

State Auto Financial CORP
Form DEF 14A
April 05, 2011
Table of Contents

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

STATE AUTO FINANCIAL CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Edgar Filing: State Auto Financial CORP - Form DEF 14A

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) 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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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 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.

Edgar Filing: State Auto Financial CORP - Form DEF 14A

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

STATE AUTO FINANCIAL CORPORATION
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of

STATE AUTO FINANCIAL CORPORATION:

Notice is hereby given that the Annual Meeting of Shareholders of State Auto Financial Corporation (the Company or STFC) will be held at the Company's principal executive offices located at 518 East Broad Street, Columbus, Ohio, on May 6, 2011, at 10:00 a.m., local time, for the following purposes:

1. To elect three Class II directors, each to hold office for a three-year term and until a successor is elected and qualified, and one Class III director to hold office for a one-year term (the remaining term for that class of directors) and until a successor is elected and qualified;
2. To consider and vote upon a proposal to amend the Company's 2009 Equity Incentive Compensation Plan;
3. To ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2011;
4. To consider and vote upon, on a non-binding and advisory basis, the compensation of the Company's named executive officers as disclosed in this Proxy Statement for the 2011 Annual Meeting of Shareholders;
5. To consider and vote upon, on a non-binding and advisory basis, whether future advisory votes on executive compensation should occur every year, every two years or every three years; and
6. To transact such other business as may properly come before the meeting or any adjournment thereof.

The close of business on March 11, 2011, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting and any adjournment thereof.

In order that your shares may be represented at this meeting and to assure a quorum, please indicate your voting instructions by telephone, via the Internet or by signing and returning the enclosed proxy promptly. Instructions for indicating your voting instructions by telephone or via the Internet are included on the enclosed proxy. A return addressed envelope, which requires no postage, is enclosed if you choose to submit your voting instructions by mail. In the event you are able to attend and wish to vote in person, at your request we will cancel your proxy.

By Order of the Board of Directors

JAMES A. YANO

Secretary

Dated: April 5, 2011

Table of Contents**PROXY STATEMENT TABLE OF CONTENTS**

	Page
<u>General</u>	1
<u>Proxies and Voting</u>	1
<u>Proposal One: Election of Directors</u>	3
<u>Nominees for Class II and Class III Directors</u>	3
<u>Backgrounds of Class II Director Nominees (Terms expiring in 2014)</u>	3
<u>Background of Class III Director Nominee (Term expiring in 2012)</u>	4
<u>Backgrounds of Continuing Class III Directors (Terms expiring in 2012)</u>	4
<u>Backgrounds of Continuing Class I Directors (Terms expiring in 2013)</u>	5
<u>Majority Voting Policy for Incumbent Directors</u>	6
<u>Beneficial Ownership Information for Directors and Named Executive Officers</u>	7
<u>Proposal Two: Approval of Amendment to 2009 Equity Incentive Compensation Plan</u>	8
<u>Proposal</u>	8
<u>Summary of the Plan</u>	8
<u>Number of Awards</u>	12
<u>Federal Income Tax Information</u>	13
<u>Reasons for Shareholder Approval</u>	14
<u>Proposal Three: Ratification of Selection of Independent Registered Public Accounting Firm</u>	15
<u>Proposal Four: Advisory Vote on Compensation Paid to Named Executive Officers as Disclosed in this Proxy Statement</u>	16
<u>Proposal Five: Advisory Vote on the Frequency of Conducting Future Advisory Votes on Executive Compensation</u>	17
<u>Board of Directors and Board Committees</u>	18
<u>Board Meetings</u>	18
<u>Board Committees and Committee Meetings</u>	18
<u>Compensation of Outside Directors and Outside Director Compensation Table</u>	19
<u>Corporate Governance</u>	22
<u>Director Independence</u>	22
<u>Communications with the Board</u>	22
<u>Director Attendance at Annual Meeting of Shareholders</u>	22
<u>Executive Sessions of Independent Directors</u>	22
<u>Nomination of Directors</u>	22
<u>Board Leadership</u>	24
<u>Risk Oversight</u>	25
<u>Shareholder Rights</u>	26
<u>Other Governance Issues of Interest</u>	27
<u>Availability of Corporate Governance Documents</u>	28
<u>Compensation Discussion and Analysis</u>	29
<u>Summary of Executive Compensation for 2010</u>	30
<u>How the Amount of Executive Compensation Is Determined</u>	31
<u>Executive Compensation Program Elements</u>	34
<u>Contractual Arrangements with Named Executive Officers</u>	47
<u>Tax Deductibility of Executive Compensation</u>	48
<u>Stock Ownership Guidelines</u>	49
<u>Summary Compensation Table for 2010</u>	50
<u>Grants of Plan-Based Awards in 2010</u>	53
<u>Outstanding Equity Awards at Fiscal 2010 Year-End</u>	55
<u>Option Exercises and Stock Vested in Fiscal 2010</u>	56
<u>Retirement Plans</u>	56
<u>Pension Benefits in Fiscal 2010</u>	57
<u>Deferred Compensation Plans</u>	58
<u>Nonqualified Deferred Compensation for Fiscal 2010</u>	59
<u>Employment Agreements with Named Executive Officers</u>	59

Table of Contents

	Page
<u>Change of Control Agreements with Named Executive Officers</u>	61
<u>Potential Payments Upon Termination or Change in Control</u>	63
<u>Compensation Committee Interlocks and Insider Participation</u>	72
<u>Compensation Committee Report</u>	72
<u>Report of the Audit Committee</u>	73
<u>Principal Holders of Voting Securities</u>	75
<u>Equity Compensation Plan Information</u>	75
<u>1998 State Auto Agent's Stock Option Plan</u>	76
<u>Related Person Transactions</u>	77
<u>Policies and Procedures for Review and Approval of Related Person Transactions</u>	77
<u>Transactions Involving State Auto Mutual</u>	77
<u>Independent Registered Public Accounting Firm</u>	80
<u>General</u>	80
<u>Audit and Other Services Fees</u>	80
<u>Audit Committee's Pre-Approval Policies and Procedures</u>	81
<u>Future Shareholder Proposals</u>	81
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	82
<u>Other Matters</u>	82
<u>Exhibit A 2009 Equity Incentive Compensation Plan of State Auto Financial Corporation, as proposed to be amended</u>	A-1

Table of Contents

STATE AUTO FINANCIAL CORPORATION

PROXY STATEMENT

GENERAL

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of State Auto Financial Corporation (the Company or STFC) to be used at its Annual Meeting of Shareholders to be held May 6, 2011 (the Annual Meeting). Shares represented by properly executed proxies will be voted at the Annual Meeting in accordance with the choices indicated on the proxy. A proxy may be revoked at any time, insofar as it has not been exercised, by delivery to the Company of a subsequently dated proxy or by giving notice of revocation to the Company in writing or in open meeting. A shareholder's presence at the Annual Meeting does not by itself revoke the proxy.

The mailing address of the principal executive offices of the Company is 518 East Broad Street, Columbus, Ohio 43215. The approximate date on which this Proxy Statement and the form of proxy are first being sent or given to shareholders is April 5, 2011.

This Proxy Statement, the form of proxy, and the Company's 2010 Annual Report to Shareholders are available at www.proxyvote.com.

PROXIES AND VOTING

The close of business on March 11, 2011 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. On the record date there were outstanding and entitled to vote 40,173,353 of the Company's common shares, without par value (the Common Shares). Each Common Share is entitled to one vote.

A quorum must be present at the Annual Meeting in order for the transaction of business to occur. A quorum is present if a majority of the outstanding Common Shares is present in person or by proxy at the Annual Meeting. Abstentions and broker non-votes will be considered as Common Shares present at the Annual Meeting for purposes of determining the presence of a quorum.

Broker non-votes and broker discretionary voting refer to the rules governing whether or not banks, brokers and other intermediaries (hereafter referred to collectively as brokers) may vote Common Shares held in street name for the benefit of their customers. In general, brokers have discretionary voting authority on behalf of their customers with respect to routine matters when they do not receive timely voting instructions from their customers. Brokers do not have discretionary voting authority on behalf of their customers with respect to non-routine matters, and a broker non-vote occurs when a broker does not receive voting instructions from its customer on a non-routine matter.

For Proposal One (election of Class II and Class III directors), the nominees receiving the highest number of votes will be elected as directors. Shareholders do not have the right to cumulate their votes in the election of directors. Abstentions will not be counted in determining the votes cast for the election of directors and will not have a positive or negative effect on the outcome of the election. Proposal One is considered a non-routine matter under the broker discretionary voting rules, and therefore, brokers may not vote uninstructed Common Shares in

Table of Contents

the election of directors. Accordingly, if you hold your Common Shares in street name and you do not provide voting instructions to your broker as to how you want your Common Shares voted in the election of directors, no vote will be cast on your behalf. Therefore, it is important that you provide voting instructions to your broker if you want your vote to count in the election of directors.

For Proposal Two (approval of the amendment of the 2009 Equity Incentive Compensation Plan), the vote required to approve this Proposal is the favorable vote of a majority of the outstanding Common Shares voted on such Proposal. Abstentions will have the same effect as a vote against it. Proposal Two is considered a non-routine matter, so if you do not instruct your broker as to how you want your Common Shares voted on this Proposal, no vote will be cast on your behalf. Therefore, it is important that you provide voting instructions to your broker if you want your vote to count regarding Proposal Two.

For Proposal Three (ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm), the vote required to approve such Proposal is the favorable vote of a majority of the outstanding Common Shares that are voted on such Proposal. Abstentions will have the same effect as a vote against it. This Proposal is considered a routine matter, which means that if you hold your Common Shares in street name and do not provide, in a timely manner, voting instructions to your broker as to how you want your Common Shares voted on Proposal Three, your broker may vote your Common Shares on this Proposal at its discretion.

Proposal Four (vote on compensation to the Company's named executive officers as described in this Proxy Statement) and Proposal Five (vote on the frequency of future advisory votes on executive compensation) are advisory only and therefore are not binding on our Board of Directors. However, the Compensation Committee may take into account the outcome of Proposal Four when considering future executive compensation arrangements. With respect to Proposal Five, the option of either every year, every two years or every three years that receives the highest number of outstanding Common Shares voted on such Proposal will be considered the preference of the shareholders. Abstentions on Proposals Four and Five have the same effect as not voting or expressing a preference, as the case may be, and will not have a positive or negative effect on the outcome of these Proposals. Proposals Four and Five are considered non-routine matters, so if you do not instruct your broker as to how you want your Common Shares voted on these Proposals, no vote will be cast on your behalf.

All Common Shares represented by properly executed proxies will be voted at the Annual Meeting in accordance with the choices indicated on the proxy. If no choices are indicated on a proxy, the Common Shares represented by that proxy will be voted as follows: (1) for the election of the nominees listed in this Proxy Statement as Class II and Class III directors; (2) for the approval of the amendment to the 2009 Equity Incentive Compensation Plan; (3) for the ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2011; (4) for the approval of the compensation of the Company's named executive officers as disclosed in this Proxy Statement; and (5) in favor of holding an advisory vote on executive compensation every year. Any proxy may be revoked at any time prior to its exercise by delivering to the Company a subsequently dated proxy or by giving notice of revocation to the Company in writing or in open meeting. A shareholder's presence at the Annual Meeting does not by itself revoke the proxy.

STATE AUTOMOBILE MUTUAL INSURANCE COMPANY (STATE AUTO MUTUAL), WHICH OWNS APPROXIMATELY 63% OF THE OUTSTANDING COMMON SHARES, HAS EXPRESSED AN INTENTION TO VOTE FOR THE ELECTION OF THE NOMINEES LISTED IN THIS PROXY STATEMENT, IN FAVOR OF EACH OF PROPOSALS TWO, THREE AND FIVE, AND IN FAVOR OF HOLDING AN ADVISORY VOTE ON EXECUTIVE COMPENSATION EVERY YEAR.

Table of Contents

PROPOSAL ONE: ELECTION OF DIRECTORS

Nominees for Class II and Class III Directors

The number of directors currently is fixed at nine. Our Board of Directors is divided into three classes, Class I, Class II and Class III, with three directors in each Class. The term of office of directors in one Class expires annually at each annual meeting of shareholders at such time as their successors are elected and qualified. Directors in each Class are elected for three-year terms.

The term of office of the Class II directors expires concurrently with the holding of the Annual Meeting. David J. D. Antoni, David R. Meuse and S. Elaine Roberts, the three persons recommended by the Nominating and Governance Committee of our Board and each of whom is an incumbent Class II director, have been nominated for re-election as Class II directors at the Annual Meeting.

Eileen A. Mallesch was elected by the board of directors in August 2010 to fill a vacancy among the Class III directors. In accordance with our Corporate Governance Guidelines, our shareholders will be given the opportunity to elect Ms. Mallesch as a director at our Annual Meeting. On the recommendation of the Nominating and Governance Committee, our board has nominated Ms. Mallesch for re-election as a Class III director at the Annual Meeting for a one-year term expiring at the 2012 annual meeting of shareholders.

At the Annual Meeting, it is the intention of the persons named in the accompanying form of proxy, unless a contrary position is indicated on such proxy, to vote the proxy for the election of the three nominees named below as Class II directors, each to hold office until the 2014 annual meeting of shareholders and until a successor is elected and qualified, and for the election of the person named below as a nominee for Class III director to hold office until the 2012 annual meeting of shareholders and until a successor is elected and qualified. Each of the nominees has consented to being named in this Proxy Statement and to serve if elected. In the event that any nominee named below is unable to serve (which is not anticipated), the persons named in the proxy may vote it for another nominee of their choice.

Proxies cannot be voted at the Annual Meeting for a greater number of persons than the four nominees named in this Proxy Statement.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE THREE NOMINEES NAMED BELOW AS CLASS II DIRECTORS AND FOR THE ELECTION OF THE PERSON NAMED BELOW AS A NOMINEE FOR CLASS III DIRECTOR.

Backgrounds of Class II Director Nominees (Terms expiring in 2014)

David J. D. Antoni

David J. D. Antoni, 66, has been a director since 1995. Mr. D. Antoni served as Senior Vice President and Group Operating Officer for Ashland, Inc., a chemical, energy and transportation construction company, from March 1999 until his retirement in September 2004. He also served as President of APAC, Inc., a subsidiary of Ashland, Inc., from July 2003 until January 2004, and Senior Vice President of Ashland, Inc. and President, Ashland Chemical, a division of Ashland, Inc., from July 1988 until March 1999. Mr. D. Antoni is also a director of OMNOVA Solutions Inc., a publicly traded producer of decorative and functional surfaces, coatings and specialty chemicals, and Compass Minerals International, Inc., a publicly traded producer and distributor of inorganic minerals.

Mr. D. Antoni has been nominated for re-election as a director because of his experience as a senior executive of a publicly traded company, his experience as a director of publicly traded companies, and his knowledge with general management, acquisitions and divestitures. In addition, Mr. D. Antoni brings significant expertise in regulatory and environmental, health and safety matters to the Board.

Table of Contents

David R. Meuse

David R. Meuse, 66, has been a director since 2006. Mr. Meuse has served as Principal of Stonehenge Financial Holdings, Inc., a privately held provider of financial and advisory resources, since September 1999. Prior to that time, Mr. Meuse held executive positions at various investment banking firms, including Banc One Capital Holdings Corporation and Meuse, Rinker, Chapman, Endres & Brooks. He is also a director and currently serves as Non-Executive Chairman of the Board of Diamond Hill Investment Group, Inc., a publicly traded company providing investment advisory and fund administration services. Mr. Meuse also serves on the board of directors of several privately held companies and non-profit organizations.

Mr. Meuse has been nominated for re-election as a director because of his experience as a senior executive, his experience as a director of publicly traded companies, and his knowledge with acquisitions and divestitures. In addition, Mr. Meuse brings significant expertise in investments, investment management, and financial market matters to the Board.

S. Elaine Roberts

S. Elaine Roberts, 58, has been a director since 2002. Ms. Roberts has served as President and Chief Executive Officer of the Columbus Regional Airport Authority, a public port authority which oversees the operations of Port Columbus International, Rickenbacker International and Bolton Field airports in Franklin County, Ohio, since January 2003. She served as Executive Director of the Columbus Airport Authority from December 2000 until accepting her current position.

Ms. Roberts has been nominated for re-election as a director because of her experience as a senior executive, in particular her senior management experience with the operation of a regulated entity. Ms. Roberts also has a legal background as an attorney, and she brings gender diversity to the Board.

Background of Class III Director Nominee (Term expiring in 2012)

Eileen A. Mallesch

Eileen A. Mallesch, 55, has been a director since August 2010. Ms. Mallesch served as Senior Vice President and Chief Financial Officer of Nationwide Property and Casualty Insurance Company from November 2005 to December 2009. She served as Senior Vice President and Chief Financial Officer of Genworth Life Insurance Company from April 2003 to November 2005. Prior to that, she was Vice President and Chief Financial Officer of General Electric Financial Employer Services Group from 2000 to 2003. Ms. Mallesch is also a director of Bob Evans Farms, Inc., a publicly traded restaurant and food products company.

Ms. Mallesch has been nominated for re-election as a director because of her extensive knowledge and experience in the areas of auditing, finance, enterprise risk management, taxation and mergers and acquisitions, in particular in the insurance industry. She also brings gender diversity to the Board.

Backgrounds of Continuing Class III Directors (Terms expiring in 2012)

Robert P. Restrepo, Jr.

Robert P. Restrepo, Jr., 60, has been a director since 2006, when he was appointed to the Board in connection with being retained as President and Chief Executive Officer of the Company. Mr. Restrepo has served as the Chairman of the Board, President and Chief Executive Officer of the Company, State Auto Property & Casualty Insurance Company (State Auto P&C), Milbank Insurance Company (Milbank) and Farmers Casualty Insurance Company (Farmers Casualty), each a wholly owned subsidiary of the Company, and of State Auto Mutual, since 2006. He served as Senior Vice President, Insurance Operations, for Main Street America Group, a property and casualty insurance underwriting business, from April 2005 until accepting his

Table of Contents

positions with State Auto. He also served as President and Chief Executive Officer for two property and casualty insurance subsidiaries of Allmerica Financial Corporation (now known as Hanover Insurance Group) from 1998 to 2003.

Mr. Restrepo was originally appointed to serve as a director because of his extensive and valuable experience in operations, marketing, sales, and general management of a property and casualty insurance company. He also has valuable experience in acquisitions, strategic planning and leadership development.

Paul S. Williams

Paul S. Williams, 51, has been a director since 2003. Mr. Williams has served as a Managing Director with Major, Lindsey & Africa, LLC, an attorney search consulting firm, since May 2005. He was an officer of Cardinal Health, Inc., a global provider of products and services to healthcare providers and manufacturers, for more than five years prior to that time, last serving as that company's Executive Vice President, Chief Legal Officer and Secretary. Mr. Williams is also a director of Bob Evans Farms, Inc., a publicly traded restaurant and food products company, and Compass Minerals International, Inc., a publicly traded producer and distributor of inorganic minerals.

Mr. Williams was originally nominated to serve as a director because of his experience as a lawyer and as the General Counsel of a publicly traded company and his knowledge in acquisitions and divestitures, legal and regulatory matters. Mr. Williams also brings racial diversity to the Board. In addition, Mr. Williams brings significant expertise in human resources, leadership development and executive compensation policy matters to our Board. He is a well-respected leader in the area of diversity, frequently speaking on diversity-related issues.

Backgrounds of Continuing Class I Directors (Terms expiring in 2013)

Robert E. Baker

Robert E. Baker, 64, has been a director since 2007. Mr. Baker has served as Executive Vice President of DHR International, Inc., an executive search firm, since June 2010. Mr. Baker was President of Puroast Coffee Inc., a maker of specialty coffee products, from October 2004 until accepting his current position. He served as Vice President of Corporate Marketing for ConAgra Foods, Inc., one of North America's largest packaged food companies, from April 1999 to October 2004. Mr. Baker was a director of CoolBrands International Inc., a publicly traded Canadian corporation focused on the marketing and selling of a broad range of ice cream and frozen snack products, from February 2006 to November 2007. He was also a director of Natural Golf Corporation, a publicly traded company offering golf instruction and equipment focused on delivering a total system for improving the play of golfers of all abilities, from January 2004 to July 2006.

Mr. Baker was last nominated in 2010 to serve as a director because of his experience as a senior executive of both publicly traded and privately held companies and his former experience as a director of publicly traded companies. He also brings racial and geographic diversity to the Board. In addition, Mr. Baker brings significant expertise in marketing, strategic planning and branding to the Board.

Thomas E. Markert

Thomas E. Markert, 53, has been a director since 2007. Mr. Markert has served as Chief Marketing Officer of the Business Solutions Division of Office Depot, Inc., a global supplier of office products and services, since May 2008. He served as the Chief Executive Officer of Ipsos Loyalty Worldwide, a division of Ipsos, a leading global provider of survey-based research, from May 2007 until accepting his current position. He also served as Global Chief Marketing and Client Service Officer of AC Nielsen, a leading global provider of marketing research and information services, from January 2004 until May 2007. For more than five years prior thereto, Mr. Markert held various executive positions within AC Nielsen.

Table of Contents

Mr. Markert was last nominated in 2010 to serve as a director because of his experience as a senior executive of both publicly traded and privately held companies. He also brings geographic diversity to the Board. In addition, Mr. Markert brings significant expertise in marketing, branding and market research to the Board.

Alexander B. Trevor

Alexander B. Trevor, 66, has been a director since 2006. Mr. Trevor has served as President of Nuvocom Incorporated, a provider of patent litigation support services, since October 1996. He was a director of Applied Innovation Inc., a publicly traded provider of network management solutions for the communications industry, from 1997 to May 2007.

Mr. Trevor was last nominated in 2010 to serve as a director because of his experience as a senior executive and his former experience as a director of a publicly traded company. He also brings geographic diversity to the Board. In addition, Mr. Trevor brings expertise in information technology and computer systems to the Board.

Majority Voting Policy for Incumbent Directors

Our Board of Directors has adopted a majority voting policy for incumbent directors (the Majority Voting Policy) which is reflected in our Corporate Governance Guidelines. The Majority Voting Policy provides that if a nominee for director who is an incumbent director does not receive the vote of at least the majority of the votes cast at any meeting for the election of directors at which a quorum is present, and no successor has been elected at such meeting, then that incumbent director will promptly tender his or her resignation to the Board of Directors. For purposes of the Majority Voting Policy, a majority of votes cast means that the number of Common Shares voted for a director's election exceeds 50% of the number of votes cast with respect to that director's election or, in the case where the number of nominees exceeds the number of directors to be elected, cast with respect to election of directors generally. Votes cast (i) include votes to withhold authority in each case, and (ii) exclude abstentions with respect to that director's election or, in the case where the number of nominees exceeds the number of directors to be elected, abstentions with respect to election of directors generally.

The Nominating and Governance Committee will make a recommendation to our Board of Directors as to whether to accept or reject the tendered resignation, or whether other action should be taken. Our Board of Directors will act on the tendered resignation, taking into account the Nominating and Governance Committee's recommendation, and publicly disclose (by a press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the certification of the election results. The Nominating and Governance Committee, in making its recommendation, and our Board of Directors, in making its decision, may each consider any factors or other information that the Committee or Board, as the case may be, considers appropriate and relevant. The director who tenders his or her resignation will not participate in the recommendation of the Nominating and Governance Committee or the decision of our Board of Directors with respect to his or her resignation. If such incumbent director's resignation is not accepted by our Board of Directors, such director will continue to serve until the next annual meeting and until his or her successor is duly elected, or his or her earlier resignation or removal. If a director's resignation is accepted by our Board of Directors, then our Board of Directors, in its sole discretion, may fill any resulting vacancy pursuant to the provisions of our Code of Regulations.

Table of Contents**Beneficial Ownership Information for Directors and Named Executive Officers**

The following table sets forth information with respect to Common Shares beneficially owned by directors, director nominees and our Named Executive Officers or NEOs (those persons listed in the Summary Compensation Table on page 50 of this Proxy Statement) as of March 11, 2011:

Name	Common Shares Beneficially Owned(1)(2)	Stock Options(3)	Total Beneficial Ownership of Common Shares	Percent of Class
Robert E. Baker	800	0	800	*
David J. D. Antoni	63,085	11,400	74,485	*
Eileen A. Mallesch	0	0	0	*
Thomas E. Markert	500	0	500	*
David R. Meuse	45,000	0	45,000	*
Robert P. Restrepo, Jr.	59,585(4)(5)	155,901	215,486	*
S. Elaine Roberts	1,000	7,400	8,400	*
Alexander B. Trevor	500	0	500	*
Paul S. Williams	325	4,200	4,525	*
Steven E. English	5,722	50,512	56,234	*
Mark A. Blackburn	44,581(6)	156,338	200,919	*
Clyde H. Fitch	9,752	42,848	52,600	*
James A. Yano	5,080	22,685	27,765	*
Directors and Executive Officers, as a group (18 persons)	270,705	602,551	873,256	2.0%

* Less than one (1%) percent.

- (1) Except as indicated in the notes to this table, the persons named in the table and/or their spouses have sole voting and investment power with respect to all Common Shares shown as beneficially owned by them.
- (2) The amounts reported for Messrs. Baker, D. Antoni, Markert, Meuse, Trevor and Williams and Meses. Mallesch and Roberts do not include Restricted Share Units granted under the Outside Directors Restricted Share Unit Plan. See Board of Directors and Board Committees Compensation of Outside Directors and Outside Director Compensation Table for further information regarding this plan and the number of Restricted Share Units held by these directors.
- (3) With respect to stock options, this table includes only stock options for Common Shares which are currently exercisable or exercisable within 60 days of March 11, 2011.
- (4) Includes 17,180 Common Shares which are subject to a risk of forfeiture if, prior to March 4, 2013, Mr. Restrepo's employment is terminated or he violates any provision of the restricted share agreement applicable to these Common Shares. However, these Common Shares will not be forfeited, and will automatically vest, if, prior to March 4, 2013, Mr. Restrepo dies or becomes disabled or his employment is terminated without cause or in connection with a change in control of the Company. These Common Shares are also subject to restrictions on transfer until March 4, 2013.
- (5) Includes 16,707 Common Shares which are subject to a risk of forfeiture if, prior to March 3, 2014, Mr. Restrepo's employment is terminated or he violates any provision of the restricted stock agreement applicable to these Common Shares. However, these Common Shares will not be forfeited, and will automatically vest, if, prior to March 3, 2014, Mr. Restrepo dies or becomes disabled or his employment is terminated without cause or in connection with a change in control of the Company. These Common Shares are also subject to restrictions on transfer until March 3, 2014.
- (6) Common Shares beneficially owned by Mr. Blackburn as listed on his most recent Form 4 dated December 14, 2010.

Table of Contents

**PROPOSAL TWO: APPROVAL OF AMENDMENT TO
2009 EQUITY INCENTIVE COMPENSATION PLAN**

Proposal

At the Annual Meeting, shareholders will be asked to consider and vote upon a proposal to amend the Company's 2009 Equity Incentive Compensation Plan (the "Plan"). The proposed modification would eliminate a material term of the Plan that limits the maximum number of Common Shares which may be granted to participants for a calendar year in the form of awards of stock options, restricted shares and performance shares to a number not exceeding 1.5% of the total number of Common Shares outstanding as of December 31 of the prior year. This modification is proposed in order to enable the Plan to continue to provide appropriate and meaningful awards and maintain the competitiveness of the Plan.

Shareholders first approved the Plan at the 2009 annual meeting. Prior to the modification being presented at the Annual Meeting, no previous amendments have been made to the Plan.

Summary of the Plan

The following discussion describes the important aspects of the Plan. This discussion is intended to be a summary of the material provisions of the Plan and is qualified in its entirety by reference to the full text of the Plan, which is attached to this Proxy Statement as Exhibit A, including the proposed modification to the Plan. This summary may not include some details that may be important to you. For this reason, you are encouraged to read the Plan in its entirety.

Purpose

The purpose of the Plan is to advance the interests of the Company and its shareholders by enhancing the Company's ability to attract and retain highly qualified key employees and by providing such employees with additional incentives and compensation to achieve the Company's long-term business plans and objectives. The Plan is also intended to encourage and enable key employees to participate in the Company's future prosperity and growth by providing the participants with incentives and compensation based on the Company's performance, development and financial success. These purposes will be achieved by granting to key employees equity-based awards, including stock options (incentive and non-qualified), restricted shares, performance shares, performance units and other stock-based awards. The Company believes that the Plan assists in attracting, retaining and motivating talented personnel by providing maximum flexibility in determining the appropriate equity compensation elements for key employees.

Eligibility

Persons who: (i) are employed by the Company or its parent or one of the Company's or its parent's subsidiaries or affiliates in an executive, administrative, professional or technical capacity who, in the opinion of the committee administering the plan, have responsibilities affecting the management, development or financial success of the Company or one of its subsidiaries or other affiliated entities; (ii) perform services for the benefit of the Company, its parent or subsidiary corporations; and (iii) are otherwise eligible employees as defined by applicable law, are eligible to participate in the Plan. As of March 11, 2011, there were approximately 250 eligible employees.

Administration

The Plan is administered by the Compensation Committee of the Company's Board of Directors. The Compensation Committee's authority to administer the Plan includes, among other things, the authority to grant awards, including the number and type of awards, the frequency of award grants, the terms and conditions of the

Table of Contents

awards, the number of Common Shares subject to each award and the expiration date of each award. Each award grant must be evidenced by a written award agreement between the employee to whom the award was granted and the Company. In granting awards, the Compensation Committee may consider the level and responsibility of an employee's position, the employee's performance, level of compensation and assessed potential, as well as any other factors deemed relevant by the Compensation Committee. The Compensation Committee is also authorized to determine the vesting requirements, if any, that will apply to award grants and to interpret the provisions of the Plan. The Compensation Committee has the authority to grant options that are intended to qualify as incentive stock options under the Internal Revenue Code of 1986, as amended (the "Code"), options that do not qualify as incentive stock options under the Code (these options are sometimes referred to as "non-qualified stock options"), restricted shares, performance shares, performance units and other stock-based awards. Awards may be granted alone or in addition to other awards granted under the Plan. No consideration is received by the Company or its subsidiaries for the granting of awards under the Plan.

Shares Available for Issuance; Outstanding Awards; Restrictions

A total of 2,000,000 Common Shares have been reserved for issuance under the Plan. As of March 11, 2011: a total of 33,887 Common Shares were issued and outstanding in the form of restricted shares (all of which were subject to risk of forfeiture and restrictions on transfer); no Common Shares had been issued under the Plan pursuant to exercised stock options; stock options to purchase a total of 1,151,440 Common Shares were issued and outstanding (the Common Shares underlying the outstanding stock options had a market value of \$19,321,163 on that date based upon the Common Share's closing price of \$16.78 as reported by the Nasdaq Stock Market); and stock options to purchase a total of 8,903 Common Shares had been previously issued but forfeited.

No more than 33% of the Common Shares authorized for issuance under the Plan may be granted in the form of awards other than stock options.

The maximum number of Common Shares subject to awards of options, restricted shares and performance shares that may be granted in any calendar year to any individual is 250,000 Common Shares. The maximum number of performance units that may be granted in any calendar year to any individual is 100,000 performance units.

Change in Control

In the event of a "change in control" or "potential change in control" of the Company (generally defined by reference to the acquisition of a specified percentage of voting power, or a change in the composition of the Board of Directors, or an acquisition of the Company that requires shareholder approval, or a transaction involving the Company or its affiliates that requires shareholder approval and has the effect of causing the Company to cease to be a public company), all stock options which are not otherwise vested shall become vested and exercisable in full and all restrictions applicable to any restricted stock, performance shares or performance units shall lapse such that those awards shall be fully vested. Within 30 days following a "change in control" or "potential change in control" of the Company, all outstanding options may be terminated by the Company upon the payment of cash in an amount equal to the difference between the exercise price of the option and the "change in control price" (generally defined to mean the highest fair market value of the shares underlying the options at any time during the sixty-day period preceding the event that triggered the change in control or potential change in control provisions). If the change in control price is less than the exercise price, the option may be terminated without any payment.

Amendment and Termination

The Board of Directors may at any time suspend, amend or terminate the Plan. However, except as otherwise provided in the plan, the Board of Directors may not take any action that materially and adversely

Table of Contents

affects any outstanding awards granted under the Plan without obtaining the consent of the individuals who have been granted such awards and certain amendments may require shareholder approval. In addition, no amendment may be made by the Board of Directors without shareholder approval if the amendment would effect any change which requires shareholder approval under any applicable laws or regulations, such as the Nasdaq listing rules.

By its terms, the Plan will automatically terminate in 2019.

Stock Options

Exercise Price. The exercise price of either incentive stock options or non-qualified stock options granted under the Plan may not be less than the fair market value of the Common Shares underlying the option at the time the option is granted. Fair market value is currently based upon the last sale price of the Common Shares as reported on the Nasdaq Stock Market as of the close of the trading day the option is granted. However, if a participant owns more than 10% of the combined voting power of all classes of stock issued by the Company, the exercise price of an incentive stock option granted to such person may not be less than 110% of such fair market value. The exercise price of any stock option granted under the Plan may not be changed or modified after the time of grant unless such change or modification is made with the prior approval of the Company's shareholders.

Term. No stock option may be exercised more than ten years after the date of grant (five years with respect to an incentive stock option granted to a participant who owns more than 10% of the combined voting power of all classes of stock issued by the Company). Participants whose employment is terminated for reasons other than retirement, disability or death must exercise all outstanding options within the earlier of 90 days of such termination or the expiration date of the option (if a participant's employment is terminated due to illegal conduct, all unexercised options shall immediately lapse and be of no further force or effect as of the termination). If the participant's employment is terminated as a result of retirement, disability or death, all outstanding options become exercisable immediately and must be exercised by the following dates:

Reason for Termination of Employment	Incentive Stock Options	Non-Qualified Stock Options
Retirement	within the earlier of 90 days of such termination or the expiration date of the option	on or before the expiration date
Disability	within the earlier of one year of such termination or the expiration date of the option	on or before the expiration date
Death	within the earlier of one year of such termination or the expiration date of the option	on or before the expiration date of the option or, in the case of termination within 90 days of the expiration date, within 180 days from the date of termination

Non-Transferability of Options. Options may be transferred only by will or the laws of descent and distribution except that the Compensation Committee may authorize gifts of options (provided that they are not incentive stock options) to a grantee's parents, spouse, children, grandchildren, nieces or nephews, or to the trustee of a trust for the principal benefit of one or more of these persons or to a partnership whose only partners are one or more of these persons. In addition, non-qualified stock options and, if permitted by applicable law, incentive stock options may be transferred pursuant to qualified domestic relations orders to a grantee's former spouse. Options may be exercised only by a grantee or his or her legal representative or, if gifted or otherwise transferred, by the permitted transferee or the transferee's legal representative.

Table of Contents

Restricted Shares

Restricted shares are Common Shares of the Company that are subject to a vesting schedule and other restrictions. The vesting schedule and the lapsing, if any, of the restrictions, is determined by the Compensation Committee. Unless otherwise determined by the Compensation Committee, upon the voluntary or involuntary termination of the participant's employment for any reason, including death or disability, any shares still subject to restrictions will be forfeited. The Compensation Committee will have the authority to determine the voting rights (which may be full or limited), dividend rights (which may be full or limited) and other shareholder rights associated with the restricted shares during the restriction period.

Performance Shares and Units

Performance shares and performance units are awards that will result in a payment to a participant only if the performance goals established by the Compensation Committee are achieved during the performance period established by the Compensation Committee. The Compensation Committee will establish organizational performance goals, including, without limitation, earnings, return on capital, revenue, premiums, net income, earnings per share, combined ratio, loss ratio, expense ratio, assets, equity, cash flows, stock price, total shareholders' return or any other performance goal approved by the shareholders of the Company in accordance with Code Section 162(m), which, depending on the extent to which they are met, will determine the number and/or the value of performance shares and performance units to be paid out to participants. The Compensation Committee will also establish the performance period for each award, which period shall not be less than one calendar year.

The purchase price of performance shares will be established by the Compensation Committee, and may be zero. The maximum number of performance shares that may be granted in any calendar year to any individual is 250,000 shares. Because (i) the maximum number of performance shares that may be granted in any calendar year to any individual is 250,000 shares, and (ii) the minimum performance period is one calendar year, the maximum amount of compensation that could be paid to a participant for a one-year performance period would be equal to 250,000 shares multiplied by the fair market value of such performance shares.

Performance units will have an initial dollar value established by the Compensation Committee at the time of the award, but will not be less than a value per unit equal to the fair market value of a Common Share of the Company. The maximum number of performance units that may be granted in any calendar year to any individual will be 100,000 performance units. Because (i) the maximum number of performance units that may be granted in any calendar year to any individual is 100,000 units, and (ii) the minimum performance period is one calendar year, the maximum amount of compensation that could be paid to a participant for a one-year performance period would be equal to 100,000 multiplied by the fair market value of the Common Shares.

Upon the termination of employment before the end of any performance period due to death, disability or change in control, the Compensation Committee, taking into consideration the performance of the participant and the performance of the Company over the performance period, may authorize the payment of all or a portion of the amount which would have been paid to the participant had such participant's employment continued to the end of the performance period. If the participant's employment terminates for any other reason, all performance shares and performance units shall be forfeited. The Compensation Committee will have the authority to determine the voting rights (which may be full or limited), dividend rights (which may be full or limited) and other shareholder rights associated with the performance shares during the performance period.

Other Stock-Based Awards

The Compensation Committee is authorized, subject to limitations under applicable law, to grant such other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, the Common Shares of the Company and factors that may influence the value of such shares, as

Table of Contents

deemed by the Compensation Committee to be consistent with the purposes of the Plan, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Common Shares, purchase rights for Common Shares, awards with value and payment contingent upon performance of the Company or any other factors designated by the Compensation Committee and awards valued by reference to the book value of Common Shares or the value of securities of or the performance of specified subsidiaries of the Company. The Compensation Committee shall determine the terms and conditions of such awards.

Non-Transferability of Awards Other than Options

Awards other than options granted under the Plan generally may not be sold, pledged, transferred or assigned. If the Compensation Committee makes an award under the Plan transferable, such award will contain such additional terms and conditions as the Compensation Committee deems appropriate.

Forfeiture Events

The Board may require that all or a portion of the value of the awards, as well as any gain on the exercise of awards, is subject to a repayment obligation upon (i) the violation of any non-competition and/or confidentiality obligations applicable to the participant, (ii) a financial restatement where the amount of the participant's award was calculated based on the achievement of certain financial results which were the subject of a subsequent financial restatement and in which the participant engaged in fraudulent misconduct that caused or substantially contributed to the need for the restatement (if the participant's award would have been lower if the financials had been properly reported); or (iii) the participant engages in any wrongful conduct during the participant's employment with the Company or its parent or the Company's or its parent's subsidiary corporations or affiliates which has a material adverse effect on the Company or such entity.

Number of Awards

The number of awards that an eligible employee may receive under the Plan is at the discretion of the Compensation Committee and cannot be determined in advance.

During 2010, a total of 17,180 restricted Common Shares were awarded under the Plan, all of which were awarded to Robert P. Restrepo, Jr., the Company's Chairman, President and Chief Executive Officer.

The following table sets forth (a) the total number of Common Shares subject to stock options awarded under the Plan during 2010 to the person or group indicated, and (b) the per share exercise price of such options.

Name and Position	Number of Options Granted	Per Share Exercise Price
Robert P. Restrepo, Jr., Chairman, President and Chief Executive Officer	54,015	\$ 18.78
Steven E. English, Vice President and Chief Financial Officer	18,601	\$ 18.78
Mark A. Blackburn, Executive Vice President and Chief Operating Officer	41,534	\$ 18.78
Clyde H. Fitch, Senior Vice President	17,051	\$ 18.78
James A. Yano, Vice President, Secretary and General Counsel	12,322	\$ 18.78
Executive officers, as a group	175,581	\$ 18.78
Directors who are not executive officers, as a group		
Employees who are not executive officers, as a group	384,663	\$ 18.78

Except as set forth above, no other awards were made under the Plan during 2010.

Table of Contents

Federal Income Tax Information

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and the Company and its affiliates of awards granted under the Plan. Tax consequences for any particular individual may be different.

Stock Options

Federal income taxation of the various events related to the options (option grant, option exercise and sale of shares) under the Plan is different for incentive stock options and non-qualified stock options.

Non-Qualified Stock Options. In general, for federal income tax purposes under present law:

- (a) The grant of a non-qualified stock option, by itself, will not result in income to the optionee.
- (b) Except as provided in (e) below, the exercise of a non-qualified stock option (in whole or in part, according to its terms) will result in ordinary income to the optionee at that time in an amount equal to the excess (if any) of the fair market value of the shares underlying the option on the date of exercise over the exercise price.
- (c) Except as provided in (e) below, the optionee's tax basis of shares acquired upon the exercise of a non-qualified stock option, which will be used to determine the amount of any capital gain or loss on a future taxable disposition of such shares, will be the fair market value of the shares on the date of exercise.
- (d) No deduction will be allowable to the Company upon the grant of a non-qualified stock option, but upon the exercise of a non-qualified stock option, a deduction will be allowable to the Company at that time in an amount equal to the amount of ordinary income realized by the optionee exercising the option if the Company withholds appropriate federal income tax and provided that the deduction is not otherwise disallowed under the Code.
- (e) With respect to the exercise of a non-qualified stock option and the payment of the exercise price by the delivery of shares, to the extent that the number of shares received does not exceed the number of shares surrendered, no taxable income will be realized by the optionee at that time, the tax basis of shares received will be the same as the tax basis of shares surrendered and the holding period of the optionee in shares received will include his or her holding period in shares surrendered. To the extent that the number of shares received exceeds the number of shares surrendered, ordinary income will be realized by the optionee at that time in the amount of the fair market value of such excess shares, the tax basis of such shares will be equal to the fair market value of such shares at the time of exercise and the holding period of the optionee in such shares will begin on the date such shares are transferred to the optionee.

Incentive Stock Options. In general, for federal income tax purposes under present law:

- (a) Neither the grant nor the exercise of an incentive stock option, by itself, will result in income to the optionee; however, the excess of the fair market value of the shares underlying the option at the time of exercise over the exercise price is (unless there is a disposition of shares acquired upon exercise of an incentive stock option in the taxable year of exercise) includable in alternative minimum taxable income which may, under certain circumstances, result in an alternative minimum tax liability to the optionee.
- (b) If shares acquired upon the exercise of an incentive stock option are disposed of in a taxable transaction after the later of two years from the date on which the incentive stock option is granted or one year from the date on which such shares are transferred to the optionee, long-term capital gain or loss will be realized by the optionee in an amount equal to the difference between the amount

Edgar Filing: State Auto Financial CORP - Form DEF 14A

realized by the optionee and the optionee's basis which, except as provided in (e) below, is the exercise price.

Table of Contents

- (c) Except as provided in (e) below, if the shares acquired upon the exercise of an incentive stock option are disposed of within the two-year period from the date of grant or the one-year period after the transfer of the shares to the optionee upon exercise of the incentive stock option (a disqualifying disposition):
 - (i) Ordinary income will be realized by the optionee at the time of the disqualifying disposition in the amount of the excess, if any, of the fair market value of the shares at the time of such exercise over the exercise price, but not in an amount exceeding the excess, if any, of the amount realized by the optionee over the exercise price.
 - (ii) Short-term or long-term capital gain will be realized by the optionee at the time of the disqualifying disposition in an amount equal to the excess, if any, of the amount realized over the fair market value of the shares at the time of such exercise.
 - (iii) Short-term or long-term capital loss will be realized by the optionee at the time of the disqualifying disposition in an amount equal to the excess, if any, of the exercise price over the amount realized.
- (d) No deduction will be allowed to the Company with respect to incentive stock options granted or shares transferred upon exercise thereof, except that if a disposition is made by the optionee within the two-year period referred to above, the Company will be entitled to a deduction in the taxable year in which the disposition occurred in an amount equal to the amount of ordinary income realized by the optionee making the disposition, provided that the deduction is not otherwise disallowed under the Code.
- (e) With respect to the exercise of an incentive stock option and the payment of the option price by the delivery of shares to the extent that the number of shares received does not exceed the number of shares surrendered, no taxable income will be realized by the optionee at that time, the tax basis of the shares received will be the same as the tax basis of the shares surrendered and the holding period (except for purposes of the one-year period referred to in (c) above) of the optionee in the shares received will include his or her holding period in the shares surrendered. To the extent that the number of shares received exceeds the number of shares surrendered, no taxable income will be realized by the optionee at that time, such excess shares will be considered incentive stock option stock with a zero basis and the holding period of the optionee in such shares will begin on the date such shares are transferred to the optionee. If the shares surrendered were acquired as the result of the exercise of an incentive stock option and the surrender takes place within two years from the date the option relating to the surrendered shares was granted or within one year from the date of such exercise, the surrender will result in a disqualifying disposition and the optionee will realize ordinary income at the time of exercise of the shares surrendered over the basis of such shares. If any of the shares received are disposed of within one year after the shares are transferred to the optionee, the optionee will be treated as first disposing of the shares with a zero basis.

Reasons for Shareholder Approval

Under the Nasdaq listing rules, the Company is required to receive shareholder approval for the modification of a material term of a stock option or purchase plan in which officers or employees participate. For this reason, the Company's shareholders are being asked to approve the amendment to the Plan.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDMENT TO THE PLAN.

Table of Contents

**PROPOSAL THREE: RATIFICATION OF SELECTION OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Company's Board of Directors has selected Ernst & Young LLP as the Company's independent registered public accounting firm for 2011. Although not required, the Board of Directors is submitting the selection of Ernst & Young LLP to the Company's shareholders for ratification. Ernst & Young LLP has served as the Company's independent registered public accounting firm since 1994. The Audit Committee and the Board of Directors believe that the appointment of Ernst & Young LLP for 2011 is appropriate because of the firm's reputation, qualifications and experience.

The favorable vote of a majority of the outstanding Common Shares that are voted on this Proposal at the Annual Meeting is required to approve the ratification of the selection of Ernst & Young LLP.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2011.

The Audit Committee will reconsider the appointment of Ernst & Young LLP if its selection is not ratified by the Company's shareholders. Even if the selection of Ernst & Young LLP is ratified by shareholders, the Audit Committee, in its discretion, could decide to terminate the engagement of Ernst & Young LLP and to engage another independent registered public accounting firm if the Audit Committee determines such action to be necessary or desirable.

Table of Contents

PROPOSAL FOUR: ADVISORY VOTE ON COMPENSATION PAID

TO NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT

We are asking shareholders to approve, on a non-binding and advisory basis, the Company's compensation to its named executive officers as disclosed in this Proxy Statement.

The Board of Directors and the Compensation Committee believe that the policies and practices articulated in the Compensation Discussion and Analysis are effective in achieving the objectives of our executive compensation program. The Board of Directors urges you to read the Compensation Discussion and Analysis, which describes in more detail how our executive compensation policies and practices operate and are designed to achieve the objectives of our executive compensation programs, as well as the tables, notes and narrative disclosure relating to the compensation of the named executive officers, set forth on pages 29 through 71 of this Proxy Statement, which provide detailed information on the compensation of our named executive officers.

We are asking shareholders to approve the following advisory resolution at the Annual Meeting:

RESOLVED, that the shareholders of the Company approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in the Proxy Statement for the Company's 2011 Annual Meeting of Shareholders under the Compensation Discussion and Analysis section and the tables, notes and narrative disclosure relating to the compensation of the named executive officers of the Company.

This advisory vote on executive compensation is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the policies and practices described in this Proxy Statement. This advisory vote on executive compensation is advisory and, therefore, is not binding on the Company, the Board of Directors or the Compensation Committee. However, the Board of Directors and the Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS.

Table of Contents

**PROPOSAL FIVE: ADVISORY VOTE ON THE FREQUENCY OF
CONDUCTING FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION**

We are asking shareholders to vote on whether future advisory votes on executive compensation of the nature reflected in Proposal Four should be conducted every year, every two years or every three years.

After careful consideration, the Board of Directors has determined that conducting an advisory vote on executive compensation every year is the most appropriate policy for the Company at this time. We believe that an annual advisory vote on executive compensation is consistent with our practice of seeking input and engaging in dialogue with our shareholders on corporate governance matters (including our practice of annually providing shareholders the opportunity to ratify the Audit Committee's selection of our independent registered public accounting firm). When voting on the following resolution, shareholders may select their preferred voting frequency by specifying one of the four options for this Proposal set forth on the proxy card: one year, two years, three years or abstain from voting:

RESOLVED, that the option of once every one year, two years, or three years that receives the highest number of votes cast for this resolution will be determined to be the preferred frequency with which the Company is to hold a shareholder vote to approve the compensation of its named executive officers, as disclosed in the Proxy Statement for its Annual Meeting of Shareholders under the Compensation Discussion and Analysis section and the tables, notes and narrative disclosure relating to the compensation of the named executive officers of the Company.

Shareholders are not voting to approve or disapprove the Board of Directors' recommendation. The option of one year, two years or three years that receives the highest number of votes cast by shareholders will be the shareholder-approved frequency selection for the advisory vote on executive compensation. Because this vote on the frequency of advisory votes on executive compensation is advisory and, therefore, is not binding on the Company or the Board of Directors, the Board of Directors may decide that it is in the best interests of our shareholders and the Company to hold an advisory vote on executive compensation more or less frequently than the option that receives the most votes cast by our shareholders. However, the Board of Directors values the opinions expressed by shareholders in their vote on this Proposal, and will consider the outcome of the vote when making a determination as to the frequency of advisory votes on executive compensation.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR CONDUCTING FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION EVERY YEAR.

Table of Contents

BOARD OF DIRECTORS AND BOARD COMMITTEES

Board Meetings

Our Board of Directors held four Board meetings during the fiscal year ended December 31, 2010. All nine of our incumbent directors attended 100% of the Board meetings and the meetings of all committees on which they served. Eight of our nine directors are independent as defined by the Nasdaq listing rules. See Corporate Governance Director Independence.

Board Committees and Committee Meetings

Our Board has established an Audit Committee, a Compensation Committee, a Nominating and Governance Committee, an Investment Committee and a standing Independent Committee. All of the members of the Audit, Compensation, Nominating and Governance and Independent Committees are independent as defined by the Nasdaq listing rules. In addition, all of the members of the Audit Committee are independent as defined by the applicable rules of the Securities and Exchange Commission (the SEC). Our Board has adopted charters for each of the foregoing Committees. The current charters for each of these Committees, along with our Corporate Governance Guidelines, Board of Directors Ethical Principles, Employee Code of Business Conduct and Code of Ethics for Senior Financial Officers, are available on our website. To access these documents, go to <http://www.stateauto.com> and click on Investors and then Corporate Governance.

The Audit Committee is charged with several responsibilities, including: (1) appointment, compensation, retention and oversight of the work performed by our independent registered public accounting firm; (2) reviewing our accounting functions, operations and management; (3) considering the adequacy and effectiveness of our internal controls and internal auditing methods and procedures; (4) meeting and consulting with our independent registered public accounting firm and with our financial and accounting personnel concerning the foregoing matters; (5) reviewing with our independent registered public accounting firm the scope of their audit and the results of their examination of our financial statements; (6) participating in the process of administering our Employee Code of Business Conduct and our Board of Directors Ethical Principles set forth in our Corporate Governance Guidelines; (7) establishing procedures for receipt, retention and treatment of compliance regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters; and (8) approving in advance any other work performed by our independent registered public accounting firm that it is permitted by law to perform for us. Present members of the Audit Committee are Chairperson Eileen A. Mallesch, Thomas E. Markert, David R. Meuse, Alexander B. Trevor and Paul S. Williams. Based on a recommendation of the Audit Committee, our Board has designated Eileen A. Mallesch as the Audit Committee Financial Expert. The Audit Committee held eight meetings during 2010.

The Compensation Committee is charged with several responsibilities, including: (1) approving stock-based compensation plans and grants thereunder to employees or members of the Board; (2) evaluating and approving the compensation, fringe benefits and perquisites provided to our executive officers and adopting compensation policies applicable to our officers; and (3) evaluating the compensation provided to the members of the Board and its Committees. Present members of the Compensation Committee are Chairperson Paul S. Williams, Robert E. Baker, David J. D. Antoni, David R. Meuse and S. Elaine Roberts. The Compensation Committee held six meetings during 2010.

Our executive officers also serve as executive officers of State Auto Mutual, and, in general, the compensation expenses associated with our executive officers are allocated 80% to us and our subsidiaries and 20% to State Auto Mutual and its subsidiaries and affiliates under the Pooling Arrangement. See also Related Person Transactions Transactions Involving State Auto Mutual. It is for this reason that a director of State Auto Mutual who is a member of State Auto Mutual's Nominating and Governance Committee attends the meetings of our Compensation Committee as a non-voting member. This State Auto Mutual director,

Table of Contents

Roger P. Sugarman, is responsible to report matters discussed at our Compensation Committee meetings to State Auto Mutual's Nominating and Governance Committee. This person is independent as defined by the Nasdaq Marketplace Rules.

The Nominating and Governance Committee is charged with several responsibilities, including: (1) selecting nominees for election as directors; (2) reviewing the performance of our Board and individual directors; and (3) annually reviewing and recommending to our Board changes to our Corporate Governance Guidelines and Board of Directors' Ethical Principles. The members of the Nominating and Governance Committee are Chairperson David J. D'Antoni, Eileen A. Mallesch, David R. Meuse, Alexander B. Trevor and Paul S. Williams. The Nominating and Governance Committee met seven times in 2010. See also Corporate Governance - Nomination of Directors contained elsewhere in this Proxy Statement.

The Investment Committee oversees our investment functions and those of our insurance subsidiaries. The members of the Investment Committee are Chairperson David R. Meuse, Robert E. Baker, David J. D'Antoni, Eileen A. Mallesch, Thomas E. Markert, Robert P. Restrepo, Jr., S. Elaine Roberts and Alexander B. Trevor. The Investment Committee met four times in 2010.

The standing Independent Committee principally serves to review related person transactions between or among us and our subsidiaries, on the one hand, and State Auto Mutual and its subsidiaries and affiliates, on the other. The Independent Committee also helps determine which entity, our Company or State Auto Mutual, is best suited to take advantage of transactional opportunities presented by a third party. The members of the standing Independent Committee are Chairperson Alexander B. Trevor, Robert E. Baker, David J. D'Antoni, Eileen A. Mallesch, Thomas E. Markert and S. Elaine Roberts. The Independent Committee, which only meets as needed, did not hold any separate Committee meetings during 2010 but made recommendations to the Company's Board after hearing presentations during two of the full Board meetings.

Compensation of Outside Directors and Outside Director Compensation Table

Non-employee directors, who we refer to as our outside directors, receive compensation for their services as members of our Board and of the Board Committees on which they serve. The charter for the Compensation Committee requires this Committee to annually review the compensation of outside directors and recommend any changes to our Board. In accordance with this requirement, the Compensation Committee reviewed director compensation at its November 2010 meeting with assistance from Pay Governance, LLC, the compensation consultant utilized by the Compensation Committee. At this November meeting, Pay Governance discussed its report comparing our current director compensation to director compensation paid by organizations in the Company's peer group. Pay Governance concluded that, based on this data, the target in total compensation for non-chairpersons should be \$115,000. Pay Governance recommended this amount be provided 55% in an annual cash retainer and 45% in stock compensation. After reviewing the data and considering Pay Governance's comments, the Compensation Committee set our outside directors' total compensation for 2011 at \$115,000 annually, with 55% to be paid in a cash retainer of \$65,000 and 45% in equity compensation.

Our outside directors received two types of compensation in 2010 - an annual cash retainer of \$50,000 and equity in the form of Restricted Share Units (RSUs). No per meeting fees are payable to our directors, as our directors are expected to participate in all meetings of the Board and the committees on which they serve without the incentive of additional compensation. As an exception to this policy, additional meeting fees could be paid if our Board determines extraordinary situations warrant special committees or a large number of meetings, but no additional meeting fees were paid in 2010. Each Committee chairperson received an additional \$5,000 annual cash retainer, other than the chairpersons of the Audit Committee and the Compensation Committee, who received an additional annual cash retainer of \$15,000 and \$10,000, respectively. Our Lead Director was also paid a supplemental annual cash retainer of \$20,000. However, that amount was shared equally by Mr. D'Antoni and Mr. Williams in 2010 because, at the May 7, 2010 Board meeting, Mr. Williams was elected as the Lead Director in replacement of Mr. D'Antoni, who had served in that position since March 2006. Outside directors

Table of Contents

were also reimbursed for travel expenses incurred in attending Board and committee meetings and an annual Board retreat. The Company also reimbursed travel expenses for one guest of each outside director attending the annual Board retreat.

Outside directors may defer all or a portion of the cash fees under our deferred compensation plan for directors. The amount of cash compensation earned by each director in 2010, whether or not deferred, is included in the amounts shown in column one of the table set forth below on this page of this Proxy Statement.

Outside directors also receive RSUs pursuant to our Outside Directors Restricted Share Unit Plan (the Directors RSU Plan). An RSU is a unit representing one Common Share. The value of each RSU, on any particular day, is equal to the last reported sale price of a Common Share on the Nasdaq Stock Market on the most recent previous trading day. Under the Directors RSU Plan, promptly following the 2010 annual meeting of our shareholders, each outside director was granted 2,781 RSUs. To determine the number of RSUs granted, the value of one RSU was equal to a Common Share's average daily price for the prior calendar year and divided into \$50,000, the targeted annual equity compensation for each director. In addition, whenever a dividend is made with respect to the Common Shares, participants receive, with respect to each RSU held in the account of the participant on the dividend record date, additional RSUs in an amount equal to the value of the dividend. RSUs will be 100% vested upon the completion of six months of service as an outside director from the date of grant.

Our Compensation Committee, which functions as the administrative committee of the Directors RSU Plan, has the authority to decrease or increase the annual award of RSUs to outside directors to a minimum of 500 and a maximum of 5,000 without further shareholder approval. Under the Directors RSU Plan, outside directors must, in general, hold their RSUs until they conclude their Board service, after which time these RSUs are settled in cash or Common Shares, as elected by the outside director, with payments made in a single lump sum or annual installments over a five- or ten-year period, as selected by the outside director. An outside director elected or appointed other than in connection with an annual meeting of our shareholders will be granted a pro rata amount of RSUs based upon the number of anticipated days to the next annual meeting of shareholders. Accordingly, Ms. Mallesch was awarded 2,020 RSUs upon her election as an outside director on August 13, 2010.

In 2010, our outside directors received the following compensation:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	Total (\$)
David J. D. Antoni	65,000	50,197	115,197
Robert E. Baker	50,000	50,197	100,197
Eileen A. Mallesch (2)	28,750	27,856	56,606
Thomas E. Markert	50,000	50,197	100,197
David R. Meuse	55,000	50,197	105,197
S. Elaine Roberts	52,500	50,197	102,697
Richard K. Smith (3)	32,500	50,197	82,697
Alexander B. Trevor	52,500	50,197	102,697
Paul S. Williams	70,000	50,197	120,197

- (1) The total dollar amount shown in the Stock Awards column represents the cash value of the total number of RSUs awarded in 2010 valued at the closing price of Common Shares on the grant valuation date (\$18.05 per RSU for all awards other than the award to Ms. Mallesch, which was \$13.79 per RSU).
- (2) Ms. Mallesch was first elected as a director on August 13, 2010 by the Company's Board of Directors to fill the Class III directorship vacancy created by Mr. Smith's resignation on July 2, 2010.
- (3) Mr. Smith resigned as a director of the Company on July 2, 2010.

Table of Contents

The following table sets forth the aggregate number of RSUs and stock options owned by each of our current outside directors as of March 11, 2011. These outstanding options were awarded to our directors under prior director stock option plans, which were replaced by the Directors RSU Plan in 2005. No stock options have been granted to any outside directors since 2004.

Name	Number of Restricted Share Units	Number of Stock Options
David J. D. Antoni	11,070.323	11,400
Robert E. Baker	7,907.395	0
Eileen A. Mallesch	2,058.180	0
Thomas E. Markert	7,907.395	0
David R. Meuse	9,481.369	0
S. Elaine Roberts	11,070.323	7,400
Alexander B. Trevor	9,481.369	0
Paul S. Williams	11,070.323	4,200

Outside directors receive no other forms of compensation than as described in this section.

Table of Contents

CORPORATE GOVERNANCE

Director Independence

The Nominating and Governance Committee has affirmatively determined that eight of our nine directors, namely Robert E. Baker, David J. D'Antoni, Eileen A. Mallesch, Thomas E. Markert, David R. Meuse, S. Elaine Roberts, Alexander B. Trevor and Paul S. Williams, are independent as defined by the Nasdaq listing rules. The Nominating and Governance Committee made this determination based upon its review of information included in director questionnaires provided by each of the incumbent directors and a report by our General Counsel. This included information on the relationships between Mr. Meuse and Stonehenge Financial Holdings and RED Capital Group, two of his affiliates. From time to time we make investments in debt and equity funds sponsored by affiliates of these two companies and receive securities broker-dealer services from an affiliate of RED Capital Group. The Nominating and Governance Committee determined that Mr. Meuse is independent because our investments in the funds sponsored by, and the fees paid to, these two companies and their affiliates are not material to us or to them and Mr. Meuse's relationships with these companies do not interfere with his independent judgment in carrying out his responsibilities as a director.

Our Corporate Governance Guidelines expressly provide that four of the five standing committees are to be comprised solely of independent directors. Our Board's Audit, Compensation, standing Independent, and Nominating and Governance Committees meet this standard. Our Board of Directors has concluded that the Investment Committee does not need to be comprised solely of independent directors. Robert P. Restrepo, Jr., who is our employee and thus does not qualify as an independent director under the Nasdaq Marketplace Rules, is a member of the Investment Committee.

Communications with the Board

As further described in our Corporate Governance Guidelines, we provide a process by which security holders may send communications to our Board. Any security holder who desires to communicate with one or more of our directors may send such communication to any or all directors through our Corporate Secretary, by e-mail to corporatesecretary@stateauto.com or in writing to the Corporate Secretary at our principal executive offices, 518 East Broad Street, Columbus, Ohio 43215. Security holders should designate whether such communication should be sent to a specific director or to all directors. The Corporate Secretary is responsible for forwarding such communication to the director or directors so designated by the security holder.

Director Attendance at Annual Meeting of Shareholders

Our Corporate Governance Guidelines provide that directors are expected to attend our annual meetings of shareholders. All of our directors who were members of the Board at the time of last year's annual meeting of shareholders attended that meeting.

Executive Sessions of Independent Directors

Our Board meets in executive session, without management present, prior to each regular quarterly Board meeting. Consistent with our Corporate Governance Guidelines and the Nasdaq listing rules, during 2010 there were four executive sessions with only independent directors present. In addition, following each regular quarterly Board meeting, our Board meets in executive session with the State Auto Mutual board of directors, without management present. Our Corporate Governance Guidelines provide that the Lead Director acts as the presiding director at these executive sessions.

Nomination of Directors

The Nominating and Governance Committee sets the minimum qualifications for persons it will consider to recommend for nomination for election or re-election (election and re-election are hereafter collectively referred

Table of Contents

to as election) as a director of the Company. These minimum qualifications are described in the Nominating and Governance Committee s charter, which is posted on our website as set forth in this section. The following matters will be considered in the Nominating and Governance Committee s determination of persons to recommend for nomination as directors of the Company: (i) freedom from relationships or conflicts of interest that could interfere with that person s duties as a director of the Company or to its shareholders; (ii) status as independent based on the then-current Nasdaq rules; (iii) business or professional skill and experience; (iv) temperament; (v) integrity; (vi) educational background; and (vii) judgment. The objective of the Nominating and Governance Committee in this regard is to nominate for election as directors persons who share our values and possess the following minimum qualifications: high personal and professional integrity; the ability to exercise sound business judgment; an inquiring mind; professional demeanor; and the time available to devote to Board activities and the willingness to do so. The Nominating and Governance Committee will consider these criteria in the context of an assessment of the perceived needs of our Board as a whole. Ultimately, the Nominating and Governance Committee s intention is to select nominees for election to our Board who the Nominating and Governance Committee believes will be effective, in conjunction with the other members of our Board, in collectively serving the long-term interests of the shareholders. In the context of recommending an incumbent director to be re-nominated for election to our Board, the Nominating and Governance Committee will focus its assessment on the contributions of such person during his or her Board tenure and such person s independence at that time.

As required by its charter, the Nominating and Governance Committee seeks to achieve diversity of occupational and personal backgrounds. The Nominating and Governance Committee considers diversity as a factor in director nominations. In making such selections, the Nominating and Governance Committee views diversity in a broad context to include race, gender, geography, industry experience and personal expertise.

In addition to incumbent directors who will be evaluated for re-nomination as described above, the Nominating and Governance Committee may maintain a list of other potential candidates whom the Nominating and Governance Committee may evaluate pursuant to the criteria set forth above for consideration as Board members. By following the procedures set forth below, shareholders may recommend potential candidates to be included on this list. As a matter of policy, the Nominating and Governance Committee will consider and evaluate such candidates recommended by shareholders in the same manner as all other candidates for nomination to our Board who are not incumbent directors.

The charter of the Nominating and Governance Committee details the process by which our Board of Directors fills vacancies on the Board. The Nominating and Governance Committee s charter provides that, in the absence of extraordinary circumstances, when a director vacancy arises for any reason, the Nominating and Governance Committee will first look to the list of names of potential nominees, as described above, and make a preliminary evaluation of such person(s) based on the criteria set forth above. If there are no names on the list or if all of the names on this list are eliminated following such evaluation process, the Nominating and Governance Committee may solicit other potential nominees names from our other directors, directors of our parent, the Chairman or other persons who the Nominating and Governance Committee reasonably believes would have the opportunity to possess first hand knowledge of a suitable candidate based on the criteria described above. The Nominating and Governance Committee may also hire a director search firm to identify potential candidates. Once the Nominating and Governance Committee has preliminarily concluded that a person(s) may meet the criteria described above, the Nominating and Governance Committee will, at a minimum, obtain from such person(s) a completed Prospective Director Questionnaire which shall solicit information regarding the person s business experience, educational background, personal information, potential conflicts of interest and information relating to the person s business, personal or family relationships with the Company and other directors, among other matters. Following a review of such completed Prospective Director Questionnaire by the Nominating and Governance Committee and the Chairman and counsel for the Company, the Nominating and Governance Committee will conduct at least one interview with a person(s) whose candidacy it desires to pursue. Based on all information secured from the prospective nominee, including a background check and a criminal record check, the Nominating and Governance Committee will meet and decide whether or not to recommend

Table of Contents

such person(s) for nomination for election as a director of the Company. Any decision by the Nominating and Governance Committee in this regard will reflect its judgment of the ability of the person(s) to fulfill the objectives outlined above.

We have adopted procedures by which shareholders may recommend individuals for membership to our Board. As described in its charter, it is the policy of the Nominating and Governance Committee to consider and evaluate candidates recommended by shareholders for membership on our Board in the same manner as all other candidates for nomination to our Board who are not incumbent directors. If a shareholder desires to recommend an individual for Board membership, then that shareholder must provide a written notice to the Corporate Secretary of the Company at 518 East Broad Street, Columbus, Ohio 43215 (the Recommendation Notice). For a recommendation to be considered by the Nominating and Governance Committee, the Recommendation Notice must contain, at a minimum, the following: (i) the name and address, as they appear on our books, and telephone number of the shareholder making the recommendation, including information on the number of shares owned; (ii) if such person is not a shareholder of record or if such shares are owned by an entity, reasonable evidence of such person's ownership of such shares or such person's authority to act on behalf of such entity; (iii) the full legal name, address and telephone number of the individual being recommended, together with a reasonably detailed description of the background, experience and qualifications of that individual; (iv) a written acknowledgement by the individual being recommended that he or she has consented to that recommendation and consents to our undertaking of an investigation into that individual's background, experience and qualifications in the event that the Nominating and Governance Committee desires to do so; (v) the disclosure of any relationship of the individual being recommended with our Company or any of our subsidiaries or affiliates, whether direct or indirect; and (vi) if known to the shareholder, any material interest of such shareholder or individual being recommended in any proposals or other business to be presented at our next annual meeting of shareholders (or a statement to the effect that no material interest is known to such shareholder).

Board Leadership

We are managed under the direction of our Board in the interest of all shareholders. Our Board delegates its authority to our senior executive team to manage the day-to-day operations and ongoing affairs of our business. Our Board requires that our senior executive team review major initiatives and actions with our Board prior to implementation.

Mr. Restrepo serves as both Chairman and Chief Executive Officer under our leadership structure. He also holds these same positions with our parent, State Auto Mutual. Our Board believes this leadership structure is appropriate given the overall corporate structure of our Company and State Auto Mutual. We and our subsidiaries operate and manage our businesses in conjunction with State Auto Mutual and its subsidiaries and affiliates under various management and cost sharing agreements under the leadership and direction of the same senior management team. In addition, our insurance subsidiaries participate in a pooling arrangement with State Auto Mutual and certain of its insurance subsidiaries and affiliates which covers all of the property and casualty insurance written by our insurance subsidiaries. See Related Person Transactions Transactions Involving State Auto Mutual. Because of the way our business is operated, our Board believes separating the positions of Chairman and Chief Executive Officer would cause unnecessary complexity and complications and perhaps cause a split in our strategic direction, in particular since our Board has received no indication from the State Auto Mutual Board that it is considering, or would consider, separating these positions in its leadership structure.

Our Board has adopted a counterbalancing governance structure which includes:

A designated independent Lead Director;

A Board composed entirely of independent directors other than the Chairman and Chief Executive Officer;

A Board composed entirely of directors independent from State Auto Mutual other than the Chairman and Chief Executive Officer;

Table of Contents

Committees composed entirely of independent directors, with the exception of our Investment Committee; and

Established governance structures and processes and ethics guidelines.

Our Lead Director's responsibilities include, among other things, leading the executive session of our independent directors, being a primary advisor to and principal point of contact with our Chairman and Chief Executive Officer, working with the Chairman and soliciting input from other Board members to develop a regular board meeting schedule and an agenda for each meeting, securing input from other directors on agenda items, ensuring the adequate flow of information from management to our Board and delivering the Chief Executive Officer's performance evaluation on behalf of the Compensation Committee of our Board. In May 2010, our Board elected Paul S. Williams to serve as Lead Director. We believe our Board leadership is effective and appropriate for our Company, given the specific circumstances of our overall corporate structure and operation in conjunction with State Auto Mutual, the established effectiveness of the Lead Director's role on the Board, the Nominating and Governance Committee's significant role in the nominee selection process for new or re-elected directors, the independence of eight of nine directors, and the effectiveness of the executive session meetings of independent directors at each regularly scheduled meeting of our Board.

Risk Oversight

The Board's Role in Risk Oversight

Our Board's role in the risk management process is one of oversight. Risk management activities are the responsibility of our management and include the development of strategies and implementation of actions intended to anticipate, identify, assess, manage and appropriately mitigate identified risks.

The Nominating and Governance Committee has primary responsibility for oversight of enterprise risk management on behalf of our Board. The Nominating and Governance Committee communicates with our Board and other Board committees on significant enterprise risk management matters. The Nominating and Governance Committee meets quarterly with our director of enterprise risk management. The Nominating and Governance Committee also receives a quarterly report which assesses the current status of major risks inherent in our business, including credit risks, market risks, underwriting risks, operational risks and strategic risks. In addition to meeting with the director of enterprise risk management, the Nominating and Governance Committee also meets periodically with our officers responsible for the adequacy of business continuity and disaster recovery plans, information security and legal and regulatory compliance.

In addition to the enterprise risk management oversight provided by the Nominating and Governance Committee, a practice of the Audit Committee is to meet quarterly with the director of enterprise risk management for a report on selected risk areas. We also utilize an internal enterprise risk management committee comprised of senior officers. Among other things, this internal committee addresses the identification, assessment and mitigation of significant risks facing our Company.

Our Board reviews the enterprise risk management process annually, and risk assessment and management is reflected in our Board's strategic planning process. The independent structure of the Board of Directors enables objective oversight of the risk management process.

Risk Assessment in Compensation Programs

Management reviewed the compensation policies and practices for our employees to determine whether any risks arising from such policies and practices are reasonably likely to have a material adverse effect on the Company. Management consulted various persons in the course of this review, including members of our senior leadership, the Nominating and Governance Committee (which has primary responsibility for oversight of

Table of Contents

enterprise risk management on behalf of the Board), the Company's internal legal counsel, the outside legal counsel to the Compensation Committee and the compensation consultant retained by the Compensation Committee. The processes involved in this review included:

a review of the processes conducted by other registrants and recommended by compensation experts to evaluate compensation risk;

an analysis of the Company's overall compensation objectives pursuant to which the Company's compensation policies and practices were implemented;

a review of the design and operation of the Company's compensation plans and programs;

the identification of risks that the Company's compensation policies and practices could potentially encourage;

the identification of features of the Company's compensation policies and practices that could potentially mitigate the risks that the Company's compensation policies and practices could potentially encourage; and

an analysis of the materiality of the potential effects on the Company of the unmitigated risks as a whole.

Based on the review described above, management concluded that the Company's compensation policies and practices do not encourage inappropriate risk-taking and the risks associated with the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company. Management briefed the Compensation Committee in detail regarding its review, and the Compensation Committee agreed with management's conclusion.

As an example of our compensation risk review process, management analyzed each of the performance measures under our Leadership Bonus Plan (See Compensation Discussion and Analysis Executive Compensation Program Elements Short-Term Incentive Compensation Leadership Bonus Plan Bonuses on page 38 of this Proxy Statement for a more detailed discussion of our Leadership Bonus Plan) to determine whether they presented any risks that are reasonably likely to have a material adverse effect on the Company. The amount of the bonuses awarded pursuant to the Company performance component of our Leadership Bonus Plan for 2010 and 2011 is dependent on our performance in relation to the following performance measures, each of which has an equal weight in determining the amount of the bonus: LBP Combined Ratio, return on equity and premium growth. Two-thirds of the premium growth target for 2011 relates to growth from our program and alternative risk transfer business. We expect this business, which is primarily generated by our affiliate, Risk Evaluation and Design, LLC, to account for a significant amount of our premium growth for the foreseeable future. Management concluded that the structure of the premium growth performance measure is consistent with our strategy to balance our business between personal and commercial product lines and the risks associated with allocating a significant percentage of the premium growth target for 2011 to our program and alternative risk transfer business are not reasonably likely to have a material adverse effect on the Company.

Shareholder Rights

Shareholder rights are an important aspect of our corporate governance. Among other things:

All of our Common Shares, the only class of stock outstanding, have the same voting rights, namely one vote per share. Our Class B preferred shares, if issued, would have one vote per share. Our Class A preferred shares, if issued, would have one vote per share, but only in limited circumstances.

All of our directors are elected by our shareholders.

Edgar Filing: State Auto Financial CORP - Form DEF 14A

We have a classified board structure in which our directors are elected for staggered three-year terms. We believe this structure enables us to have continuity in direction and leadership, consistency in strategic planning, and stability in the skill sets of our directors. However, we are also aware that a

Table of Contents

classified board structure may discourage an unsolicited takeover attempt. While the Nominating and Governance Committee periodically reviews changing the structure of our Board to provide for an annual election of all directors, it believes that the current structure appropriately serves the interests of our shareholders.

We do not have a poison pill or shareholder rights plan, and such a plan has never been presented to our shareholders for a vote.

We have a class of authorized but unissued preferred shares which are generally known as blank check preferred stock. Our Board is authorized to fix and determine the terms, limitations, and relative rights and preferences of these preferred shares. We believe having the availability of blank check preferred stock provides us with flexibility in raising capital and structuring loan arrangements. However, we are also aware that the issuance of blank check preferred stock could be used by our Board in defense of an unsolicited takeover attempt. While the Nominating and Governance Committee periodically reviews removing blank check preferred stock from our articles of incorporation, it believes that retaining this class of stock appropriately serves the interests of our shareholders.

Special meetings of shareholders may be called by the holders of Common Shares entitling them to exercise at least 50% of the voting power of the company. While the Nominating and Governance Committee periodically reviews the threshold requirement for shareholders to convene special meetings, it believes that the current threshold level is reasonable and appropriate.

Our shareholders may take action by written consent. However, as required by Ohio law, written actions by shareholders must be unanimous in order to authorize the particular action in question.

We do not require a super-majority vote to approve amendments to our organizational documents. Our articles of incorporation and code of regulations may be amended by a simple majority vote of shareholders.

We do not require a super-majority vote to approve mergers or business combinations. These types of transactions may be approved by a simple majority vote of shareholders.

Other Governance Issues of Interest

Our Corporate Governance Guidelines reflect our Board's sensitivity to governance issues.

Our Corporate Governance Guidelines require that directors who are elected by the Board to fill vacancies in our Board must stand for election by the shareholders at the next annual shareholders meeting. It is in accordance with this requirement that Ms. Mallesch is standing for election at the Annual Meeting. Specifically, Guideline #7 states:

From time to time, the Board of Directors may elect qualified individuals to become Board members by filling vacancies that may arise. In such case, the Company's shareholders shall be given the opportunity to newly elect that director at the next annual meeting of shareholders.

Our Corporate Governance Guidelines express our Board's policy with respect to changes in the size of our Board. Specifically, Guideline #5 states:

The factors influencing a decision to increase or decrease the size of the Board would include, among other things, a material change in the complexity of the Company's business, material changes in the workload for independent directors and/or a perceived need for specialized expertise and/or Board succession planning.

Our Corporate Governance Guidelines also address the issue of service on other boards. Guideline #23 provides, in part, that if one of our Audit Committee members is simultaneously serving on the audit committee of more than three public company boards, our Board must determine whether such simultaneous service would

Table of Contents

impair the ability of such member to effectively serve on our Audit Committee and will disclose such determination in our Company's annual proxy statement. In addition, Guideline #23 creates a rebuttable presumption that a director of our Company serving on more than a total of four other public company boards is not in the interest of our shareholders.

On the issue of supermajority voting requirements, our Code of Regulations and Articles of Incorporation do not require supermajority voting to approve mergers or business combinations. Furthermore, except under limited circumstances, only the shareholders can approve amendments to our Code of Regulations. This governance rule reflects Ohio law and is documented in Guideline #35 of our Corporate Governance Guidelines.

Our Corporate Governance Guidelines require annual performance evaluations of each director, and the Nominating and Governance Committee has engaged in this process every year since 2006.

Our Corporate Governance Guidelines encourage directors to periodically attend educational programs related to their service on the Board. In addition, management has provided opportunities for individual and group development through the National Association of Corporate Directors (NACD) and Ernst & Young's audit committee training. We provide NACD memberships at no personal cost to the directors. Some of our directors participated in continuing education programs in 2010.

All of our stock option plans prohibit the repricing of stock options after their grant date except with the prior approval of our shareholders.

Our Corporate Governance Guidelines also include a majority voting policy. See Proposal One: Election of Directors Majority Voting Policy for Incumbent Directors for a discussion of this policy.

Availability of Corporate Governance Documents

The following documents are available on our website at www.stateauto.com under Investors and then under Corporate Governance :

The charters for our Audit Committee, Compensation Committee, Nominating and Governance Committee, Investment Committee and standing Independent Committee;

Our Corporate Governance Guidelines, including Board of Directors Ethical Principles;

Our Employee Code of Business Conduct; and

Our Code of Ethics for Senior Financial Officers.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes the following components of our executive compensation program as they pertain to our named executive officers (NEOs):

Competitive benchmarking

Base salary

Short-term and long-term incentive compensation

Benefit programs

Minimal perquisites

Contractual arrangements

Stock ownership guidelines

Executive Compensation Program Objectives

We structure our executive compensation program to attract, retain, motivate and reward top caliber executives who deliver on the following four pillars of our business strategy:

Underwriting Profit as measured by our combined ratio;

Premium Growth on new and existing insurance policies;

Enterprise Risk Management; and

Capital Management as measured by Return on Equity (ROE).

We believe that achieving success in these four areas will increase the price of our Common Shares over the long term and should be rewarded by our executive compensation program.

In addition to incenting our executives to achieve these four pillars of success, our executive compensation program is also designed to align the individual compensation of our executives with the long-term value delivered to our shareholders and offer compensation that reflects company performance and is competitive individually and in the aggregate. We also strive to encourage appropriate levels of share ownership while balancing short- and long-term perspectives.

Compensation Components

Edgar Filing: State Auto Financial CORP - Form DEF 14A

Each element of our executive compensation program serves a unique role in establishing an appropriate balance between the rewards for short-term and long-term performance that we believe will support our efforts to increase the price of the Common Shares over the long-term:

Base salary is primarily intended to attract and retain top-caliber executives.

Short-term incentive compensation is intended to focus our NEOs on achieving our strategic objectives (underwriting profit, premium growth, enterprise risk management and capital management) and balance the focus of the long-term incentive compensation we award.

Long-term incentive compensation is intended to encourage business behaviors that drive appreciation in the price of the Common Shares over the long term, build appropriate levels of Common Share ownership among our executive team and balance the focus of our annual operating plan.

Perquisites are very limited in value and participation.

Table of Contents***Executive Compensation Role of State Auto Group***

An understanding of the structure of our Company and our relationship with State Auto Mutual and the other members of the State Auto Group (See page 77 of this Proxy Statement for the list of the Company's subsidiaries included in the State Auto Group) is relevant to a discussion of our executive compensation program. We and our subsidiaries operate and manage our businesses in conjunction with State Auto Mutual and the other members of the State Auto Group under various pooling, management and cost sharing agreements under the leadership and direction of the same senior management team (See Related Person Transactions Transactions Involving State Auto Mutual on page 77 of this Proxy Statement for a discussion of these agreements). Our NEOs are also officers of State Auto Mutual and provide services to our Company, State Auto Mutual and the other members of the State Auto Group. For example, Mr. Restrepo serves as the Chairman, President and Chief Executive Officer of both the Company and State Auto Mutual. The compensation expenses associated with the services performed by our NEOs on behalf of the Company, State Auto Mutual and the State Auto Group are, in general, allocated 80% to the Company and its subsidiaries and 20% to State Auto Mutual and certain of its subsidiaries and affiliates. As a result of this sharing of services and compensation expenses, the Nominating and Governance Committee of State Auto Mutual is involved in the performance evaluation process of our CEO. In addition, a director of State Auto Mutual who is a member of State Auto Mutual's Nominating and Governance Committee attends the meetings of our Compensation Committee (referred to in this Compensation Discussion and Analysis as the Committee) as a non-voting member (See Board of Directors and Board Committees Board Committees and Committee Meetings on page 18 of this Proxy Statement).

2010 Business Performance

We believe we are well positioned to grow profits and premiums at rates that will exceed the average growth rates both in the property and casualty insurance industry and of our peer companies. In 2010, we significantly improved profitability in our personal lines, especially in our homeowners book of business, expanded into new geographic markets, broadened our product offerings and made substantial investments to improve our claims process and IT infrastructure. We also entered into the specialty insurance market, implemented sophisticated pricing analytics and reduced the impact of catastrophes on our underwriting results. We believe these actions will improve our ROE and drive appreciation in the price of our Common Shares over the long term. We expect these investments to improve profits and return the Company to its traditionally strong performance. In 2010, we improved ROE, premium growth and combined ratio as compared to 2009.

Summary of Executive Compensation for 2010***Cash Compensation and Performance for 2010***

The following chart sets forth the aggregate dollar value of the base salary established by the Committee for our NEOs for 2009 and 2010 and the short-term incentive compensation earned by our NEOs for each of 2009 and 2010, and the increase from 2009. The amounts payable to the NEOs with respect to performance award units granted pursuant to our Long-Term Incentive Plan are not included in this table as the results for the 2008-2010 performance period were not available as of the date of this Proxy Statement.

Name	Cash Compensation in 2009(\$)	Cash Compensation in 2010(\$)	Increase (Decrease) in Cash Compensation from 2009 to 2010(%)
Robert P. Restrepo, Jr.	1,223,490	1,283,481	4.9
Steven E. English	606,292	625,491	3.2
Mark A. Blackburn	779,346	780,769	.2
Clyde H. Fitch	566,324	573,367	1.2
James A. Yano	442,703	462,412	4.5

Table of Contents

The increase in the aggregate dollar value of the base salary and short-term incentive compensation earned by our NEOs from 2009 to 2010 as reflected in the chart above is attributable to the following:

Increases to the base salaries of 3.4% (Mr. Restrepo), 2.9% (Mr. English), 2.2% (Mr. Blackburn), 3.1% (Mr. Fitch) and 3.3% (Mr. Yano). These adjustments were primarily made so the base salaries remain competitive with the median salaries of peer companies for each position.

Bonuses for the fourth quarter of 2010 under our Quality Performance Bonus Plan (QPB) equal to \$10,918 for Mr. Restrepo, \$5,206 for Mr. English, \$6,869 for Mr. Blackburn, \$4,772 for Mr. Fitch and \$4,483 for Mr. Yano compared to bonuses for the fourth quarter of 2009 under our QPB equal to \$8,923 for Mr. Restrepo, \$4,278 for Mr. English, \$5,684 for Mr. Blackburn, \$3,911 for Mr. Fitch and \$3,667 for Mr. Yano. These bonuses were based on the comparative performance of our QPB Combined Ratio (as defined below in Quality Performance Bonus Plan) for that quarter to the performance target for that quarter. QPB bonus payments are deducted from Leadership Bonus Plan (LBP) bonus payments prior to the payment of final LBP bonuses.

Bonuses of \$344,450 (Mr. Restrepo), \$164,241 (Mr. English), \$216,707 (Mr. Blackburn), \$150,554 (Mr. Fitch) and \$94,287 (Mr. Yano) awarded under the LBP for our achievement of Company performance goals applicable to 2010 compared to bonuses of \$288,177 (Mr. Restrepo), \$138,167 (Mr. English), \$183,565 (Mr. Blackburn), \$126,324 (Mr. Fitch), and \$78,953 (Mr. Yano) for 2009. The amount of the Company performance bonuses for 2010 was based on our achievement of an average 81.1% of our Premium Growth, Combined Ratio and ROE goals (as defined below in Leadership Bonus Plan LBP Bonus 2010 Company Performance Component), as compared to 70.2% for 2009; and

Bonuses of \$173,113 (Mr. Restrepo), \$96,044 (Mr. English), \$82,194 (Mr. Blackburn), \$88,041 (Mr. Fitch) and \$53,642 (Mr. Yano) awarded under the LBP for the achievement of individual performance goals applicable to 2010 compared to bonuses of \$196,390 (Mr. Restrepo), \$113,847 (Mr. English), \$125,097 (Mr. Blackburn), \$116,089 (Mr. Fitch) and \$60,083 (Mr. Yano) for 2009. The amount of individual performance bonus earned by each NEO for 2010 is presented below in Leadership Bonus Plan LBP Bonus 2010 Individual Performance Component).

Equity Compensation for 2010

We also awarded equity and equity-based compensation (in the form of stock options) in 2010 to our NEOs pursuant to our 2009 Equity Plan on terms and in amounts consistent with our practices for the past three years. In addition, to enhance Mr. Restrepo's stock ownership, the Committee determined that one-third of his long-term incentive opportunity for 2010 would be awarded in the form of restricted common shares, one-third in the form of stock options and one-third in the form of performance award units under the Long-Term Incentive Plan. The long-term incentive opportunity of the other NEOs for 2010 was equally divided between an award of stock options and an award of performance award units under the Long-Term Incentive Plan.

How the Amount of Executive Compensation is Determined

Role of Compensation Consultants and Other Advisors

In carrying out its responsibilities, the Committee requests and receives regular input and recommendations from the Board, management, an executive compensation consultant and other advisors. The Committee also regularly engages in discussions and continuing education to better understand compensation trends, regulatory developments relating to compensation events and the Company's compensation issues and objectives. Management informs and assists the Committee in establishing and monitoring performance goals, and in refining our overall executive compensation program. In making compensation decisions related to both the form and the amount of compensation, the Committee has consistently relied upon competitive information obtained from a compensation consultant.

Table of Contents

In 2010, the Committee engaged and utilized the services of two compensation consultants, Towers Watson (in the first three quarters of 2010) and Pay Governance, LLC (in the last quarter of 2010). Donald Kokoskie, the Committee's long-serving compensation consultant, began working with the Committee when he was employed by Towers Perrin, which became Towers Watson as a result of the merger of Towers Perrin and Watson Wyatt in January 2010. Mr. Kokoskie transitioned from Towers Watson to the newly-formed Pay Governance, LLC firm in late 2010. Due to the Committee's desire to ensure the independence of its compensation consultant and to continue its relationship with Mr. Kokoskie, the Committee engaged Pay Governance, LLC as its compensation consultant after Mr. Kokoskie completed his transition there.

During 2010, Towers Watson and Pay Governance, LLC advised the Committee regarding (i) the effectiveness and competitiveness of our overall executive compensation program and of specific compensation packages for our NEOs and other executives and (ii) the competitiveness of compensation to our outside directors in comparison to their peers at similar public companies. The services performed by Towers Watson and its affiliated companies in 2010 on behalf of the Committee with respect to executive and director compensation totaled approximately \$59,000. From time to time, compensation consultants may perform additional compensation or benefit analysis at the request of management. The additional services performed by Towers Watson and its affiliated companies in 2010 totaled approximately \$3.2 million, which included approximately \$3.0 million in premium payments made by the Company to a subsidiary of Towers Watson in connection with a reinsurance agreement that expired in September 2010. The Committee believes that Towers Watson's performance of additional services did not compromise the independence of Towers Watson. The Committee chairperson monitors these additional services and the monthly billings for any compensation consultant services provided at the request of management or the Board. The Committee does not have a policy requiring advance approval of additional services. Pay Governance, LLC did not perform any additional services on behalf of management in 2010.

Benchmarking of Executive Compensation Program Elements

We believe that in order to accomplish the goals of our executive compensation program, including retaining our executive talent, the Company must pay competitive compensation. To determine competitive compensation for our NEOs, we consider data from:

proxy statements filed by other publicly-held insurance companies comparable in size and type of business to the Company (the NEO Peer Group); and

published pay surveys of the insurance and financial services industry relating to public, private and mutually-owned insurance companies (the Survey Data).

The proxy statements of the companies within the NEO Peer Group provide pay information regarding their NEOs, which enables us to directly compare the compensation we provide to our NEOs to the compensation that companies within the NEO Peer Group provide to their NEOs when the positions are similar. These proxy statements also allow for pay and performance comparisons that help us (i) understand the expectations of companies within the NEO Peer Group with respect to incentive payouts and (ii) evaluate the Company's executive compensation program. The Survey Data complements the NEO Peer Group information by providing broader comparisons. While the NEO Peer Group compensation data relates only to public companies and their NEOs, the Survey Data relates to publicly-traded, mutual and privately-held insurers and includes compensation data for employees beyond the NEOs. The broader scope of the information provides a more comprehensive assessment of competitive practices and pay levels for insurers of the Company's size.

When setting base salaries, short-term and long-term incentive compensation, we use data reported in the NEO Peer Group when it represents a comparable position and Survey Data for individuals in similar positions at similarly sized insurers (which we refer to as our competitive market). We use the NEO Peer Group to benchmark the compensation of some NEOs and use the Survey Data to benchmark the compensation of our NEOs and other executives. If we have relevant data from both the NEO Peer Group and the Survey Data with

Table of Contents

respect to a compensation level, we average the results to determine the benchmark. For example, if the median level of base salary for chief executive officers reported by the NEO Peer Group and the Survey Data was \$735,000 and \$800,000, respectively, we would average the two results to establish a median base salary target of \$767,500.

The Committee targets the total amount of compensation payable to our NEOs at or close to the median compensation level in the competitive market by setting the target amount of each element of compensation at or near the median level of compensation in the competitive market. Nonetheless, the Committee believes superior performance should be rewarded. As a result, the Committee provides our NEOs with the opportunity to earn total compensation in the 75th percentile (or higher) of the competitive market if performance significantly exceeds target results. Conversely, if Company or individual performance is substantially below target or planned results, we believe NEOs should receive substantially less than the median level of total compensation in the competitive market (i.e., in the bottom quartile). The total amount of compensation that the Committee targeted as payable to each of our NEOs for 2010 was competitive with (i.e., within approximately 10% of) the median level of compensation in the NEO Peer Group and the Survey Data, except for Mr. Fitch who is paid above this range.

Determinations with respect to certain elements of compensation for Mr. Restrepo, such as base salary, retirement benefits, employee benefits and executive perquisites, are subject to the terms of his employment agreement (See Employment Agreements with Named Executive Officers Restrepo Employment Agreement).

NEO Peer Group

With input from our compensation consultant and management, the Committee approves property and casualty insurance companies to be part of the NEO Peer Group based on their status as public companies and whether their size and business overlap with the State Auto Group. Public companies are selected because, as discussed above, their NEO compensation and executive compensation programs are disclosed in their SEC filings allowing us to compare the competitiveness of our NEO compensation and executive compensation program with those of our public company competitors. In considering business overlap, companies are selected that have a significant portion of their business in personal and commercial automobile, homeowners, and commercial property and casualty insurance. In considering company size, the focus is on companies similar to the State Auto Group in terms of premium volume, total assets, market capitalization and number of employees. Some of these companies are substantially larger than the State Auto Group while others are smaller. Normally, companies included in the peer group fall within a range of one-half to two times the size of State Auto Group. The size of the median company within the NEO Peer Group, as shown on the chart below, is comparable to the State Auto Group. The members of the NEO Peer Group change periodically because of mergers, acquisitions, start-ups, spinoffs and similar transactions.

The NEO Peer Group used for 2010 compensation decisions was comprised of the following 23 companies:

Affirmative Insurance
 Cincinnati Financial Corporation
 Hanover Insurance Group
 Infinity Property & Casualty Corporation
 Montpelier Re Holdings
 Safety Insurance Group, Inc.
 United Fire & Casualty Company
 W. R. Berkley Corporation

American Financial Group, Inc.
 EMC Insurance Group
 Harleysville Group, Inc.
 Kingsway Financial Services
 Old Republic International Corporation
 Selective Insurance Group, Inc.
 Unitrin, Inc.
 Amtrust Financial Services*

Argo Group International
 Erie Indemnity Company
 Horace Mann Educators Corporation
 Mercury General Corporation
 OneBeacon Insurance
 Tower Group
 White Mountains Insurance Group

*Addition for 2010 as compared to 2009

Table of Contents

The following chart compares 2009 data (the companies in the NEO Peer Group used for 2010 compensation decisions were selected on the basis of 2009 financial data) for revenue, total assets, market capitalization and employee count of the median company within the NEO Peer Group to that of the Company:

	Median Peer Company	State Auto Financial
Revenue	\$ 1.476 billion	\$ 1.257 billion
Total Assets	\$ 4.233 billion	\$ 2.565 billion
Market Capitalization	\$ 948 million	\$ 736 million
Employees	1,900	2,226

As discussed in Compensation Discussion and Analysis Executive Compensation Role of State Auto Group on page 30 of this Proxy Statement, our NEOs are also officers of State Auto Mutual and provide services to our Company, State Auto Mutual and the other members of the State Auto Group. For example, Mr. Restrepo serves as the Chairman, President and Chief Executive Officer of both the Company and State Auto Mutual. Accordingly, our NEOs are compensated both for the services they perform on our behalf and for the services they perform on behalf of State Auto Mutual and the other members of the State Auto Group. As a result, the compensation expenses associated with the services performed by our NEOs on behalf of the Company, State Auto Mutual and the State Auto Group are, in general, allocated 80% to the Company and its subsidiaries and 20% to State Auto Mutual and certain of its subsidiaries and affiliates. The compensation of our NEOs as disclosed in this Proxy Statement, however, includes all compensation expenses associated with the services performed by our NEOs on behalf of the Company, State Auto Mutual and the State Auto Group.

Survey Data

Pay Governance, LLC reviews and analyzes compensation surveys covering executive officers at both public and private insurance and financial services companies. The published pay survey information contained in the Survey Data allows us to assess the compensation paid to executives relative to the compensation paid in the insurance and financial services industry to similar positions. This information is also used, in combination with information for the NEO Peer Group, to provide a more complete and thorough assessment of competitive pay levels and practices with regard to our NEOs.

Use of Tally Sheets

The Committee uses tally sheets to review total compensation and each element of compensation in conjunction with its annual review of our NEOs' total compensation. The tally sheets used by the Committee in its review of NEO compensation for 2010 (i) listed each individual element of compensation along with the amount earned in each category for 2007, 2008 and 2009; (ii) listed the target and maximum amounts of incentive compensation payable for 2009; and (iii) summarized the current value of employee benefits and perquisites. The tally sheets provide a valuable perspective on the total value of NEO compensation and show how potential changes in one element of compensation may influence the other elements. The Committee also used tally sheets to evaluate each NEO's total compensation in 2011.

Executive Compensation Program Elements

We believe that the mix of compensation elements provided in our executive compensation program furthers the goals of the program and provides appropriate reward opportunities. Each of these elements is separately discussed below, other than employee benefits, which are offered to our NEOs on the same basis as all of our other employees, except for certain additional long-term disability benefits provided to Messrs. Restrepo and Blackburn pursuant to their respective employment agreements in the event they are terminated by reason of disability (See Employment Agreements with Named Executive Officers Restrepo Employment Agreement Disability and Blackburn Employment Agreement Disability on pages 64 and 65 of this Proxy Statement).

Table of Contents

The Company applies the following principles in designing our executive compensation program to achieve the overall goals of our executive compensation program:

The Company does not have a prescribed mix between cash and non-cash compensation and short- and long-term compensation;

The Company positions each element of executive compensation to approximate the median level of the competitive market (as defined below in *Benchmarking of Executive Compensation Program Elements*) so that total compensation is also positioned at median levels;

Neither the Committee nor the CEO considers the other elements of compensation available to NEOs, such as salary increases, annual bonuses, option gains and equity ownership, when setting any one element; and

Awards made in prior years or in other parts of our compensation program have not influenced the opportunities or payments made available in the current year.

Some of our NEOs' compensation is governed by the terms of specific agreements between the NEO and the Company. (See *Contractual Arrangements with Named Executive Officers* beginning on page 47 of this Proxy Statement.)

Base Salary***Base Salary Adjustment Process***

The Committee believes that in order for the Company to attract and retain the caliber of executives it needs to achieve both short- and long-term success it is critical for the Company to provide the NEOs with base salaries competitive with those provided to executives in our competitive market with similar skills, competencies, experience and levels of responsibility. Accordingly, the Committee may adjust the amount of an NEO's base salary based on the median level of base salary for the NEO in our competitive market or to reflect a change in the NEO's scope of responsibility or unique skills or expertise. These adjustments are subject to an aggregate base salary merit increase budget established by the Company based on its anticipated cost structure.

2010 Base Salaries of NEOs

The Committee established the 2010 base salaries of the NEOs in March 2010 as follows. The adjustments were based on increases in the median salaries of peer companies for each position.

Named Executive Officer	2009 Base Salary	2010 Base Salary	Increase
	(\$)	(\$)	(Decrease) (%)
Robert P. Restrepo, Jr.	730,000	755,000	3.4
Steven E. English	350,000	360,000	2.9
Mark A. Blackburn	465,000	475,000	2.2
Clyde H. Fitch	320,000	330,000	3.1
James A. Yano	300,000	310,000	3.3

Table of Contents*2011 Base Salaries of NEOs*

The Committee set the 2011 base salaries of the NEOs in March 2011 as follows. The adjustments were based on increases in the median salaries of peer companies for each position, as well as additional responsibilities for Mr. English due to a recent expansion of his role.

Named Executive Officer	2010 Base Salary (\$)	2011 Base Salary (\$)	Increase (Decrease) (%)
Robert P. Restrepo, Jr.	755,000	780,000	3.3
Steven E. English	360,000	400,000	11.1
Mark A. Blackburn(1)	475,000	475,000	0
Clyde H. Fitch	330,000	340,000	3.0
James A. Yano	310,000	320,000	3.2

- (1) Mr. Blackburn's base salary was not adjusted in March 2011 because he resigned from all of his officer positions with the Company and the State Auto Group on January 14, 2011. Mr. Blackburn will retire from his remaining positions with the Company and the State Auto Group effective on November 1, 2011.

Short-Term Incentive Compensation

The two short-term incentive plans our Company maintains for our NEOs—the Quality Performance Bonus Plan (QPB) and the Leadership Bonus Plan (LBP)—are intended to provide personal liquidity to our NEOs, focus our NEOs on achieving our short-term strategic objectives and balance the focus of our long-term incentive plans.

The following chart shows the amount of short-term cash incentive compensation paid to each NEO for 2010 under both the QPB and LBP. The total amount of 2010 short-term cash incentive compensation paid to each NEO in the fourth column is equal to the sum of the amounts shown in the first three columns. The sections that follow describe in more detail the basis for these awards.

Named Executive Officer	Company Performance	Individual Performance	QP Bonus	Total Short-Term Bonus (\$)	Total Short-Term Bonus (%) (2)
	LBP Bonus (\$)	LBP Bonus (\$)(1)			
Robert P. Restrepo, Jr.	344,450	173,113	10,918	528,481	93.3%
Steven E. English	164,241	96,044	5,206	265,491	98.3%
Mark A. Blackburn	216,707	82,194	6,869	305,769	85.8%
Clyde H. Fitch	150,554	88,041	4,772	243,367	98.3%
James A. Yano	94,287	53,642	4,483	152,412	98.3%

- (1) The amount of the individual performance bonus shown in this column is net of the amount of the QPB bonuses (shown in the third column) paid for 2010.

- (2) Expressed as a percentage of target where target is set at 100%.

Quality Performance Bonus Plan Bonuses**Basis for QPB Bonuses**

The QPB is a quarterly profit-sharing program intended to motivate our employees to focus on the underwriting, pricing discipline and expense management we consider critical in profitably underwriting our insurance business by rewarding all of our employees for our achievement of underwriting profit. Motivating our employees to focus on the factors we consider critical in achieving underwriting profit supports our strategic objective to achieve consistent underwriting profits. Bonuses under the QPB are payable for a fiscal quarter only to the extent that our QPB Combined Ratio for that quarter is better (i.e., less) than the Combined Ratio Trigger for that quarter.

Table of Contents**QPB Award Process**

Every employee eligible to participate in the QPB, including each of our NEOs, is paid the same percentage of their quarterly salary for any fiscal quarter in which a QPB bonus is earned. This approach reinforces the importance of the team effort required across the State Auto Group to achieve our strategic goals. The quarterly payout feature of the QPB also provides prompt feedback regarding the Company's performance and profitability to our employees. The QPB combined ratio performance hurdles are reviewed and established annually based on our underwriting performance goals in our Company plan.

The QPB Combined Ratio is the direct (i.e., without considering the impact of reinsurance) statutory combined ratio for all of our affiliated insurance companies. The QPB Combined Ratio is the sum of our allocated loss adjustment expense ratio, plus an expense ratio including unallocated loss adjustment expenses based upon the previous rolling four quarters. We use the unallocated loss adjustment expenses for the immediately preceding four quarters, plus internal claims handling costs, to approximate the expense ratio for the current quarter. The QPB Combined Ratio includes positive or negative development related to catastrophes or non-catastrophes.

The Combined Ratio Trigger may vary for each quarter based on how historical results have differed from one quarter to the next during the course of a year.

To the extent that the QPB Combined Ratio for a quarter is less than the Combined Ratio Trigger for any quarter, the difference is multiplied by the direct earned premium (in essence, the amount of our underwriting profit in excess of the Combined Ratio Trigger) for that quarter. An amount equal to fifteen percent of the product is placed in the QPB bonus pool, and the QPB bonus pool is divided by the total salaries of all eligible participants to determine the QPB bonus for that quarter. The QPB bonus is expressed as a percentage of each participant's quarterly salary. Each participant in the QPB, including the NEOs, receives the same percentage of their quarterly salary as a QPB bonus for that quarter. The Committee employs no discretion in determining the payouts made under the QPB. During 2010, the Committee implemented a 25% quarterly QPB earnings cap as a percent of salary.

QPB Bonuses 2010

A QPB bonus was earned only in the fourth quarter of 2010, as shown in the chart below illustrating the Combined Ratio Trigger and the actual QPB Combined Ratio for each quarter in 2010:

	First Quarter 2010	Second Quarter 2010	Third Quarter 2010	Fourth Quarter 2010
Combined Ratio Trigger	96.0%	102.0%	102.0%	96.0%
QPB Combined Ratio	96.7%	111.1%	104.4%	92.5%

Under the QPB, eligible employees received the following QPB bonuses, expressed as a percentage of their quarterly salary, for each quarter in fiscal year 2010:

	First Quarter 2010	Second Quarter 2010	Third Quarter 2010	Fourth Quarter 2010
QPB Payout as % of Participant's Quarterly Base Salary	0%	0%	0%	5.37%

For the full year 2010, the total QPB bonus payout was approximately 1.34% of all eligible salaries.

QPB Bonuses 2011 Opportunities

For 2011, the Combined Ratio Trigger has been set at an annual average of 99% based on quarterly results of 96% (Q1), 102% (Q2), 102% (Q3) and 96% (Q4). These targets were chosen due to their alignment with the Company's financial plan for 2011, and are unchanged from 2010.

Table of Contents

Leadership Bonus Plan Bonuses

Basis for LBP Bonuses

The LBP is an annual cash incentive program for our executives. For our NEOs, the LBP consists of two components: (i) a Company performance component and (ii) an individual performance component. For 2010, 75% of an NEO's LBP target bonus opportunity was based on Company performance relative to annual plan targets and 25% was based on individual performance. The Committee believes that this allocation appropriately focuses our NEOs on attaining objective, quantitative financial results based on the Company's consolidated results and business plan, while also providing for the recognition of individual achievements and non-financial outcomes.

LBP Award Process

Each year, the Committee confirms the results of the Company performance component of the LBP for the NEOs based on the achievement of performance goals established by the Committee at the beginning of that year with respect to various performance measures selected by the Committee at the beginning of that year from a list contained in the LBP. The Committee normally establishes threshold, target and maximum performance goals that determine the amount of the Company performance bonus that is earned. At the end of the year, management provides the Committee with the audited financial results achieved by the Company with respect to each performance measure selected by the Committee. Based on this information, the Committee certifies the extent to which the performance goals were achieved before payment of the Company performance bonus, if any, is made.