

State Auto Financial CORP
Form DEF 14A
April 02, 2013
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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)

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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 3, 2013, at 10:00 a.m., local time, for the following purposes:

1. To elect three Class I directors, each to hold office for a three-year term 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 and to reaffirm the material terms of such plan as modified by such amendment;
3. To ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2013;
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 the Proxy Statement for the 2013 Annual Meeting of Shareholders; and
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

The close of business on March 8, 2013, 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 2, 2013

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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 3, 2013 (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 2, 2013.

This Proxy Statement, the form of proxy, and the Company's 2012 Annual Report to Shareholders are available at www.proxyvote.com.

PROXIES AND VOTING

The close of business on March 8, 2013 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 40,515,134 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 I 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 the election of directors. Accordingly, if you hold your Common Shares in street name and you do not provide

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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 an amendment to the 2009 Equity Incentive Compensation Plan and reaffirmation of the material terms of such plan as modified by such amendment), the vote required to approve this Proposal is the favorable vote of a majority of the outstanding Common Shares voted on such Proposal. Abstentions on this Proposal 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 this Proposal. 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) is advisory only and therefore is 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. Abstentions on Proposal Four 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 this Proposal. Proposal Four 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 Four.

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 I directors; (2) for the approval of an amendment to the 2009 Equity Incentive Compensation Plan and the reaffirmation of the material terms of such plan as modified by such amendment; (3) for the ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2013; and (4) for the approval of the compensation of the Company's named executive officers as disclosed in this Proxy Statement. 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 62% OF THE OUTSTANDING COMMON SHARES, HAS EXPRESSED AN INTENTION TO VOTE FOR THE ELECTION OF THE NOMINEES LISTED IN THIS PROXY STATEMENT AND IN FAVOR OF EACH OF PROPOSALS TWO, THREE AND FOUR.

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PROPOSAL ONE: ELECTION OF DIRECTORS

Nominees for Class I 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 I directors expires concurrently with the holding of the Annual Meeting. Robert E. Baker, Thomas E. Markert and Alexander B. Trevor, the three persons recommended by the Nominating and Governance Committee of our Board and each of whom is an incumbent Class I director, have been nominated for re-election as Class I directors at the Annual Meeting.

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 I directors, each to hold office until the 2016 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 three 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 I DIRECTORS.

Backgrounds of Class I Director Nominees (Terms expiring in 2016)

Robert E. Baker

Robert E. Baker, 66, 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 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 1999 to 2004. Mr. Baker was a director of CoolBrands International Inc., a publicly traded Canadian corporation focused on the marketing and selling 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, from 2004 to 2006.

Mr. Baker has been nominated for re-election 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, 55, has been a director since 2007. Mr. Markert has served as CEO of Digital Tailwind LLC, a digital marketing agency, since March 2012. Mr. Markert was an officer of the Business Solutions Division of Office Depot, Inc., a global supplier of office products and services, from May 2008 until accepting his current position. 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 to May 2008. He also served as Global Chief Marketing and Client Service Officer of ACNielsen, 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 ACNielsen.

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Mr. Markert has been nominated for re-election 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, 68, 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 has been nominated for re-election 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.

Backgrounds of Continuing Class II Directors (Terms expiring in 2014)

David J. D. Antoni

David J. D. Antoni, 68, 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 was last nominated in 2011 to serve 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.

David R. Meuse

David R. Meuse, 68, has been a director since 2006. Mr. Meuse has served as Principal of Stonehenge Partners Corp., 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. Mr. Meuse also serves on the board of directors of several privately held companies and non-profit organizations.

Mr. Meuse was last nominated in 2011 to serve 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, 60, 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 Ohio, since January 2003. She served as Executive Director of the Columbus Airport Authority from December 2000 until accepting her current position.

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Ms. Roberts was last nominated in 2011 to serve 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.

Backgrounds of Continuing Class III Directors (Terms expiring in 2015)

Eileen A. Mallesch

Eileen A. Mallesch, 57, 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 was last nominated in 2012 to serve 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.

Robert P. Restrepo, Jr.

Robert P. Restrepo, Jr., 62, 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) and Milbank Insurance Company (Milbank), each a wholly owned subsidiary of the Company, and of State Auto Mutual, since 2006.

Mr. Restrepo was last nominated in 2012 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, including his unique knowledge and understanding of the Company's operations as a result of his more than seven years in serving as the Company's President and Chief Executive Officer. He also has valuable experience in acquisitions, strategic planning and leadership development.

Paul S. Williams

Paul S. Williams, 53, 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 last nominated in 2012 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.

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

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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 Nominating and Governance 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.

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 53 of this Proxy Statement) as of March 8, 2013:

Name	Common Shares Beneficially Owned(1)	Stock Options(2)	Restricted Share Units(3)	Total Beneficial Ownership of Common Shares and RSUs	Percent of Class
Robert E. Baker	2,800	0	15,142	17,942	*
David J. D. Antoni	64,657	8,400	18,558	91,615	*
Eileen A. Mallesch	3,800	0	8,825	12,625	*
Thomas E. Markert	500	0	15,142	15,642	*
David R. Meuse	65,000	0	16,842	81,842	*
Robert P. Restrepo, Jr.	97,564(4)(5)	276,156	N/A	373,720	*
S. Elaine Roberts	1,000	7,400	18,558	26,958	*
Alexander B. Trevor	500	0	16,842	17,342	*
Paul S. Williams	325	4,200	18,558	23,083	*
Steven E. English	9,477	84,627	N/A	94,104	*
Jessica E. Buss	1,634	11,718	N/A	13,352	*
Clyde H. Fitch	14,505	72,371	N/A	86,876	*
James A. Yano	8,561	44,061	N/A	52,622	*
Directors and Officers as a group (18 persons)	299,193	698,093		997,286(6)	2.4%(6)

* 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.

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- (2) 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 8, 2013.
- (3) Represents 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.
- (4) Includes 16,707 Common Shares from a restricted stock award and 1,315 Common Shares from dividend reinvestment, both of 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.
- (5) Includes 21,526 Common Shares from a restricted stock award and 802 Common Shares from dividend reinvestment, both of which are subject to a risk of forfeiture if, prior to March 1, 2015, 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 1, 2015, 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 1, 2015.
- (6) Does not include Restricted Share Units granted to directors.

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PROPOSAL TWO: AMENDMENT TO THE 2009 EQUITY INCENTIVE COMPENSATION PLAN AND REAFFIRMATION OF THE MATERIAL TERMS OF SUCH PLAN AS MODIFIED BY SUCH AMENDMENT

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"). This amendment, hereinafter referred to as the "second amendment," would modify the Plan to: (i) authorize additional Common Shares for awards under the Plan; (ii) create a fungible reserve for Common Shares to be issued under the Plan; (iii) prohibit replacing or repricing certain stock option awards without shareholder approval; (iv) require a three-year vesting schedule for stock option and restricted stock awards; (v) prohibit the grant of dividends and/or dividend rights on unearned performance shares; and (vi) require termination of employment within one year of a change in control or potential change in control in order to trigger accelerated vesting under the Plan. These modifications are proposed to enable the Plan to continue to provide appropriate and meaningful awards and maintain the Plan on a competitive basis.

At the 2009 annual meeting, shareholders first approved the Plan. Shareholders approved the first amendment to the Plan at the 2011 annual meeting.

Shares Available for Issuance under the Plan

A total of 2,000,000 Common Shares were initially reserved under the Plan, of which 53,993 remain available for issuance as of March 1, 2013. Under the second amendment, an additional 1,000,000 Common Shares would be made available for awards under the Plan. In addition, under the second amendment, each Common Share issued or transferred pursuant to an award of stock options would reduce the aggregate Plan limit of available Common Shares by one Common Share and each Common Share issued or transferred (and in the case of restricted shares, released from all substantial risk of forfeiture) pursuant to an award other than stock options would reduce the aggregate Plan limit of available Common Shares by (i) one Common Share if issued or transferred pursuant to an award granted prior to the effective date of the second amendment; and (ii) three Common Shares if issued or transferred pursuant to an award granted on or after the effective date of the second amendment.

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 shares. The maximum number of performance units that may be granted in any calendar year to any individual is 100,000 performance units.

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. 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

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performance, development and financial success. These purposes will be achieved by granting to key employees equity-based awards, including stock options, restricted shares, performance shares, performance units and other stock-based awards.

Eligibility

Only employees of the Company or its parent or one of the Company's or its parent's subsidiaries or affiliates who perform services in an executive, administrative, professional or technical capacity and 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 are eligible to participate in the Plan. As of the date of this Proxy Statement, there were approximately 108 eligible employees.

Administration

The Plan is administered by the Compensation Committee of the Company's Board of Directors (the Committee). The 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 awards, the number of 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 Committee is required to 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 Committee. The 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 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.

Change in Control

Currently under the Plan, 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 automatically vest and become exercisable in full and all restrictions applicable to any restricted stock, performance shares or performance units automatically lapse such that those awards become fully vested.

Under the second amendment accelerated vesting would occur only if the participant incurs a termination of employment with the Company and any related entity within one year of the change in control or potential change in control or if the change in control or potential change in control involves a change in the ownership of the Company and the successor entity does not provide benefits of equal or greater value at the time of the transaction. Such provision reflects an industry best practice and is in accordance with the language contained in award grants issued since 2012.

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 Common 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.

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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 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 Marketplace 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. The second amendment is intended to confirm the Company's current practice of, except in connection with a corporate transaction involving the Company, not reducing the exercise price of outstanding stock options or canceling outstanding stock options in exchange for cash, other awards, or stock options with an exercise price that is less than the exercise price of the original stock option without shareholder approval.

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). The second amendment is intended to reflect the Company's practice of subjecting each stock option to a minimum three-year vesting period. Participants whose employment is terminated for reasons other than retirement, disability or death must exercise all of their vested options within the earlier of 90 days of such termination or the expiration date of the option (options which are not vested immediately lapse). If a participant's employment is terminated due to illegal conduct, all of such participant's options, whether or not vested, immediately lapse without any further force or effect as of such termination). If the participant's employment is terminated as a result of retirement, disability or death, all of such participant's options, whether or not vested, 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

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Non-Transferability of Options. Options may be transferred only by will or the laws of descent and distribution except that the 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.

Restricted Shares

Restricted shares are Common Shares that are subject to a vesting schedule and other restrictions. The vesting schedule and the lapsing, if any, of the restrictions, are determined by the Committee. However, under the second amendment, restricted shares would be subject to a minimum three-year vesting period, reflecting the Company's historic practice. Unless otherwise determined by the 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 Committee has 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 Committee are achieved during the performance period established by the Committee. In making such awards, the Committee establishes 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, determines the number and/or the value of performance shares and performance units to be paid out to participants. The Committee also establishes the performance period for each award, which period may not be less than one calendar year.

The purchase price of performance shares will be established by the 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 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 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 are forfeited. The Committee will have the authority to determine the voting rights (which

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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. However, under the second amendment, dividends and/or dividend rights may not be granted in connection with unearned performance shares.

Other Stock-Based Awards

The 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 and factors that may influence the value of Common Shares, as deemed by the 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 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 Committee determines 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 Committee makes an award under the Plan transferable, such award may contain such additional terms and conditions as the 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.

Stock Price

On March 14, 2013, the closing price of the Common Shares as reported by the Nasdaq Stock Market was \$16.45.

Number of Awards

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

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.

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

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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.

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- (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.

Restricted Shares, Performance Shares and Performance Units

A participant generally will not have taxable income at the time an award of restricted shares, performance shares or performance units is granted. Instead, he or she will recognize as ordinary income at the time of the lapse of the applicable restrictions an amount equal to the fair market value of the restricted shares, performance shares or performance units at the time of such lapse. However, the recipient of a restricted shares, performance shares or performance units award may elect to recognize income at the time he or she receives the award in an amount equal to the fair market value of the shares underlying the award (less any cash paid for the shares) on the date the award is granted. The Company generally will be entitled to a tax deduction in connection with an award under the Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income, provided that the Company satisfies applicable withholding requirements and the deduction is not otherwise disallowed under the Code.

Reasons for Shareholder Approval

Under the Nasdaq Marketplace Rules, the Company is required to receive shareholder approval for modifications to the material terms of stock option and purchase plans in which officers or employees participate. For this reason, the Company's shareholders are being asked to approve the second amendment to the Plan.

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 second amendment to the Plan. Abstentions 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 this Proposal. Broker non-votes will not have a positive or negative effect on the outcome of this Proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE SECOND AMENDMENT TO THE PLAN AND A VOTE FOR REAFFIRMING THE MATERIAL TERMS OF THE PLAN AS MODIFIED BY SUCH AMENDMENT.

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**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 2013. 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 2013 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 2013.

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.

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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 26 through 70 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 2013 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.

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BOARD OF DIRECTORS AND BOARD COMMITTEES

Board Meetings

Our Board of Directors held four Board meetings during the fiscal year ended December 31, 2012. 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 and Finance 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 2012.

The Compensation Committee is charged with several responsibilities, including: (1) evaluating and approving the compensation and fringe benefits provided to our executive officers and adopting compensation policies and practices that appropriately align pay and performance; (2) approving stock-based compensation plans and grants thereunder to employees or members of the Board; and (3) evaluating the compensation provided to the members of the Board and its committees. Present members of the Compensation Committee are Chairperson Robert E. Baker, David J. D. Antoni, David R. Meuse, S. Elaine Roberts and Paul S. Williams. The Compensation Committee held five meetings during 2012.

Our executive officers also serve as executive officers of State Auto Mutual, and, in general, during 2012 the compensation expenses associated with our executive officers were allocated 65% to us and our subsidiaries and 35% 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

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meetings of our Compensation Committee as a non-voting member. This State Auto Mutual director, 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; (3) overseeing enterprise risk management on behalf of our Board (see Corporate Governance Risk Oversight The Board's Role in Risk Oversight); and (4) 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 four times in 2012. See also Corporate Governance Nomination of Directors contained elsewhere in this Proxy Statement.

The Investment and Finance Committee oversees our investment functions and those of our insurance subsidiaries. The members of the Investment and Finance 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 and Finance Committee met four times in 2012.

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, held one meeting in 2012.

Compensation of Outside Directors and Outside Director Compensation Table

Our non-employee directors, who we refer to as our outside directors, receive compensation for the services they perform as members of our Board and the Board committees on which they serve. The charter for the Compensation Committee requires the Compensation Committee to annually review the compensation of our outside directors and recommend any changes to such compensation to our Board. In accordance with this requirement, the Compensation Committee reviewed the compensation of our outside directors at its November 2012 meeting with the assistance of Pay Governance, LLC, the Compensation Committee's compensation consultant. At the meeting, Pay Governance, LLC discussed its report on director compensation which analyzed the director compensation data set forth in the proxy statements filed in 2012 by certain members of the Company's peer group. Pay Governance, LLC found that this data continued to support the conclusion it reached in 2011 that the target total compensation for outside directors who do not serve as the chairperson of a Board committee should be increased by \$10,000 to \$125,000. Pay Governance, LLC recommended the increase could be paid in cash, equity or a combination of cash and equity. After considering Pay Governance, LLC's report and analysis and the underlying data, the Compensation Committee decided to recommend that our Board increase the total compensation paid to our outside directors by \$10,000, with the increase being payable entirely in equity in the form of Restricted Share Units (RSUs). Our Board approved at its November 9, 2012 meeting the increase recommended by the Compensation Committee and, as a result, the total compensation of our outside directors for 2013 will be \$125,000, with 52% to be paid in a cash retainer of \$65,000 and 48% in equity compensation in the form of RSUs.

Our outside directors received two types of compensation in 2012 an annual cash retainer of \$65,000 and equity in the form of RSUs. No meeting fees are payable to any of our directors, as our directors are expected to attend and participate in all meetings of the Board and the Board committees on which they serve without the incentive of additional compensation. Our Board may, however, elect to pay additional meeting fees to directors if it determines that extraordinary circumstances warrant the formation of a special committee or necessitate a large

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number of meetings, but no additional meeting fees were paid to our directors in 2012. Each chairperson of our Board committees 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, Mr. Williams, was also paid an additional cash retainer of \$20,000. We reimburse our outside directors for the travel expenses they incur to attend Board and committee meetings and an annual Board retreat. The Company also reimburses each of our outside directors for the travel expenses incurred by a guest of the outside director to attend the annual Board retreat, subject to applicable tax laws.

Our outside directors may defer all or any portion of the cash compensation they receive for Board or committee service under our deferred compensation plan for directors. The amount of cash compensation earned by each director in 2012, whether or not deferred, is included in the amounts shown in the Fees Paid or Earned in Cash column of the 2012 Outside Director Compensation table set forth below.

Our outside directors also receive equity compensation in the form of RSUs granted 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 immediately previous trading day. Each outside director was granted 3,310 RSUs under the Directors RSU Plan promptly following our 2012 Annual Meeting of our Shareholders. To determine the number of RSUs granted to each outside director, the targeted annual equity compensation for each director is divided by the average daily closing price of a Common Share during the prior calendar year. In addition, whenever a dividend is paid with respect to our Common Shares, an amount equal to the value of the dividend is paid to the holders of RSUs with respect to each RSU in their account on the dividend record date in the form of additional RSUs. RSUs vest upon the completion of six months of service as an outside director from the date of grant.

Our Compensation Committee has the authority, in its capacity as the administrative committee under the Directors RSU Plan, to decrease or increase the annual award of RSUs to outside directors by 500 to 5,000 RSUs without shareholder approval. The Directors RSU Plan generally requires outside directors to hold their RSUs until their service on the Board terminates, at which time the director may settle the RSUs in cash or Common Shares payable, at the director's election, in a single lump sum or in annual installments over a five- or ten-year period. An outside director elected or appointed to the Board outside of an annual meeting of our shareholders will be granted a pro rata amount of RSUs based upon the number of anticipated days after the date of election or appointment until our next annual meeting of shareholders.

2012 Outside Director Compensation

In 2012, our outside directors received the following compensation:

Name	Fees Paid or Earned in Cash (\$)	Restricted Share Unit Awards \$(1)	Total (\$)
Robert E. Baker	70,000	44,552	114,552
David J. D. Antoni	70,000	44,552	114,552
Eileen A. Mallesch	80,000	44,552	124,552
Thomas E. Markert	65,000	44,552	109,552
David R. Meuse	70,000	44,552	114,552
S. Elaine Roberts	65,000	44,552	109,552
Alexander B. Trevor	70,000	44,552	114,552
Paul S. Williams	90,000	44,552	134,552

- (1) The total dollar amount shown in the Restricted Share Unit Awards column represents the cash value of the total number of RSUs awarded in 2012 valued at the closing price of Common Shares on the grant valuation date (\$13.46 per RSU).

Table of Contents**Outside Directors Ownership of Restricted Share Units and Stock Options**

The following table sets forth the aggregate number of RSUs and stock options owned by each of our current outside directors as of March 8, 2013. 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
Robert E. Baker	15,142	0
David J. D. Antoni	18,558	8,400
Eileen A. Mallesch	8,825	0
Thomas E. Markert	15,142	0
David R. Meuse	16,842	0
S. Elaine Roberts	18,558	7,400
Alexander B. Trevor	16,842	0
Paul S. Williams	18,558	4,200

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

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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. The fees paid to either Stonehenge Financial Holdings and RED Capital Group in 2012 did not exceed \$200,000.

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 and Finance 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 and Finance 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 2012 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

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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

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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;

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Committees composed entirely of independent directors, with the exception of our Investment and Finance 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 2012, our Board re-elected Paul S. Williams to serve as Lead Director. Mr. Williams has served in that position since May 2010. 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 and manage risks.

In 2012, our Board recognized the need for the Company to broaden and deepen its risk management capabilities to better manage risk and effectively execute our strategic plan. This recognition led to our Board and Mr. Restrepo appointing Cynthia A. Powell as our new Chief Risk Officer (CRO) in July 2012. Ms. Powell is responsible for promoting corporate innovations, effecting change management and enterprise risk management strategies and aligning all financial, technology and human resource capabilities to achieve our strategic goals. Ms. Powell, who is a CPA, has served in a variety of capacities since joining the Company in 1990, including comptroller, treasurer and chief accounting officer. The director of enterprise risk management and other staff report to Ms. Powell.

The Nominating and Governance Committee has primary responsibility for oversight of enterprise risk management on behalf of our Board. The Nominating and Governance Committee's charter was recently amended to more define the Nominating and Governance Committee's responsibilities for risk management oversight. The amended charter specifies that the Nominating and Governance Committee is to meet quarterly with our CRO and our director of enterprise risk management. The Nominating and Governance Committee also receives quarterly reports which assess the 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 CRO and 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, legal and regulatory compliance, and other members of management as the Nominating and Governance Committee deems appropriate.

The amended charter also provides that the Nominating and Governance Committee is to continually review with management the Company's risk appetite statement and quarterly monitor compliance within the Company's risk appetite. In addition, the Nominating and Governance Committee is to monitor and discuss with management the Company's major enterprise risks, and the programs and steps management has integrated or anticipates integrating into its practices and processes to address those risks. The amended charter charges the Nominating and Governance Committee to annually review and evaluate the Company's risk assessment and risk

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management programs, as well as the Nominating and Governance Committee's own effectiveness in performing its enterprise risk management oversight duties. The Nominating and Governance Committee quarterly is to report its enterprise risk oversight activities to our Board.

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 CRO or the director of enterprise risk management for reports on selected risk areas. We also utilize an internal enterprise risk management committee comprised of senior officers. Among other things, this internal committee works with business units across the Company in carrying out its responsibility of anticipating, identifying, assessing and managing significant risks facing our Company.

Risk assessment and management are included as part of 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 engaged in an analysis of potential risks within the compensation programs. Following a review with Senior Leadership, our compensation consultant and outside legal counsel, we have concluded that no risks exist that are reasonably likely to have a material adverse effect on the Company.

Other Governance Issues of Interest

Formal Stock Ownership Holding Periods

The Company's Ownership Guidelines require its Section 16 officers to hold the net amount of Common Shares obtained through the exercise of stock options until the later of (i) the first anniversary of the date the officer exercised the stock options or (ii) the date on which the officer satisfies the Ownership Target Amounts. (See Compensation Discussion and Analysis Stock Ownership Guidelines.)

Directors' Stock Ownership Guidelines

Our Company's Corporate Governance Guidelines contain the expectation that each of our outside directors will own Company shares or RSUs granted under the RSU Plan having a total market value of at least three times the then current cash portion of the director's annual retainer. Each director has five years to attain this level of ownership. Our directors are required to hold all RSUs until their membership on the Board terminates.

Anti-Hedging Policy

A policy adopted by our Board prohibits all Company employees and members of the Board from engaging in certain hedging transactions with respect to Company securities held by them, including short sales and other transactions that shift the economic consequences of ownership of Company securities to a third party. Another policy adopted by the Board prohibits our Section 16 officers and members of the Board from holding Company securities in a margin account or otherwise pledging Company securities as collateral for a loan. (See Compensation Discussion and Analysis Anti-Hedging 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 and Finance Committee and standing Independent Committee;

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

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Our Employee Code of Business Conduct; and

Our Code of Ethics for Senior Financial Officers.

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COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes our executive compensation program as it pertains to our named executive officers (NEOs).

Executive Summary

2012 Compensation Summary

The Company's recent financial results are reflected in the actual compensation earned by our NEOs for 2012, which was less than the target amounts established for 2012.

Base Salary. The base salaries of our NEOs generally did not increase in 2012. The base salaries of our NEOs will be increased by approximately 3% in 2013, which is consistent with the practices of other financial services and insurance companies (including many of our peers), except for Mr. Yano, whose base salary will be increased by approximately 9% in 2013.

Short-Term Incentive Compensation. The payout on the Company performance goals under our Leadership Bonus Plan (the LBP) as a percentage of the target LBP bonus for 2012 (where the target percentage equals 100%) was 6.11% for Messrs. Restrepo, English and Yano, 44.41% for Mr. Fitch and 132.77% for Ms. Buss. The payout on the individual performance goals under the LBP as a percentage of the target LBP bonus for 2012 (where the target percentage equals 100%) was 90% for Mr. Restrepo, 140% for Mr. Fitch, 180% for Ms. Buss, 150% for Mr. English and 170% for Mr. Yano.

Performance Award Units. We awarded cash-based performance award units (PAUs) to our NEOs for the 2010-2012 performance period pursuant to the State Auto Financial Corporation Long-Term Incentive Plan, as amended (LTIP). We have not determined the value of these PAUs because the final peer group data for the 2010-2012 performance period has not been released as of the date of this Proxy Statement. However, based on preliminary performance information indicating that the Company's overall performance for the 2010-2012 performance period relative to the LTIP Peer Group (as defined below in Executive Compensation Program Elements Long-Term Equity and Cash Incentive Compensation Performance Award Units PAU Award Process) falls within the 60th percentile, we currently expect that the PAUs awarded to our NEOs (except for Ms. Buss) for the 2010-2012 performance period will be valued significantly below target.

Equity Compensation. We awarded equity and equity-based compensation (in the form of stock options and, in the case of our CEO, restricted common shares) in 2012 to our NEOs pursuant to our 2009 Equity Plan.

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The following table sets forth for each NEO: (i) the targeted bonus payout under the LBP for 2012 and the actual payout under the LBP for 2012; (ii) the targeted value of the PAUs granted for the 2010-2012 performance period and the amount accrued by the Company with respect to the PAUs granted for the 2010-2012 performance period; and (iii) the targeted value of the equity compensation awarded to our NEOs in 2012 and the value of the equity compensation awarded to our NEOs in 2012 as of December 31, 2012.

	Short-Term Incentive Compensation		PAUs		Equity Compensation		TOTAL	
	Target	Actual	Target	Accrued	Target	Value	Target	Value
Robert P. Restrepo, Jr.	\$ 624,000	\$ 168,979	339,750	207,248	\$ 728,000	\$ 454,219	\$ 1,691,750	\$ 830,446
<i>Chairman, President and Chief Executive Officer</i>								
Steven E. English	\$ 318,751	\$ 134,130	117,000	71,370	\$ 63,750	\$ 23,226	\$ 499,321	\$ 228,726
<i>Vice President and Chief Financial Officer</i>								
Jessica E. Buss	\$ 176,868	\$ 255,716	70,747	120,270	\$ 35,374	\$ 12,889	\$ 282,989	\$ 388,875
<i>Vice President, Specialty Lines</i>								
Clyde H. Fitch	\$ 255,000	\$ 174,191	107,250	65,423	\$ 44,200	\$ 16,105	\$ 406,450	\$ 255,719
<i>Senior Vice President and Chief Sales Officer</i>								
James A. Yano	\$ 160,000	\$ 75,328	77,500	47,275	\$ 32,000	\$ 11,659	\$ 269,500	\$ 134,262

Vice President, Secretary and General Counsel

Impact of State Auto Group on Compensation of NEOs

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 76 of this Proxy Statement for a 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 76 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.

Accordingly, when determining the amount of the compensation of our NEOs, the Committee takes into account the services our NEOs perform on behalf of the Company and the services they perform on behalf of State Auto Mutual and the other members of the State Auto Group. The Committee targets the total amount of each element of compensation payable to our NEOs at or close to the median compensation level in our competitive market, which we define as insurance companies similar in size to the State Auto Group, as opposed to insurance companies similar in size to the Company (See Benchmarking of Executive Compensation Program Elements on page 34 of this Proxy Statement). The charts below set forth the total revenues and total assets of the median company within the NEO Peer Group and the Company and the total net written premiums and total admitted assets of the State Auto Group, in each case for the year ended and at December 31, 2011 (the companies included in the NEO Peer Group used for 2012 compensation decisions were selected based on 2011 financial data).

Table of Contents*Total Revenues in 2011**Total Assets as of December 31, 2011*

Because our NEOs perform services on behalf of the Company, State Auto Mutual and other members of the State Auto Group, we generally allocated the compensation expenses associated with the services performed by our NEOs in 2012 65% to the Company and its subsidiaries and 35% 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. As a result, a compensation analysis conducted with respect to the Company and its peers may reach inaccurate conclusions regarding the Company if the analysis fails to consider that the compensation information disclosed in this Proxy Statement includes compensation provided to our NEOs for services they performed on behalf of State Auto Mutual and the other members of the State Auto Group. The following table allocates the compensation reported for each NEO in the Total column of the Summary Compensation Table on page 53 of this Proxy Statement between the Company, on the one hand, and State Auto Mutual and certain of its subsidiaries and affiliates, on the other hand, in accordance with compensation expense allocation percentages in effect on December 31, 2012 (i.e., 65% to the Company and 35% to State Auto Mutual and certain of its subsidiaries and affiliates):

	2012		2011		2010	
	State Auto Financial	State Auto Mutual	State Auto Financial	State Auto Mutual	State Auto Financial	State Auto Mutual
Robert P. Restrepo, Jr.	\$ 1,589,676	\$ 855,979	\$ 1,911,532	\$ 1,029,286	\$ 1,857,558	\$ 1,000,224
Steven E. English	\$ 483,190	\$ 260,179	\$ 591,273	\$ 318,378	\$ 597,745	\$ 321,863
Jessica E. Buss	\$ 434,613	\$ 234,022	\$ 524,395	\$ 282,366		
Clyde H. Fitch	\$ 438,426	\$ 236,076	\$ 487,765	\$ 262,642	\$ 549,901	296,101
James A. Yano	\$ 347,558	\$ 187,147	\$ 412,027	\$ 221,860	\$ 439,418	236,610

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2012 Performance Summary

Our financial results for the most recent one- and three-year periods were generally below our target expectations and reflected in the incentive payouts earned by our NEOs as highlighted above in 2012 Compensation Summary.

Financial Performance. Financial results for 2012 for our non-catastrophe loss ratio, combined ratio and return on equity were as follows (see page 40 for the definition of these terms):

Non-catastrophe loss ratio was 68.3 in 2012, an increase from 2011 and below the Company's minimum performance expectation for 2012.

Combined ratio was 108.5 in 2012, an improvement from 2011 but below the Company's minimum performance expectation for 2012.

Return on equity was 1.5% in 2012, an improvement from 2011 but below the Company's target performance expectation for 2012.

Stock Price Performance. Our performance in 2012 contributed to an increase in the Company's stock price of 10% in 2012.

Pay for Performance

The Committee conducted a pay for performance analysis comparing (i) the total realizable pay earned by our CEO over the five-year period ended December 31, 2011 to the total realizable pay earned by the CEOs of each member of the NEO Peer Group over that period and (ii) the total shareholder return (TSR) of the Company over the five-year period ended December 31, 2011 to the TSR of the members of the NEO Peer Group over that period.

The total realizable pay used in our pay for performance analysis includes:

base salary earned during the five-year period;

actual annual cash bonuses earned during the period;

value of cash incentives, or the vesting date value (as opposed to the grant date value reported in the Summary Compensation Table) of stock incentives, earned for multi-year performance plans that began and ended during the period;

the vesting (versus grant date value) date value of service-based restricted stock awards granted during the period and the value of any unvested restricted stock grants made during the period based on the Company's stock price as of December 31, 2011; and

any exercise gains of options granted during the period and paper value of any gains on any unexercised options received during the period based on the Company's stock price as of December 31, 2011.

Based on input from its compensation consultant, Pay Governance, LLC, the Committee concluded that total realizable pay provides a more accurate basis for comparing the historical alignment of pay and performance than the information reported in the Summary Compensation

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Table. Unlike the amounts reported in the Summary Compensation Table, total realizable pay increases or decreases depending on our annual and long-term results and increases or decreases in our stock price and, as a result, better reflects the Company's performance in comparison to the results of our peers.

The Committee uses a five-year period in its analysis to provide a long-term perspective and include multiple complete PAU performance periods. The Committee uses the NEO Peer Group (which includes insurance companies comparable to the State Auto Group in terms of both size and type of business) in its analysis because the Committee (i) takes into account the services our CEO performs on behalf of the Company

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and the services he performs on behalf of State Auto Mutual and the other members of the State Auto Group when determining the amount of his compensation and (ii) targets the total amount of each element of compensation payable to our CEO at or close to the median compensation level in our competitive market, which we define as insurance companies similar in size to the State Auto Group (See *Benchmarking of Executive Compensation Program Elements* on page 34 of this Proxy Statement for a more detailed description of the NEO Peer Group).

As shown in the chart below, (i) the total realizable pay earned by our CEO during the five-year period ended December 31, 2011 placed the Company in the 33rd percentile when compared to the NEO Peer Group (the individual members of which are identified as diamonds in the chart below) and (ii) the TSR of the Company over the five-year period ended December 31, 2011 placed the Company in the lowest percentile when compared to the NEO Peer Group. Based on the percentile rankings of the Company yielded by our pay for performance analysis, both the Committee and Pay Governance, LLC concluded that the compensation we paid to our CEO for the five-year period ended December 31, 2011 was reasonably aligned with our performance for the period.

CEO REALIZABLE PAY vs. TSR: 2007 to 2011

Modifications to Executive Compensation Program in 2012

We held our annual shareholder advisory vote regarding the compensation of our Named Executive Officers, commonly referred to as a *say-on-pay* vote, at our 2012 Annual Meeting of Shareholders. Our shareholders overwhelmingly approved the compensation of our Named Executive Officers, with approximately 99% of the votes cast in favor of our 2012 *say-on-pay* resolution. Since the 2012 Annual Meeting of Shareholders, the Committee has considered the results of the 2012 *say-on-pay* vote in its evaluation of our executive compensation programs and practices. Based on the strong support our shareholders expressed at our 2012 Annual Meeting of Shareholders and the significant changes made to our executive compensation program and practices in 2011, the

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Committee did not make any changes to our executive compensation program as a result of the 2012 say-on-pay vote. We did, however, make the following changes to our executive compensation program and practices, which we believe will better align the program with what we consider to represent good corporate governance practices and improve our executive compensation program and its administration.

Proposed Amendments to 2009 Equity Plan. As described in more detail in Proposal Two, the Board has recommended that shareholders consider and approve amendments to our 2009 Equity Plan. These amendments would increase the number of common shares authorized for issuance under the 2009 Equity Plan, but would also make other changes that we believe are more consistent with current best practices than the plan's current provisions, including: (i) prohibiting the replacement or repricing of certain stock option awards without shareholder approval; (ii) requiring a minimum three-year vesting schedule for stock option and restricted stock awards; (iii) prohibiting the grant of dividends and/or dividend rights on unearned performance shares; and (iv) requiring the termination of employment within one year of a change in control or potential change in control in order to trigger accelerated vesting under the Plan.

Restrict Participation in QPB. In March 2012, the Committee revised our Quality Performance Bonus Plan (QPB) to provide that the participants in the LBP (i.e., our executives) may no longer participate in the QPB and, as a result, our NEOs did not participate in the QPB in 2012. The Committee implemented this revision to the QPB after determining in its annual evaluation of our overall executive compensation program that, with respect to our officers, the objectives of the QPB are adequately addressed by the LBP.

Revised Charter of Compensation Committee. In its annual evaluation of the adequacy of its charter, the Committee determined that amendments to the charter were advisable to align it with what the Committee considers to be current best practices for corporate governance. The Committee prepared a revised version of the charter and unanimously recommended it to the Board for approval. The Board approved the revised charter in November 2012.

New Compensation Committee Chair. Robert E. Baker was appointed as the chair of the Compensation Committee following our Annual Meeting of Shareholders held on May 4, 2012. During the tenure of Mr. Baker's predecessor as chair of the Committee, much of the Committee efforts were dedicated to implementing modifications to the Company's executive compensation program to align it with what the Committee considers to represent best practices. The Committee's success in implementing such modifications will allow the Committee during Mr. Baker's tenure as chair to place even more focus on aligning the compensation paid to our executives with the performance of the Company.

Other Compensation Governance Policies and Practices

We endeavor to maintain governance practices that are consistent with what we consider to represent current best practices, including with respect to the oversight of our executive compensation program. Our compensation policies and practices include the following:

No Tax Gross-Up Payments. The executive change in control agreements between the Company and our NEOs do not entitle our NEOs to any tax gross-up payments (See Agreements with Named Executive Officers on page 62 of this Proxy Statement).

Acceleration of Vesting of Equity Awards Subject to Double Trigger. The award agreements applicable to awards made in and after 2012 pursuant to the 2009 Equity Plan accelerate the vesting of such awards upon a change of control only if the recipient's employment with the Company terminates within one year of the change in control, provided, that if the change in control involves a change in the ownership of the Company and the successor entity does not provide benefits of equal or greater value at the time of the change in control transaction, the award will automatically vest upon the closing of the transaction.

Stock Ownership Holding Periods. The Company's Ownership Guidelines (as defined below in Stock Ownership Guidelines) require its Section 16 officers to hold the net amount of Common Shares obtained through the exercise of stock options or vesting of restricted stock until the later of (i) the first anniversary of the date the officer exercised the stock options or (ii) the date on which the

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officer satisfies the Ownership Target Amounts (as defined below in Stock Ownership Guidelines).

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Anti-Hedging Policy. All Company employees, including our NEOs, and members of the Board are subject to a Company policy that prohibits them from engaging in certain hedging transactions with respect to Company securities held by them, including short sales and other transactions that shift the economic consequences of ownership of Company securities to a third party. Our executive officers and members of the Board are also subject to a Company policy that prohibits them from holding Company securities in a margin account or otherwise pledging Company securities as collateral for a loan.

Independent Compensation Consultant. The Committee's independent compensation consultant, Pay Governance, LLC, is engaged directly by the Committee and performs services solely on behalf of the Committee.

Clawback Obligations Imposed in Change of Control Agreements. The executive change of control agreements entered into between the Company and Mr. English, Ms. Buss, Mr. Fitch and Mr. Yano on October 28, 2011 and the employment agreement and executive agreement entered into between the Company and Mr. Restrepo on December 22, 2011 include a clawback provision that authorizes the Board to require the NEO to repay all or any portion of the severance benefits paid to the NEO thereunder upon the occurrence of the events described below in *Agreements with Named Executive Officers* on page 62 of this Proxy Statement. If the Board determines that the NEO engaged in fraudulent conduct, the Board must seek repayment of such severance benefits.

Limited Perquisites. We provide our NEOs minimal perquisites not tied to individual or Company performance, which we believe are well below the typical practices of companies of comparable size and have limited cost.

Limited Committee Discretion to Increase Awards. Except for the individual performance component of the LBP, the Committee may not increase awards under our short-term or long-term incentive plans. The individual performance component of the LBP only represented 25% of the total target compensation of our NEO for 2012. The Committee retains the discretion to decrease awards under our short-term or long-term incentive plans.

No Repricing of Underwater Stock Options. As stated in the 2009 Stock Plan, the Company will not reprice, replace or repurchase underwater stock options without prior shareholder approval.

Executive Compensation Philosophy

Executive Compensation Program Objectives

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

Top-Quartile Performance as measured against peers.

Enterprise Risk Management that is operationalized and integrated into our capital allocation, product development, pricing, claims and service capabilities.

Capital Management as measured by return on equity.

We continue to believe that achieving success in these 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 success in these areas, our executive compensation program is also designed to:

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Align the individual compensation of our executives with the long-term value delivered to our shareholders.

Offer compensation that reflects Company performance and is competitive individually and in the aggregate.

Encourage appropriate levels of share ownership among our executives while balancing short- and long-term perspectives.

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Executive Compensation Program Components

Each component 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 our 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 as well as key individual performance objectives 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 our 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.

How the Amount of Executive Compensation is Determined

Role of Committee, Senior Management, Compensation Consultants and Other Advisors

In carrying out its responsibilities, the Committee requests and receives regular input and recommendations from the Board, management, the Board of Directors of State Auto Mutual, 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.

As a result of the sharing of services and compensation expenses among the Company and the other members of the State Auto Group (See *Impact of State Auto Group on Compensation of NEOs* on page 27 of this Proxy Statement), the Board of Directors 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 the Committee as a non-voting member (See *Board of Directors and Board Committees Board Committees and Committee Meetings* on page 17 of this Proxy Statement).

In making compensation decisions related to both the form and the amount of compensation, the Committee has historically relied upon competitive information obtained from its compensation consultant. In 2012, the Committee engaged and utilized the services of Pay Governance, LLC, a compensation consultant. Pay Governance, LLC performs services solely on behalf of the Committee. During 2012, 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. During 2012, the Company did not engage Pay Governance, LLC or its affiliates for any services beyond its support of the Committee. The Committee requested and received a completed questionnaire from Pay Governance, LLC relating to its qualifications of independence and, based on such completed questionnaire and other factors, has determined that the engagement of Pay Governance, LLC did not raise any conflict of interest.

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Benchmarking of Executive Compensation Program Elements

We believe that in order to achieve the objectives of our executive compensation program, including retaining our executive talent, the Company must target competitive compensation. To determine what constitutes competitive compensation for our NEOs, the Committee considers data contained in (and analysis of such data provided by its compensation consultant):

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

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

The proxy statements of the companies within the NEO Peer Group disclose detailed information regarding the compensation of their NEOs, which we compare to the compensation that we provide to our NEOs when the positions are similar. We also use the compensation data provided in these proxy statements to conduct pay for 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 Survey Data enables a more comprehensive assessment of what constitutes competitive compensation practices and pay levels for insurers similar in size to the State Auto Group.

When setting base salaries, short-term and long-term incentive compensation, we use NEO Peer Group data when it relates to a comparable position at the Company and Survey Data that relates to individuals in similar positions at insurers similar in size to the State Auto Group (which we refer to as our competitive market). We use NEO Peer Group data to benchmark the compensation of some NEOs and Survey Data to benchmark the compensation of our NEOs and other executives. If relevant data is available from both the NEO Peer Group and the Survey Data with respect to a position, 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 \$815,000 and \$840,000, respectively, we would average the two results to establish a median base salary target of \$827,500.

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. Because it believes superior performance should be rewarded, 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, the Committee believes 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 2012 was reasonably competitive with the median level of compensation in the NEO Peer Group and the Survey Data, except for Mr. Fitch who is paid above this range due to his substantial experience and the importance of his skill set to our strategic objectives.

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 Agreements with Named Executive Officers Restrepo Employment Agreement).

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NEO Peer Group

The Committee, with input from its compensation consultant and management, approves property and casualty insurance companies to be part of the NEO Peer Group based on (i) their status as public companies and (ii) whether their size and business overlap with the State Auto Group, which, as noted above, is larger than that of the Company. Public companies are selected because they are required to disclose detailed information regarding the compensation of their NEOs and their executive compensation programs in their SEC filings, which allows us to compare the competitiveness of the compensation of our NEOs 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, specialty, workers compensation and commercial property and casualty insurance. The Committee considers premium volume, total assets, market capitalization and number of employees when determining whether a company's size overlaps with the State Auto Group. Companies similar in size to the State Auto Group are selected because 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. Some of the companies in the NEO Peer Group, however, are substantially larger than the State Auto Group while others are smaller. Normally, companies included in the NEO Peer Group are within one-half to two times the size of State Auto Group. The size of the median company within the NEO Peer Group 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 2012 compensation decisions was comprised of the following 20 companies:

Alleghany Corporation	AmTrust Financial Services Inc.	Argo Group International Holdings, Ltd.
Cincinnati Financial Corporation	Erie Indemnity Company	Harleysville Group Inc
Horace Mann Educators Corporation	Infinity Property & Casualty Corporation	Kemper Corporation
Meadowbrook Insurance Group, Inc.	Mercury General Corporation	Montpelier Re Holdings Ltd.
Old Republic International Corporation	OneBeacon Insurance Group, Ltd.	Safety Insurance Group, Inc.
Selective Insurance Group Inc.	The Hanover Insurance Group	Tower Group Inc.
United Fire Group, Inc.	White Mountains Insurance Group	
<i>Survey Data</i>		

Pay Governance, LLC reviews and analyzes compensation surveys covering executive officers at public, private and mutually-owned insurance companies and public and private financial services companies. The published pay survey information contained in the Survey Data allows us to assess the compensation we pay to our executive officers 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 comprehensively assess the competitive pay levels and practices with regard to our NEOs.

Use of Tally Sheets

The Committee uses tally sheets in its annual review of NEO compensation to review total compensation and each element of compensation provided to our NEOs. The tally sheets used by the Committee in its review of NEO compensation for 2012: (i) listed each individual element of compensation along with the amount earned in each category for 2009, 2010 and 2011; (ii) listed the target and maximum amounts of incentive compensation payable for 2011; and (iii) summarized the current value of employee benefits and perquisites. The tally sheets provide a useful 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 2013.

Executive Compensation Program Elements

We believe that the mix of elements in our executive compensation program supports its objectives and provides appropriate reward opportunities. Each of these elements is discussed separately below, other than

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employee benefits which we offer to our NEOs on the same basis as all of our other employees and certain additional long-term disability benefits provided to Mr. Restrepo pursuant to his employment agreement in the event he is terminated by reason of disability (See Agreements with Named Executive Officers Restrepo Employment Agreement Disability).

The Company applies the following principles in designing our executive compensation program to achieve the objectives 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 targets each element of executive compensation to approximate the median level of our competitive market 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 50 of this Proxy Statement).

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The following chart sets forth the elements of our executive compensation program for 2012 (except for perquisites, which are minimal in nature). We discuss each of these elements in detail after the chart.

* In 2012, Mr. Restrepo was granted one-third of his total long-term incentive opportunity in the form of restricted common shares, one-third in the form of stock options and one-third in the form of target PAUs. In 2012, the other NEOs were granted 20% of their total long-term incentive compensation opportunity in the form of stock options and 80% in the form of target PAUs. In 2013, all of the NEOs were granted 50% of their total long-term incentive opportunity in the form of stock options and 50% in the form of target PAUs.

** These Company performance measures applied to each of the NEOs participating in the LBP in 2012 other than Ms. Buss, for whom LBP Combined Ratio was replaced by specialty insurance combined ratio and Company non-catastrophe loss ratio was replaced by specialty insurance non-catastrophe loss ratio, and Mr. Fitch, for whom Company non-catastrophe loss ratio was replaced by standard lines non-catastrophe loss ratio.

Table of Contents**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 our anticipated cost structure.

2012 Base Salaries of NEOs

The Committee set the 2012 base salaries of the NEOs in March 2012 as follows. In light of the Company's recent financial performance, management recommended and the Committee agreed to freeze the base salaries of all of our NEOs, except for Mr. English, at their 2011 levels for 2012. The Committee increased Mr. English's base salary for 2012 to move his base salary closer to median level of base salary for similar executives in our competitive market as his base salary was below the range the Company and the Committee considers acceptable for executive base salaries.

Named Executive Officer	2011 Base Salary (\$)	2012 Base Salary (\$)	Increase (Decrease) (%)
Robert P. Restrepo, Jr.	780,000	780,000	0
Steven E. English	400,000	425,000	6.25
Jessica E. Buss	353,736	353,736	0
Clyde H. Fitch	340,000	340,000	0
James A. Yano	320,000	320,000	0

2013 Base Salaries of NEOs

The Committee set the 2013 base salaries of the NEOs in March 2013 as follows. The adjustments were based on: (i) an evaluation of each individual's performance; (ii) increases in the median base salaries for individuals in similar roles at peer companies and other insurers comparable in size to the State Auto Group; and (iii) the company's overall merit increase budget and policies.

Named Executive Officer	2012 Base Salary (\$)	2013 Base Salary (\$)	Increase (Decrease) (%)
Robert P. Restrepo, Jr.	780,000	803,400	3
Steven E. English	425,000	438,000	3.1
Jessica E. Buss	353,736	365,000	3.2
Clyde H. Fitch	340,000	350,000	2.9
James A. Yano	320,000	350,000	9.4

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In March 2012, the Committee revised the QPB to provide that participants in the LBP are no longer eligible to participate in the QPB. Accordingly, our NEOs did not participate in the QPB in 2012. The short-term incentive plan in which our NEOs did participate in 2012 the LBP is 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 table shows the amount of short-term cash incentive compensation paid to each NEO for 2012 under the LBP. Total bonuses for the NEOs were well below target, except for the bonus of Ms. Buss which reflects in large portion the performance of her business unit. The total amount of 2012 short-term cash incentive compensation paid to each NEO in the third column equals the sum of the amounts shown in the first two columns. The following sections describe the bases for these awards in more detail.

Named Executive Officer	Company Performance LBP Bonus (\$)	Individual Performance LBP Bonus (\$)	Total Short- Term Bonus (\$)	Total Short-Term Bonus (%) (1)
Robert P. Restrepo, Jr.	28,579	140,400	168,979	27.1
Steven E. English	14,600	119,530	134,130	