.com. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 15, 2014. Telephone voting is available by calling 1-800-690-6903. Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 15, 2014. Have your proxy card in hand when you call and then follow the instructions.

The Company's Proxy Statement is submitted herewith, together with the Annual Report for the year ended December 31, 2013, and is also available in the "Investors" section of our website at www.nationalsecuritygroup.com. You may also request a copy through www.proxyvote.com using your Control Number.

BY ORDER OF THE BOARD OF
DIRECTORS

Elba, Alabama
April 4, 2014

Laura Williams Jordan
Secretary

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.

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661 East Davis Street, Elba, Alabama 36323

Proxy Statement

For Annual Meeting of Stockholders

May 16, 2014

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 Stockholders of the Company to be held at 10:00 a.m. (Central Time) on May 16, 2014, 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"). Any reference to "the Group" or any use of the terms "Company," "we," "us" or "our" in this proxy statement refers to The National Security Group, Inc. This proxy statement, dated April 4, 2014, is being mailed to holders of the Company common stock on or about March 14, 2014.

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, "FOR" the ratification of selection of independent auditors and "FOR" the approval of the compensation of the Company's named executive officers as disclosed in this proxy statement. 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.

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.

Voting Securities and Securities Ownership

The Board of Directors has fixed the close of business on March 14, 2014, 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 2,494,480 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

Broadridge Financial Solutions, Inc. to assist in the distribution of proxy materials and solicitation of votes. The Company bears all costs associated with the distribution and solicitation.

Proposal One: Directors are elected by a plurality of the votes cast at the Annual Meeting on this proposal, and the three nominees who receive the most votes will be elected. Your vote is important. Whether or not you expect to attend in person, we urge

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you to vote your shares at your earliest convenience. 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.

Your brokerage firm or other nominee may not vote your shares with respect to Proposal One without specific instructions from you as to how to vote with respect to the election of each of the four nominees for director, because election of directors is not considered a "routine" matter under the NASDAQ rules. Abstentions and broker non-votes represented by submitted proxies will not be taken into account in determining the outcome of the election of directors.

Proposal Two: To be approved, this proposal must receive an affirmative majority of the total votes cast "FOR" and "AGAINST" this proposal at the meeting. Proposal Two is considered a "routine" matter under the NASDAQ rules and, therefore, brokerage firms and nominees that are members of the NASDAQ have the authority under those rules to vote their customers' unvoted shares on Proposal Two if the customers have not furnished voting instructions within a specified period of time prior to the Meeting.

Proposal Three: To be approved, this proposal must receive an affirmative majority of the total votes cast "FOR" and "AGAINST" this proposal at the meeting without regard to broker non-votes or abstentions.

Stock Ownership of Directors, Nominees and Executive Officers

The following table sets forth information with respect to the holdings of: (1) each person known to us to be the beneficial owner of more than 5% of our common stock; (2) directors, nominees for director and executive officers; and (3) all directors and executive officers as a group. This information is as of the Record Date, except as otherwise indicated. To the best of our knowledge, each of the persons named in the table below as beneficially owning the shares set forth therein has sole voting power and sole investment power with respect to such shares, unless otherwise indicated.

Names	Number of Shares Owned	¹	Percent of Common Stock	
Carolyn E. Brunson**	384,375	2	15.41	%
Fred Clark, Jr.	124,242	5	4.98	%
Winfield Baird	119,758		4.80	%
Jack E. Brunson	119,383	3	4.79	%
W. L. Brunson, Jr.	78,256	4	3.14	%
Donald S. Pittman	49,924	7	2.00	%
Mickey L. Murdock	26,407		1.06	%
James B. Saxon**	23,112		*	
Fleming G. Brooks	14,550		*	
Brian R. McLeod	14,067		*	
Walter P. Wilkerson	9,956		*	
Paul C. Wesch	9,588		*	
L. Brunson White	9,038	8	*	
Frank B. O'Neil	4,128		*	
Directors and Officers (as a group, 16 persons including persons named above)	1,010,467	6	40.51	%

* Less than 1%

** Director Emeritus (non-voting member of the board)

¹For purposes of this table, an individual is considered to "beneficially own" any shares of the Company if he or she directly or indirectly has or shares (i) voting power, which includes power to vote or direct voting of the shares; or (ii)

investment power, which includes the power to dispose or direct the disposition of the shares. All amounts include stock held in a spouse's name.

²Includes stock held in Brunson Properties, a partnership (W.L. Brunson Estate), Carolyn E. Brunson and W. L. Brunson, Jr., Managing Partners.

³Includes 45,641 shares held in Jack R. Brunson Estate.

⁴Includes 65,540 shares held by the Jerry B. Brunson Marital Trust and the Jerry B. Brunson Family Trust. Sara B. Brunson and W. L. Brunson, Jr. co-trustees. W. L. Brunson, Jr. disclaims beneficial ownership of these shares.

⁵Includes 119,877 shares held in Trust by Clark's Investment Group, Ltd.

⁶Includes 36,140 units held in 401-K plan.

⁷Includes 30,000 shares held by the JE and Marjorie B. Pittman Family Trust. John E. Pittman, III and Donald S. Pittman co-trustees.

⁸L. Brunson White resigned from the Board on April 14, 2013.

On January 18, 2013, the Board of Directors of National Security Group, Inc. adopted the recommendation of its Compensation Committee that established a stock ownership target for Independent Directors of 3,000 shares or an amount of shares equal to three years' annual Board cash compensation, whichever amount of shares is greater. The stock ownership target is intended to encourage Director ownership of National Security Group, Inc. common stock so as to further align the interests of the Independent Directors with the shareholders. Directors will obtain, then maintain, this level of stock ownership within their first three years of Board service, or within two years from the enactment of this policy.

Proposal One: Election of Directors

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. At the Annual Meeting, our stockholders will elect three directors to hold office until the 2017 Annual Meeting and until their respective successors have been duly elected and qualified. The Board of Directors, upon the recommendation of the Nominating Committee, has nominated the following directors, to serve again as directors until the 2017 Annual Meeting and until their respective successors have been duly elected and qualified:

W. L. Brunson, Jr.,
55 President/CEO

W. L. Brunson, Jr. has served as a director since 1999 and as President and Chief Executive Officer of the Company since 2000. He holds the position of President of NSIC. He joined the Company in 1983. Mr. Brunson is a Director of NSFC, NATSCO, NSIC and Omega One. Mr. Brunson is also a member of the Alabama State Bar. Mr. Brunson has extensive knowledge of the insurance industry and regulation as well as significant experience in the areas of operations, corporate strategy, structure and law.

Elba, Alabama

Term Expires 2014
Director since 1999

NSEC Board and Board Committees	Meeting Attendance
Board of Directors	4 of 4 100%
Executive Committee	None during 2013

Fred Clark, Jr., 53
Nominating Committee
Chairman

Fred Clark, Jr. is currently President and Chief Executive Officer of Alabama Municipal Electric Authority in Montgomery, Alabama. He was formerly Executive Director of The Electric Cities of Alabama and 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. Mr. Clark has extensive leadership skills, experience in government relations, experience in heavily regulated industry, financial acumen developed through his extensive executive and board experience, and has developed significant industry knowledge through his tenure as a director.

Matthews, Alabama

Term Expires 2014	\$	4,120	
Blue Sky Fees and Expenses*			1,000
Legal Fees and Expenses*			50,000
Printing Expenses*			12,000
Accounting Fees and Expenses*			25,000
Miscellaneous*			5,000
Total Expenses	\$		97,120

* Estimated

Item 15. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law (DGCL) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney s fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Section 145 further provides that a corporation similarly may indemnify any such person serving in any such capacity who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor, against expenses actually and reasonably incurred in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or such other court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnify for such expenses which the Court of Chancery or such other court shall deem proper.

Section 102(b)(7) of the DGCL permits a corporation to include in its certificate of incorporation a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director s duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (relating to unlawful payment of dividends and unlawful stock purchase and redemption) or (iv) for any transaction from which the director derived an improper personal benefit.

The Registrant s Certificate provides that the Company s Directors shall not be liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director except to the extent that exculpation from liabilities is not permitted under the DGCL as in effect at the time such liability is determined. The Registrant s Certificate further provides that the Registrant shall indemnify its directors and officers to the fullest extent permitted by the DGCL.

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The Company has a liability insurance policy in effect which covers certain claims against any officer or director of the Company by reason of certain breaches of duty, neglect, errors or omissions committed by such person in his or her capacity as an officer or director.

For the undertaking with respect to indemnification, see Item 17 herein.

Item 16. Exhibits

	<u>Title of Exhibit</u>
5.1	Opinion of Ropes & Gray LLP.
12	Computation of the Ratio of Combined Fixed Charges and Preferred Stock Dividends to Earnings.
23.1	Consent of Microvision, Inc.'s Independent Registered Public Accounting Firm.
23.2	Consent of Lumera Corporation's Independent Registered Public Accounting Firm.
23.3	Consent of Ropes & Gray LLP (included in the opinion filed as Exhibit 5.1).
24.1	Powers of Attorney.

Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions set forth in Item 15 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

a. To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

b. To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission

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pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement.

c. To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (1)(a) and (1)(b) do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

Provided further, however, that paragraphs (1)(a) and (1)(b) do not apply if the registration statement is for an offering of asset-backed securities on Form S-1 or Form S-3, and the information required to be included in a post-effective amendment is provided pursuant to Item 1100(c) of Regulation AB.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) If the registration is a foreign private issuer, to file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, *provided* that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to registration statements on Form F-3, a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Act or Rule 3-19 of this chapter if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Form F-3.

The undersigned registrant hereby undertakes to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by the underwriters during the subscription period, the amount of unsubscribed securities to be purchased by the underwriters, and the terms of any subsequent reoffering thereof. If any public offering by the underwriters is to be made on terms differing from those set forth on the cover page of the prospectus, a post-effective amendment will be filed to set forth the terms of such offering.

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Pursuant to the requirement of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated below on the 31st day of August, 2005.

<u>Signature</u>	<u>Title</u>
/s/ RICHARD F. RUTKOWSKI	
_____ Richard F. Rutkowski	Chief Executive Officer and Director (Principal Executive Officer)
/s/ RICHARD A. RAISIG	
_____ Richard A. Raisig	Chief Financial Officer (Principal Financial Officer)
/s/ JEFF WILSON	
_____ Jeff Wilson	Vice President, Accounting (Principal Accounting Officer)
*	
_____ Jacqueline Brandwynne	Director
*	
_____ Richard A. Cowell	Director
*	
_____ Slade Gorton	Director
*	
_____ Walter J. Lack	Director
*	
_____ Robert A. Ratliffe	Director
*	
_____ Dennis J. Reimer	Director
*	
_____ Claudio Ruben	
/s/ STEPHEN R. WILLEY	
_____ Stephen R. Willey	Director and President, Consumer Solutions

By: /s/ THOMAS M. WALKER

Thomas M. Walker
Attorney-in-fact

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EXHIBIT INDEX

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