

State Auto Financial CORP  
Form 11-K  
March 28, 2012  
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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, 2011

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:

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State Auto Financial Corporation

518 East Broad Street

Columbus, Ohio 43215-3976

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**REQUIRED INFORMATION**

See the accompanying financial statements for the State Auto Insurance Companies Amended and Restated Directors Deferred Compensation Plan as of December 31, 2011 and 2010, and for the years ended December 31, 2011, 2010 and 2009.

**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

By: /s/ James A. Yano  
James A. Yano  
Vice President, Secretary and General Counsel

Date: March 28, 2012

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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, 2011 and 2010, and the related statements of changes in net assets available for benefits for the years ended December 31, 2011, 2010 and 2009. 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, 2011 and 2010, and the changes in net assets available for benefits for the years ended December 31, 2011, 2010 and 2009 in conformity with accounting principles generally accepted in the United States of America.

/s/ Clark, Schaefer, Hackett & Co.

March 28, 2012

Columbus, Ohio

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STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Statements of Net Assets Available for Benefits

	December 31	
	2011	2010
<b>Assets</b>		
<u>Investments, at fair value:</u>		
Shares of registered investment companies (cost \$3,282,409 and \$2,302,250, respectively)	<b>\$ 3,135,407</b>	\$ 2,432,485
Interest-bearing cash	<b>9,437</b>	9,436
Affiliated Stock (cost \$315,791 and \$304,549, respectively)	<b>261,271</b>	322,013
<i>Total investments</i>	<b>3,406,115</b>	2,763,934
<b>Net assets available for benefits</b>	<b>\$ 3,406,115</b>	\$ 2,763,934

See accompanying notes.

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## STATE AUTO INSURANCE COMPANIES

## AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

## Statements of Changes in Net Assets Available for Benefits

	Year Ended December 31		
	2011	2010	2009
<b><u>Investment income (loss):</u></b>			
Dividends	\$ 107,836	68,455	39,632
Unrealized (loss) gain	(349,221)	(62,149)	470,380
Realized gain (loss)	58,863	306,404	(123,251)
<i>Total investment income (loss)</i>	<b>(182,522)</b>	312,710	386,761
<b><u>Contributions:</u></b>			
Participant	490,750	307,055	137,502
Company	343,770	315,000	315,000
<i>Total contributions</i>	<b>834,520</b>	622,055	452,502
<b><u>Deductions:</u></b>			
Benefit payments	9,817	9,080	4,844
<i>Total deductions</i>	<b>9,817</b>	9,080	4,844
<b><i>Net increase</i></b>	<b>642,181</b>	925,685	834,419
<b><u>Net assets available for benefits:</u></b>			
Beginning of year	2,763,934	1,838,249	1,003,830
<b>End of year</b>	<b>\$ 3,406,115</b>	2,763,934	1,838,249

See accompanying notes.

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STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements

December 31, 2011

**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.

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STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2011

**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 consist 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, Financial Accounting Standards Board ( FASB ) issued guidance to improve the disclosures related to fair value measurements. The guidance requires the information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements to be presented separately on a gross basis, rather than as one net number. We adopted this guidance effective January 1, 2011. The adoption of the new guidance had no effect on the Plan's financial statements.

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STATE AUTO INSURANCE COMPANIES

AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2011

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 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.

*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.

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## STATE AUTO INSURANCE COMPANIES

## AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2011

The following tables reflect the Plan's investments within the fair value hierarchy at December 31, 2011 and 2010:

2011	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Registered investment companies:</b>				
Large cap equity investments	\$ 706,569	706,569		
Mid cap equity investments	98,285	98,285		
International equity investments	677,150	677,150		
Blended fund investments	954,494	954,494		
Income bond investments	698,909	698,909		
<i>Total registered investment companies</i>	<b>3,135,407</b>	<b>3,135,407</b>		
Interest-bearing cash	9,437	9,437		
Affiliated Stock	261,271	261,271		
<i>Total investments</i>	<b>\$ 3,406,115</b>	<b>3,406,115</b>		

2010	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Registered investment companies:</b>				
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>	<b>2,432,485</b>	<b>2,432,485</b>		
Interest-bearing cash	9,436	9,436		
Affiliated Stock	322,013	322,013		
<i>Total investments</i>	<b>\$ 2,763,934</b>	<b>2,763,934</b>		



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## STATE AUTO INSURANCE COMPANIES

## AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2011

**4. Participant Accounts**

Participant balances for all funds are maintained in shares. Share values are determined on a periodic basis. At December 31, 2011 and 2010, there were 15 and 13 participants in the Plan, respectively, 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, 2011 and 2010, by fund, were as follows:

2011

Investment Options

	Total Number of Shares	Net Asset Share Value	Number of Participants
<u>Registered Investment Company</u>			
Calamos Growth Inst	5,023	50.85	3
FID Contrafund K	3,414	67.41	4
FID Diversified Intl K	18,289	25.48	4
FID Freedom K 2005	7,647	11.98	2
FID Freedom K 2010	15,707	12.10	2
FID Freedom K 2015	28,963	12.13	5
FID Freedom K 2020	19,159		