

State Auto Financial CORP
Form 11-K
March 30, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 000-19289

A. Full title of the plan and address of the plan, if different from that of the issuer named below:
State Auto Insurance Companies

Amended and Restated

Directors Deferred Compensation Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:
State Auto Financial Corporation

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518 East Broad Street

Columbus, Ohio 43215-3976

Table of Contents

REQUIRED INFORMATION

See the accompanying financial statements for the State Auto Insurance Companies Amended and Restated Directors Deferred Compensation Plan as of December 31, 2010 and 2009, and for the years ended December 31, 2010, 2009 and 2008.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

State Auto Insurance Companies Amended and Restated Directors
Deferred Compensation Plan

By: /s/ Steven E. English
Steven E. English
Chief Financial Officer of State Auto Financial Corporation,
State Automobile Mutual Insurance Company and State Auto
Property & Casualty Insurance Company

By: /s/ James A. Yano
James A. Yano
Vice President, Secretary and General Counsel of State Auto
Financial Corporation, State Automobile Mutual Insurance
Company and State Auto Property & Casualty Insurance
Company

Date: March 30, 2011

Table of Contents

INDEX

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	1
Audited Financial Statements:	
<u>Statements of Net Assets Available for Benefits</u>	2
<u>Statements of Changes in Net Assets Available for Benefits</u>	3
<u>Notes to Financial Statements</u>	4 - 17

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors

State Auto Financial Corporation

We have audited the accompanying statements of net assets available for benefits of the State Auto Insurance Companies Amended and Restated Directors Deferred Compensation Plan (the Plan), as of December 31, 2010 and 2009, and the related statements of changes in net assets available for benefits for the years ended December 31, 2010, 2009 and 2008. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the net assets available for benefits of the Plan as of December 31, 2010 and 2009, and the changes in net assets available for benefits for the years ended December 31, 2010, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ Clark, Schaefer, Hackett & Co.

March 30, 2011

Columbus, Ohio

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Statements of Net Assets Available for Benefits

	December 31	
	2010	2009
Assets		
<u>Investments, at fair value:</u>		
Shares of registered investment companies (cost \$2,302,249 and \$1,618,965, respectively)	\$ 2,432,485	1,828,815
Interest-bearing cash	9,436	9,434
Affiliated Stock (cost \$304,549)	322,013	
<i>Total investments</i>	2,763,934	1,838,249
Net assets available for benefits	\$ 2,763,934	1,838,249

See accompanying notes.

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Statements of Changes in Net Assets Available for Benefits

	Year Ended December 31		
	2010	2009	2008
<u>Investment income (loss):</u>			
Dividends	\$ 68,455	39,632	28,941
Unrealized (loss) gain	(62,149)	470,380	(577,110)
Realized gain (loss)	306,404	(123,251)	81,940
<i>Total investment income (loss)</i>	312,710	386,761	(466,229)
<u>Contributions:</u>			
Participant	307,055	137,502	128,938
Company	315,000	315,000	350,000
<i>Total contributions</i>	622,055	452,502	478,938
<u>Deductions:</u>			
Benefit payments	9,080	4,844	520,772
<i>Total deductions</i>	9,080	4,844	520,772
<i>Net increase (decrease)</i>	925,685	834,419	(508,063)
<u>Net assets available for benefits:</u>			
Beginning of year	1,838,249	1,003,830	1,511,893
End of year	\$ 2,763,934	1,838,249	1,003,830

See accompanying notes.

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements

December 31, 2010

1. Description of the Plan

Organization

The State Auto Insurance Companies Amended and Restated Directors Deferred Compensation Plan (the Plan) became effective on August 1, 1995, was amended and restated in its entirety effective as of March 1, 2001, and was further amended effective as of December 1, 2005 (First Amendment), January 1, 2009 (Second and Third Amendments), and November 1, 2010 (Fourth Amendment). The Plan provides members of the Boards of Directors of State Automobile Mutual Insurance Company (State Auto Mutual) and its affiliates (collectively, the Company or the State Auto Insurance Companies) a retirement savings plan in which to defer the payment of director and committee meeting fees.

In 2010, the Plan was amended to include, among other things, the following change:

For participants who are members of the Board of Directors of State Auto Financial Corporation (STFC), an affiliate of State Auto Mutual, a fund comprised of STFC common stock (Affiliated Stock) was added as an investment option under the Plan.

In 2009, the Plan was amended to include, among other things, the following changes:

A requirement was added that a participant must provide at least 30 days advance written notice to the Company of his or her intention to retire and receive retirement benefits under the Plan.

A provision was added to provide that an additional annual cash contribution be made by the Company to each of the members of the Board of Directors of State Auto Mutual in the amount of \$35,000, or such lesser or greater amount as determined by the Company, at its discretion.

Provisions were added to bring the Plan into compliance with Section 409A of the Internal Revenue Code of 1986, as amended (the Code), and the regulations promulgated thereunder.

The benefits provided to participants under the Plan are paid from the Company's general assets. The Plan is intended to be an unfunded Plan for purposes of the Employee Retirement Income Security Act of 1974 (ERISA) and is, therefore, exempt from certain ERISA requirements. Each participant's right to benefits under the Plan are equivalent to the rights of any unsecured creditor of the Company.

Participants must enroll within 30 days after becoming eligible to participate. For subsequent years, participants must enroll prior to the beginning of each new plan year.

Contributions

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Participants are permitted to defer on a pre-tax basis (a) from 10% to 100% of his or her director fees in the calendar year and/or (b) 0% or 100% of committee meeting fees in the calendar year. In addition, for each of the members of the Board of Directors of State Auto Mutual, State Auto Mutual makes an annual cash contribution in the amount of \$35,000, or such lesser or greater amount as determined at State Auto Mutual's discretion.

Vesting

Each participant is fully vested in his or her contributions and any State Auto Mutual discretionary contributions.

Participant Accounts

Investment funds available under the Plan are merely devices used to calculate gains and losses on the amounts deferred by Plan participants. No participant has any rights or interests in any particular funds, securities or property of the Company or the trust described in Note 6, or in any investment vehicle in which deferrals are deemed to be invested, by virtue of any investment election. Each deferral account, however, is credited or charged in accordance with the Plan with gains and losses as if the participant in fact had made a corresponding actual investment. The Directors of STFC have the option to purchase Affiliated Stock.

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

Payment of Benefits

The balance of each deferral account will be distributed upon retirement or termination of a participant from the Board of Directors of the Company. Payments will be made in cash and paid in 60 or 120 monthly installments, except for amounts deferred and fully vested prior to December 31, 2004, which can be distributed in alternative payment options as elected by the participant. The Company must receive at least 30 days written notice of the participant's intention to retire and receive retirement benefits.

2. Significant Accounting Policies

Basis of Presentation

The accounting records of the Plan are maintained in conformity with U.S. generally accepted accounting principles.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Valuation of Investments and Related Investment Income

The investments of the Plan consisted of shares of registered investment companies, interest-bearing cash, and Affiliated Stock. The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 3 for discussion on fair value measurements.

Investment income, including appreciation and depreciation in fair value of investments, is allocated to participant accounts daily based upon the ratio of each participant's account to the total fund balance. Dividend income is recorded on the ex-dividend date. Realized gains and losses on the sale of securities are determined based on the average cost method.

Benefit Payments

Benefit payments are recognized when paid.

Administrative Expenses

Administrative expenses are paid by the Company.

Risks and Uncertainties

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The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Plan's statements of net assets available for benefits.

Adoption of New Accounting Pronouncements

Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued guidance to improve the disclosures related to fair value measurements. The new guidance requires expanded fair value disclosures, including the reasons for significant transfers between Level 1 and Level 2 and the amount of significant transfers into each level disclosed separately from transfers out of each

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

level. For Level 3 fair value measurements, information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements shall be presented separately on a gross basis, rather than as one net number. In addition, clarification is provided about existing disclosure requirements, such as presenting fair value measurement disclosures for each *class* of assets and liabilities that are determined based on their nature and risk characteristics and their placement in the fair value hierarchy (that is, Level 1, 2, or 3), as opposed to each *major category* of assets and liabilities, as required in the previous guidance. Disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements are required for fair value measurement that fall in either Level 2 or Level 3. The Company adopted this new guidance effective January 1, 2010, except for the gross presentation of purchases, sales, issuances and settlements in the Level 3 reconciliation, which is effective for annual and interim reporting periods beginning after December 15, 2010. The adoption of the new guidance effective January 1, 2010 had no effect on the Plan's financial statements.

3. Fair Value Measurements

Below is the fair value hierarchy that categorizes into three levels the inputs to valuation techniques that are used to measure fair value:

Level 1 includes observable inputs which reflect quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 includes observable inputs for assets or liabilities other than quoted prices included in Level 1, and it includes valuation techniques which use prices for similar assets and liabilities.

Level 3 includes unobservable inputs which reflect the reporting entity's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The following is a description of the valuation methods used for assets measured at fair value.

Registered investment companies: Registered investment companies are public investment vehicles valued using net asset value (NAV) provided by the administrator of the mutual fund. The NAV is an unadjusted quoted price on an active market and classified within Level 1 of the fair value hierarchy.

Interest-bearing cash: The carrying value approximates fair value and is classified within Level 1 of the fair value hierarchy.

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Affiliated Stock: The fair value is based on the unadjusted closing price reported on the active market on which the security is traded and is classified within Level 1 of the fair value hierarchy.

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

The following tables reflect the Plan's investments within the fair value hierarchy at December 31, 2010 and 2009:

2010	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Registered investment companies:				
Large cap equity investments	\$ 530,471	530,471		
Mid cap equity investments	28,252	28,252		
International equity investments	673,912	673,912		
Blended fund investments	738,358	738,358		
Income bond investments	461,492	461,492		
<i>Total registered investment companies</i>	2,432,485	2,432,485		
Interest-bearing cash	9,436	9,436		
Affiliated Stock	322,013	322,013		
<i>Total investments</i>	\$ 2,763,934	2,763,934		

2009	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Registered investment companies:				
Large cap equity investments	\$ 511,292	511,292		
Mid cap equity investments	13,833	13,833		
International equity investments	411,892	411,892		
Blended fund investments	560,564	560,564		
Income bond investments	331,234	331,234		
<i>Total registered investment companies</i>	1,828,815	1,828,815		
Interest-bearing cash	9,434	9,434		
<i>Total investments</i>	\$ 1,838,249	1,838,249		

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

4. Participant Accounts

Participant balances for all funds are maintained in shares. Share values are determined on a periodic basis. At December 31, 2010 and 2009, there were 13 participants in the Plan with contributions in one or more of the following funds. The total number of participants in the Plan is less than the sum of the number of participants set forth in the following table because each participant may make contributions to more than one fund. The total number of shares and share values as of December 31, 2010 and 2009, by fund, were as follows:

2010

Investment Options

	Total Number of Shares	Net Asset Share Value	Number of Participants
<u>Registered Investment Company</u>			
Calamos Growth A	5,015	53.38	2
FID Contrafund K	2,283	67.70	2
FID Diversified Intl K	15,088	30.12	3
FID Freedom K 2005	8,119	12.44	2
FID Freedom K 2010	12,323	12.68	2
FID Freedom K 2015	30,169	12.72	4
FID Freedom K 2020	7,380	13.19	1
FID Intermed Bond	5,863	10.55	2
Harbor Intl Inst	3,625	60.55	2
JPM Mid Cap Value A	1,049	23.13	2
PIM Total RT Inst	36,833	10.85	3
Spartan US EQ Index	2,432	44.48	1
VANG Mid Cap IDX	197	20.31	1
<i>Total Registered Investment Company</i>	130,376		
<u>Interest Bearing Cash</u>			
Fidelity US Govt Bond	9,436	1.00	1
<i>Total Interest Bearing Cash</i>	9,436		
<u>Affiliated Stock</u>			
State Auto Financial Corporation	18,485	17.42	1
<i>Total Affiliated Stock</i>	18,485		

Total Investments

158,297

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

2009

Investment Options

	Total Number of Shares	Net Asset Share Value	Number of Participants
<u>Registered Investment Company</u>			
Calamos Growth A	7,672	44.46	2
FID Contrafund	1,807	58.28	2
FID Diversified Intl	14,710	28.00	2
FID Freedom 2005	12,368	10.03	2
FID Freedom 2010	6,889	12.51	1
FID Freedom 2015	20,805	10.42	3
FID Freedom 2020	10,641	12.55	2
FID Intermed Bond	997	10.15	2
JPM Mid Cap Value A	729	18.98	1
PIM Total RT Inst	29,733	10.80	2
Spartan US EQ Index	1,645	39.43	1
<i>Total Registered Investment Company</i>	107,996		
<u>Interest Bearing Cash</u>			
Fidelity US Govt Bond	9,434	1.00	1
<i>Total Interest Bearing Cash</i>	9,434		
<i>Total Investments</i>	117,430		

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

5. Investments

The Plan's investments and related changes at December 31, 2010, 2009 and 2008 and for the years then ended, were as follows:

2010	Number of Shares	Fair Value	Dividends	Realized Gain (loss)	Unrealized Gain (loss)	Contributions	Benefit Payments
Registered Investment Companies							
Calamos Growth A	5,015	\$ 267,713	\$	\$ 41,747	\$ 32,041	\$ 63,604	\$
FID Contrafund			163	32,802	(16,434)	20,625	
FID Contrafund K	2,283	154,589	894		4,343	6,875	
FID Diversified Intl				94,805	(56,895)	46,250	
FID Diversified Intl K	15,088	454,437	8,999	(320)	1,544	20,040	
FID Freedom 2005			630	23,502	(15,051)	35,000	(7,489)
FID Freedom 2010			895	21,712	(11,049)	35,000	
FID Freedom 2015			2,048	55,864	(28,933)	106,250	
FID Freedom 2020			459	27,214	(20,912)	36,250	
FID Freedom K 2005	8,119	101,000	1,857	6	84		(1,591)
FID Freedom K 2010	12,323	156,260	2,914		612		
FID Freedom K 2015	30,169	383,753	7,425		1,808	2,500	
FID Freedom K 2020	7,380	97,345	1,825		1,105	6,250	
FID Freedom K 2025				243		10,000	
FID Intermed Bond	5,863	61,852	1,210		844	39,438	
Harbor Intl Inst	3,625	219,476	3,114		15,879	17,500	
JPM Mid Cap Value A	1,049	24,260	187		3,366	6,875	
PIM Total RT Inst	36,833	399,639	32,107	8,829	(3,887)	136,063	
Spartan US EQ Index	2,432	108,169	1,796		11,722	29,785	
VANG Mid Cap IDX	197	3,992	41		200	3,750	
<i>Total Registered Investment Companies</i>	130,376	2,432,485	66,564	306,404	(79,613)	622,055	(9,080)
Interest Bearing Cash							
Fidelity US Govt Bond	9,436	9,436	2				
<i>Total Interest Bearing Cash</i>	9,436	9,436	2				
Affiliated Stock							
State Auto Financial Corporation	18,485	322,013	1,889		17,464		
<i>Total Affiliated Stock</i>	18,485	322,013	1,889		17,464		
<i>Total Assets Held For Investment</i>	158,297	\$ 2,763,934	\$ 68,455	\$ 306,404	\$ (62,149)	\$ 622,055	\$ (9,080)

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

2009	Number of Shares	Fair Value	Dividends	Realized Gain (loss)	Unrealized Gain (loss)	Contributions	Benefit Payments
<u>Registered Investment Companies</u>							
Calamos Growth A	7,672	\$ 341,105	\$	\$ (55,830)	\$ 163,161	\$ 64,375	\$
FID Contrafund	1,807	105,321	357	(9,920)	33,383		
FID Diversified Intl	14,710	411,892	5,057	(62,523)	154,197	37,500	
FID Freedom 2005	12,368	124,050	3,618	2,769	16,310	35,000	(4,844)
FID Freedom 2010	6,889	86,176	2,758	5,245	12,317	70,000	
FID Freedom 2015	20,805	216,789	6,208	3,732	30,271	87,500	
FID Freedom 2020	10,641	133,549	3,790	2,193	21,435	52,500	
FID Intermed Bond	997	10,117	290		764	9,063	
JPM Mid Cap Value A	729	13,833	197	(7,919)	10,581		
PIM Total RT Inst	29,733	321,117	16,274	2,481	12,828	69,688	
Spartan US EQ Index	1,645	64,866	1,048	(3,479)	15,133	26,876	
<i>Total Registered Investment Companies</i>	107,996	1,828,815	39,597	(123,251)	470,380	452,502	(4,844)
<u>Interest Bearing Cash</u>							
Fidelity US Govt Bond	9,434	9,434	35				
<i>Total Interest Bearing Cash</i>	9,434	9,434	35				
<i>Total Assets Held For Investment</i>	117,430	\$ 1,838,249	\$ 39,632	\$ (123,251)	\$ 470,380	\$ 452,502	\$ (4,844)

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

2008	Number of Shares	Fair Value	Dividends	Realized Gain (loss)	Unrealized Gain (loss)	Contributions	Benefit Payments
<u>Registered Investment Companies</u>							
Calamos Growth A	5,809	\$ 169,400	\$	\$	\$ (143,465)	\$ 58,032	\$
FID Contrafund	1,801	81,502	3,801	57,504	(122,928)		(225,563)
FID Diversified Intl	12,908	277,661	3,962	31,674	(272,641)	45,478	(123,689)
FID Equity Income			3,778	2,836	(19,456)	8,334	(170,238)
FID Freedom 2005	8,486	71,197	2,456		(1,259)	70,000	
FID Freedom 2010	6,877	71,250	2,519		(1,269)	70,000	
FID Freedom 2015	10,406	89,078	3,375	(1,939)	(1,811)	87,500	
FID Freedom 2020	5,336	53,631	1,654		(523)	52,500	
FID Puritan				27	(63)		(439)
JPM Mid Cap Value A	715	10,974	515	(8,436)	(4,547)	1,000	
PIM Total RT Inst	14,246	144,450	6,712		(5,872)	58,063	
Spartan US EQ Index	793	25,288	158	274	(3,276)	28,031	(843)
<i>Total Registered Investment Companies</i>	67,377	994,431	28,930	81,940	(577,110)	478,938	(520,772)
<u>Interest Bearing Cash</u>							
Fidelity US Govt Bond	9,399	9,399	11				
<i>Total Interest Bearing Cash</i>	9,399	9,399	11				
<i>Total Assets Held For Investment</i>	76,776	\$ 1,003,830	\$ 28,941	\$ 81,940	\$ (577,110)	\$ 478,938	\$ (520,772)

Table of Contents

STATE AUTO INSURANCE COMPANIES
 AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

The Plan's unrealized appreciation (depreciation) at December 31, 2010, 2009, and 2008, were as follows:

	Beginning Balance	Unrealized Gain (loss) Net Change	Ending Balance
2008	\$ 316,578	(577,110)	(260,532)
2009	(260,532)	470,380	209,848
2010	\$ 209,848	(62,149)	147,699

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

The Plan's net realized gains and losses were as follows for the years ended December 31, 2010, 2009 and 2008:

2010	Aggregate Proceeds	Cost	Net Realized Gains (Losses)
<u>Investment Options</u>			
Calamos Growth A	\$ 206,149	164,402	41,747
FID Contrafund	142,477	109,675	32,802
FID Diversified Intl	516,051	421,246	94,805
FID Diversified Intl K	90,087	90,407	(320)
FID Freedom 2005	168,132	144,630	23,502
FID Freedom 2010	152,734	131,022	21,712
FID Freedom 2015	372,019	316,155	55,864
FID Freedom 2020	176,560	149,346	27,214
FID Freedom K 2005	1,591	1,585	6
FID Freedom K 2025	10,243	10,000	243
PIM Total RT Inst	100,000	91,171	8,829
Spartan US EQ Index	(941)	(941)	
Total	\$ 1,935,102	1,628,698	306,404

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

2009	Aggregate Proceeds	Cost	Net Realized Gains (Losses)
<u>Investment Options</u>			
Calamos Growth A	\$ 231,854	287,684	(55,830)
FID Contrafund	23,523	33,443	(9,920)
FID Diversified Intl	205,168	267,691	(62,523)
FID Freedom 2005	121,189	118,420	2,769
FID Freedom 2010	157,176	151,931	5,245
FID Freedom 2015	193,353	189,621	3,732
FID Freedom 2020	115,946	113,753	2,193
Fidelity US Govt Bond	29,812	29,812	
JPM Mid Cap Value A	11,775	19,694	(7,919)
PIM Total RT Inst	352,659	350,178	2,481
Spartan US EQ Index	50,367	53,846	(3,479)
Total	\$ 1,492,822	1,616,073	(123,251)

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

2008	Aggregate Proceeds	Cost	Net Realized Gains (Losses)
<u>Investment Options</u>			
FID Contrafund	\$ 242,453	184,949	57,504
FID Diversified Intl	161,631	129,957	31,674
FID Equity Income	184,182	181,346	2,836
FID Freedom 2015	16,772	18,711	(1,939)
FID Puritan	438	411	27
JPM Mid Cap Value A	9,389	17,825	(8,436)
Spartan US EQ Index	843	569	274
Total	\$ 615,708	533,768	81,940

Table of Contents

STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2010

6. Trust

The Company maintains a trust to provide a source of funds to assist the Company in meeting its obligations under the Plan. The rights of participants and their beneficiaries under the Plan are merely unsecured contractual rights against the Company and its participating subsidiaries. Participants and beneficiaries have no preferred claim on, or any beneficial ownership interest in, any assets of the trust. All assets of the trust are subject to the claims of the general creditors of the Company and its participating subsidiaries under Federal and state law, should the Company and its participating subsidiaries become unable to pay their debts as they become due or become subject to Federal bankruptcy proceedings.

7. Related Party

The Plan invests in shares of registered investment companies managed by Fidelity Management Trust Company, custodian of the Plan. Beginning in 2010, members of the Board of Directors of STFC may also invest in Affiliated Stock.

8. Tax Status

The Plan is not, and is not intended to be, qualified under Section 401 of the Code. Consequently, an application for a favorable determination has not been filed with the Internal Revenue Service. The Plan does not have a tax filing requirement with the Internal Revenue Service, and therefore, no liability (or asset) or disclosure is included in the Plan's financial statements.

9. Right to Terminate

The Company may terminate the Plan at any time and for any reason. Following termination of the Plan, no additional deferrals may be made, but all existing participant accounts will continue to be administered in accordance with the Plan, unless the Company elects to accelerate distribution of all Plan accounts in accordance with Section 409A of the Code.

Table of Contents

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>DESCRIPTION OF EXHIBIT</u>
1	Consent of Independent Registered Public Accounting Firm.