

STATE AUTO FINANCIAL CORP

Form DEF 14A

April 05, 2005

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**SCHEDULE 14A
(RULE 14a-101)**

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934

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 Section 240.14a-11c or Section 240.14a-12

STATE AUTO FINANCIAL CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

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

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

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

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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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) will be held at the Company's principal executive offices located at 518 East Broad Street, Columbus, Ohio, on Friday, May 11, 2005, at 10:00 A.M., local time, for the following purposes:

1. To elect three Class II directors, each to hold office for a three-year term and until a successor is elected and qualified;
2. To consider and vote upon a proposal to approve the Amended and Restated Equity Incentive Compensation Plan (formerly called the 2000 Stock Option Plan);
3. To consider and vote upon a proposal to approve the Outside Directors Restricted Share Unit Plan;
4. To ratify the selection of Ernst and Young LLP as the Company's independent public accountants for 2005; and
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

The close of business on March 21, 2005, 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 in 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

JOHN R. LOWTHER
Secretary

Dated: April 4, 2005

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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) to be used at its Annual Meeting of Shareholders to be held May 11, 2005 (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 4, 2005.

PROXIES AND VOTING

The close of business on March 21, 2005 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 40,232,391 of the Company's common shares, without par value (the Common Shares). Each Common Share is entitled to one vote.

Shareholders do not have the right to cumulate their votes in the election of directors, and the nominees receiving the highest number of votes will be elected as the Class II directors. The vote required for the (1) approval of the Company's Amended and Restated Equity Incentive Compensation Plan (formerly known as the 2000 Stock Option Plan), (2) approval of the Company's Outside Directors Restricted Share Unit Plan, and (3) ratification of the selection of Ernst & Young LLP as the Company's independent public accountants for 2005, each as described in more detail below, is the favorable vote of a majority of the outstanding Common Shares present in person or by proxy at the Annual Meeting.

All Common Shares represented by properly executed proxies will be voted at the Annual Meeting in accordance with the choices indicated on the proxy. If no choices are indicated on a proxy, the Common Shares represented by that proxy will be voted as follows: (1) for the election of the nominees listed in this Proxy Statement as Class II directors; (2) for the approval of the Company's Amended and Restated Equity Incentive Compensation Plan; (3) for the approval of the Company's Outside Directors Restricted Share Unit Plan; and (4) for the ratification of the selection of Ernst & Young LLP as the Company's independent public accountants for 2005. 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.

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Abstentions will be considered as Common Shares present and entitled to vote at the Annual Meeting and will be counted for purposes of determining whether a quorum is present. 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. Because the other proposals require the favorable vote of a majority of the outstanding Common Shares present in person or by proxy at the Annual Meeting, abstentions will have the same effect as a vote against these proposals.

If your Common Shares are held in street name, you will need to instruct your broker regarding how to vote your Common Shares. If you do not provide voting instructions to your broker, and if your broker does not have discretion to vote your Common Shares without your instructions, a broker non-vote will occur. Broker non-votes will not be counted in determining the votes cast for the election of directors or with respect to the other proposals and will not have a positive or negative effect on the outcome of these proposals.

PROPOSAL ONE: ELECTION OF DIRECTORS

The number of directors currently is fixed at nine. The Board of Directors is divided into three classes, Class I, Class II and Class III, with three directors in each Class. The term of office of directors in one Class expires annually at each annual meeting of shareholders at such time as their successors are elected and qualified. Directors in each Class are elected for three-year terms. The term of office of the Class II directors expires concurrently with the holding of the Annual Meeting. David J. D. Antoni, William J. Lhota, and S. Elaine Roberts, the three persons recommended by the Nominating and Governance Committee of the Company's Board of Directors, and each of whom is an incumbent Class II director, have been nominated for re-election.

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 in the following table as Class II directors, each to hold office until the 2008 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 in the table as a Class II director 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.

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Set forth below is information about each of the Class II director nominees:

Class II Director Nominees**(Terms expiring in 2008)**

Name of Director Nominee and Position(s) with Company	Age(1)	Principal Occupation(s) During the Past Five Years	A Director of the Company Since	Common Shares Owned Beneficially as of March 21, 2005(2)(3)	% of Class
David J. D Antoni(4) Director	60	Retired from Ashland, Inc. 9/04 to present; formerly, Senior Vice President and Group Operating Officer, Ashland, Inc., 3/99 to 9/04; President of APAC, Inc., a subsidiary of Ashland, Inc., 7/03 to 1/04; Senior Vice President of Ashland, Inc. and President, Ashland Chemical, a division of Ashland, Inc., 7/88 to 3/99. Ashland, Inc. is involved in oil refining and marketing, highway construction, automotive after market products, specialty chemicals and chemical and plastics distribution. Mr. D Antoni is also a director of Omnova Solutions Inc., a producer of decorative and functional surfaces, coatings, and specialty chemicals and Compass Minerals International, Inc., a producer and distributor of inorganic minerals.	1995	51,400	*
William J. Lhota Director	65	President and Chief Executive Officer, Central Ohio Transit Authority, a public transportation authority operating primarily in Franklin County, Ohio, 9/04 to present; Principal, LHOTA SERVICES, a firm providing business and engineering ethics consulting and arbitration and mediation services, 1/02 to 9/04; Retired President Energy Delivery, American Electric Power, 6/00 to 12/01; Retired Executive Vice President, American Electric Power Service Corporation, a management, technical, and professional subsidiary of American Electric Power, 11/89 to 6/00. Mr. Lhota is also a director of Huntington Bancshares Incorporated, a bank holding company.	1994	38,400	*
S. Elaine Roberts Director	52	President and Chief Executive Officer of the Columbus Regional Airport Authority, a public port authority which oversees the operations of Port Columbus, Rickenbacker and Bolton Field airports in Franklin County, Ohio, 01/03 to present; Executive Director of Columbus Airport Authority, 12/00 to 01/03; Executive Director of Rhode Island Airport Corporation, 12/94 to 12/00.	2002	8,400	*

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Set forth below is information about the directors whose terms of office continue after the Annual Meeting.

Class III Directors

(Terms expiring in 2006)

Name of Director and Position(s) with Company	Age(1)	Principal Occupation(s) During the Past Five Years	A Director of the Company Since	Common Shares Owned Beneficially as of March 21, 2005(2)(3)	% of Class
James E. Kunk Director	52	President of the Central Region of Huntington National Bank, the principal subsidiary of Huntington Bancshares Incorporated, a regional bank holding company headquartered in Columbus, Ohio, 8/81 to present.	2004	8,637	*
Richard K. Smith(5) Director	60	Retired 6/97 as Partner of KPMG, LLP, a public accounting firm; Partner of KPMG, LLP, for more than five years prior to 6/97.	1999	18,400	*
Paul S. Williams Director	45	Executive Vice President, Chief Legal Officer and Secretary of Cardinal Health, Inc. (Cardinal), a provider of products and services to healthcare providers and manufacturers, 4/01 to present; Senior Vice President of Cardinal, 1/01 to 4/01; Vice President of Cardinal, 6/98 to 1/01; Deputy General Counsel of Cardinal, 7/99 to 1/01; Assistant Secretary of Cardinal, 6/98 to 4/01; Assistant General Counsel of Cardinal, 6/98 to 7/99.	2003	4,525	*

Table of Contents**Class I Directors**

(Terms expiring in 2007)

Name of Director and Position(s) with Company	Age(1)	Principal Occupation(s) During the Past Five Years	A Director of the Company Since	Common Shares Owned Beneficially as of March 21, 2005(2)(3)	% of Class
Paul W. Huesman(6) Director	69	Consultant to Huesman-Schmid Insurance Agency, Inc., an insurance agency, 6/03 to present; Agent with Huesman-Schmid Insurance Agency, Inc., 01/03 to 6/03; Formerly President of Huesman-Schmid Insurance Agency, Inc., for more than five years prior to 01/03.	1991	63,226	*
John R. Lowther(7) Senior Vice President, Secretary and General Counsel	54	Senior Vice President of the Company, State Auto Property & Casualty Insurance Company (State Auto P&C), Milbank Insurance Company (Milbank), State Auto National Insurance Company (National), and Farmers Casualty Insurance Company (Farmers Casualty), each a wholly owned subsidiary of the Company, and of State Automobile Mutual Insurance Company (State Auto Mutual), 3/01 to present; Secretary and General Counsel of the Company, State Auto P&C, Milbank, National, and State Auto Mutual for more than five years; Vice President of the Company, State Auto P&C, Milbank, National and State Auto Mutual for more than five years prior to 3/01.	1991	109,089	*
Robert H. Moone(8) Chairman, President and Chief Executive Officer	61	Chairman of the Board of the Company, State Auto P&C, Milbank, National, Farmers Casualty and State Auto Mutual, 1/01 to present; President and CEO of the Company, State Auto P&C, Milbank, National, Farmers Casualty and State Auto Mutual, 5/99 to present; President and COO of the Company, State Auto P&C, Milbank, National and State Auto Mutual, 5/96 to 5/99.	1998	287,279	*

* Less than one (1%) percent.

- (1) Ages shown are as of the date of the Annual Meeting.
- (2) Except as indicated in the notes to this table, the persons named in the table have sole voting and investment power with respect to all Common Shares shown as beneficially owned by the named person. 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 21, 2005.
- (3) The amount reported includes Common Shares attributable to options granted under the Company's 1991 Stock Option Plan and the 2000 Stock Option Plan for Messrs. Moone

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(156,913) and Lowther (55,333) and Common Shares attributable to options granted under both the Company's 1991 Directors Stock Option Plan and 2000 Directors Stock Option Plan for Messrs. Lhota (17,400), D'Antoni (17,400), Huesman (20,400), Smith (10,400), Kunk (5,500), Williams (4,200), and Ms. Roberts (7,400).

- (4) Includes 12,000 Common Shares owned by Mrs. D'Antoni, as to which Mr. D'Antoni disclaims beneficial ownership.
- (5) Includes 5,000 Common Shares owned by Mrs. Smith, as to which Mr. Smith disclaims beneficial ownership.
- (6) Includes 2,873 Common Shares owned by Mrs. Huesman, as to which Mr. Huesman disclaims beneficial ownership,
- (7) Includes 6,500 Common Shares attributable to options granted to Mr. Lowther under the Company's 1991 Stock Option Plan, which he assigned to his spouse pursuant to the terms of the 1991 Stock Option Plan, and 2,000 Common Shares attributable to options granted under the 1991 Stock Option Plan, which he assigned pursuant to the 1991 Stock Option Plan to trusts maintained for the benefit of his children and 14,224 Common Shares owned by Mrs. Lowther. Mr. Lowther disclaims beneficial ownership of these Common Shares.
- (8) Includes 13,440 Common Shares attributable to options granted to Mr. Moone under the 1991 Stock Option Plan, which he assigned to the Anna Moone Living Trust (Anna Moone and Robert H. Moone, co-trustees) pursuant to the terms of the 1991 Stock Option Plan, and 11,400 Common Shares owned by Mrs. Moone. Mr. Moone disclaims beneficial ownership of these Common Shares.

In addition to the Common Shares owned beneficially by Messrs. Lowther and Moone, as set forth above, Mark A. Blackburn, Steven J. Johnston and Steven R. Hazelbaker, the other named executive officers in the Summary Compensation Table set forth below, owned beneficially 39,738, 103,921, and 8,273 Common Shares, respectively, of the Company as of March 21, 2005, each of which represents less than 1% of the Company's outstanding Common Shares. These amounts include Common Shares attributable to options which are currently exercisable or exercisable within 60 days of March 21, 2005, granted under the Company's 1991 Stock Option Plan and the Company's 2000 Stock Option Plan in the amounts of 34,064, 59,964, and 5,271 for Messrs. Blackburn, Johnston and Hazelbaker, respectively. These persons and/ or their spouses have sole voting and investment power with respect to all Common Shares beneficially owned by them. As of March 21, 2005, all directors and executive officers of the Company as a group (15 persons) owned beneficially 955,895 (2.4%) Common Shares of the Company, which included options for 492,041 Common Shares.

PROPOSAL TWO: APPROVAL OF THE AMENDED AND RESTATED

EQUITY INCENTIVE COMPENSATION PLAN

Proposal

This proposal seeks the approval of the amendment and restatement of the Company's 2000 Stock Option Plan (the "2000 Stock Option Plan"). The Board of Directors approved the amendment and restatement of the 2000 Stock Option Plan on March 4, 2005. As part of the amendment and restatement, the 2000 Stock Option Plan was renamed the Amended and Restated Equity Incentive

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Compensation Plan (the Equity Incentive Compensation Plan). The Equity Incentive Compensation Plan requires that it be submitted to the Company s shareholders for approval at the 2005 annual meeting of shareholders. At the Annual Meeting, unless otherwise indicated, proxies will be voted for approval of the Equity Incentive Compensation Plan.

Principal Changes Being Made to the Plan

The 2000 Stock Option Plan only provided for the grant of stock options. The shareholders are being asked to approve an amendment and restatement of the 2000 Stock Option Plan to also permit awards of restricted shares, performance shares, performance units and other stock-based awards under the Equity Incentive Compensation Plan. The ability to grant a wider range of awards under the Equity Incentive Compensation Plan will help the Company achieve its goals of attracting, retaining and motivating talented personnel. The Company wants to ensure that it has maximum flexibility in determining the appropriate equity compensation for its key employees.

Additionally, the amendment and restatement reduces the number of shares available under the plan from 5,000,000 Common Shares to 3,500,000 Common Shares and imposes a maximum number of shares subject to awards of options, restricted shares and performance shares that may be granted in any calendar year equal to 1.5% of the total number of Common Shares of the Company outstanding as of December 31 of the prior year. The maximum number of shares subject to awards of options, restricted shares and performance shares that may be granted in any calendar year to any individual is being increased from 150,000 shares to 250,000 shares. The maximum number of performance units that may be granted in any calendar year to any individual will be 100,000 performance units.

Shares Available for Issuance under the Plan

A total of 5,000,000 Common Shares was initially reserved for issuance under the 2000 Stock Option Plan. Prior to the amendment and restatement of the 2000 Stock Option Plan on March 4, 2005, there were 3,700,745 shares available for issuance and options to purchase 1,227,691 Common Shares were outstanding. Pursuant to the amendment and restatement, the number of Common Shares reserved for issuance under the Equity Incentive Compensation Plan was reduced to a total of 3,500,000 Common Shares. As a result, immediately after the amendment and restatement, 2,200,745 shares were available for future grant under the Equity Incentive Compensation Plan and options to purchase 1,227,691 Common Shares were outstanding. Since the amendment and restatement, no awards have been granted under the Equity Incentive Compensation Plan.

No more than 33% of the shares authorized for issuance under the Equity Incentive Compensation Plan may be granted in the form of awards other than stock options.

The maximum number of shares subject to awards of options, restricted shares and performance shares that may be granted in any calendar year is equal to 1.5% of the total number of Common Shares of the Company outstanding as of December 31 of the prior year.

The maximum number of 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.

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Summary of the Equity Incentive Compensation Plan

The following discussion of the Equity Incentive Compensation Plan is qualified in its entirety by reference to the full text of the plan, which is attached to this Proxy Statement as Appendix A.

Purpose and Eligibility

Consistent with the purpose of the 2000 Stock Option Plan, the purpose of the Equity Incentive Compensation 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 Equity Incentive Compensation Plan is also intended to encourage and enable key employees to participate in the Company's future prosperity and growth by providing the participants with incentives and compensation based on the Company's performance, development and financial success. These purposes will be achieved by granting to key employees equity-based awards including stock options to purchase Common Shares, restricted shares, performance shares, performance units and other stock-based awards. Only persons who are employed by the Company or its parent or one of its subsidiaries in an executive, administrative, professional or technical capacity who, in the opinion of the committee administering the plan, have responsibilities affecting the management, development, or financial success of the Company or one of its subsidiaries or other affiliated entities are eligible to participate in the Equity Incentive Compensation Plan. As of the date of this Proxy Statement, there were approximately 110 eligible employees. Any awards may be granted alone or in addition to other awards granted under the Equity Incentive Compensation Plan.

Administration

The Equity Incentive Compensation Plan is administered by the Compensation Committee of the Company's Board of Directors (the Committee). The Committee's authority to administer the Equity Incentive Compensation 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 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 Equity Incentive Compensation 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. No consideration is received by the Company or its subsidiaries for the granting of awards under the Equity Incentive Compensation Plan.

Change in Control

In the event of a change in control or potential change in control of the Company (generally defined by reference to the acquisition of a specified percentage of voting power, or a

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

Amendment and Termination

The Board of Directors may at any time suspend, amend or terminate the Equity Incentive Compensation 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 Equity Incentive Compensation 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 Equity Incentive Compensation Plan will automatically terminate in 2010.

Stock Options

Exercise Price. The exercise price of incentive stock options granted under the Equity Incentive Compensation 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 National Market System 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 aggregate fair market value (determined at the time of the grant of the option) of Common Shares with respect to which incentive stock options are exercisable for the first time by any eligible person during any calendar year (under all stock option plans of the Company) may not exceed \$100,000. The exercise price of non-qualified stock options is determined by the Committee. However, in determining an exercise price, the Committee may not establish an exercise price that is less than the fair market value of the shares underlying the option (at the time the option is granted). The exercise price of any stock option granted under the Equity Incentive Compensation Plan will not be changed or modified after the time of grant unless such change or modification is made with the prior approval of the Company's shareholders.

Term. No stock option may be exercised more than ten years after the date of grant (five years with respect to an incentive stock option granted to a participant who owns more than 10% of the combined voting power of all classes of stock issued by the Company). Participants whose

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employment is terminated for reasons other than retirement, disability, or death must exercise all outstanding options within the earlier of 90 days of such termination or the expiration date of the option (if a participant's employment is terminated due to illegal conduct, all unexercised options shall immediately lapse and be of no further force or effect as of the termination). If the participant's employment is terminated as a result of retirement, disability, or death, all outstanding options become exercisable immediately and must be exercised by the following dates:

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

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

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

The purchase price of performance shares will be established by the 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, retirement, or disability, 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 his or her employment continued to the end of the performance period. If the participant's employment terminates for any other reason, all performance shares and performance units shall be forfeited. The Committee will have the authority to determine the voting rights (which may be full or limited), dividend rights (which may be full or limited) and other shareholder rights associated with the performance shares during the performance period.

Other Stock-Based Awards

The Committee is authorized, subject to limitations under applicable law, to grant such other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, the Common Shares of the Company and factors that may influence the value of such shares, as deemed by the Committee to be consistent with the purposes of the Equity Incentive Compensation Plan, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Common Shares, purchase rights for

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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 shall determine the terms and conditions of such awards.

Non-Transferability of Awards Other than Options

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

Stock Price

On March 29, 2005, the closing price of the Company's Common Shares as reported by the Nasdaq National Market System was \$26.73.

Number of Awards

The number of awards that an employee may receive under the Equity Incentive Compensation Plan is at the discretion of the Committee and therefore cannot be determined in advance. To date, only stock options have been granted under the Equity Incentive Compensation Plan (previously known as the 2000 Stock Option Plan). The following table sets forth (a) the aggregate number of shares subject to options granted under the Equity Incentive Compensation Plan during the fiscal year ended December 31, 2004 and (b) the weighted average per share exercise price of such options.

Name of Individual or Group	Number of Options Granted(#)	Weighted Average Per Share Exercise Price(\$)
Executive Officers		
Robert H. Moone	48,000	\$ 30.86
Mark A. Blackburn	14,500	\$ 30.86
Steven J. Johnston	14,500	\$ 30.86
John R. Lowther	14,500	\$ 30.86
Steven R. Hazelbaker	6,695	\$ 30.82
All executive officers, as a group	120,695	\$ 30.86
All directors who are not executive officers, as a group		
All employees who are not executive officers, as a group	261,294	\$ 30.86

Federal Income Tax Information

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

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Stock Options

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

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

(a) The grant of a non-qualified stock option, by itself, will not result in income to the optionee.

(b) Except as provided in (e) below, the exercise of a non-qualified stock option (in whole or in part, according to its terms) will result in ordinary income to the optionee at that time in an amount equal to the excess (if any) of the fair market value of the shares underlying the option on the date of exercise over the exercise price.

(c) Except as provided in (e) below, the optionee's tax basis of shares acquired upon the exercise of a non-qualified stock option, which will be used to determine the amount of any capital gain or loss on a future taxable disposition of such shares, will be the fair market value of the shares on the date of exercise.

(d) No deduction will be allowable to the Company upon the grant of a non-qualified stock option, but upon the exercise of a non-qualified stock option, a deduction will be allowable to the Company at that time in an amount equal to the amount of ordinary income realized by the optionee exercising the option if the Company withholds appropriate federal income tax and provided that the deduction is not otherwise disallowed under the Code.

(e) With respect to the exercise of a non-qualified stock option and the payment of the exercise price by the delivery of shares, to the extent that the number of shares received does not exceed the number of shares surrendered, no taxable income will be realized by the optionee at that time, the tax basis of shares received will be the same as the tax basis of shares surrendered, and the holding period of the optionee in shares received will include his or her holding period in shares surrendered. To the extent that the number of shares received exceeds the number of shares surrendered, ordinary income will be realized by the optionee at that time in the amount of the fair market value of such excess shares, the tax basis of such shares will be equal to the fair market value of such shares at the time of exercise, and the holding period of the optionee in such shares will begin on the date such shares are transferred to the optionee.

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

(a) Neither the grant nor the exercise of an incentive stock option, by itself, will result in income to the optionee; however, the excess of the fair market value of the shares underlying the option at the time of exercise over the exercise price is (unless there is a disposition of shares acquired upon exercise of an incentive stock option in the taxable year of exercise) includable in alternative minimum taxable income which may, under certain circumstances, result in an alternative minimum tax liability to the optionee.

(b) If shares acquired upon the exercise of an incentive stock option are disposed of in a taxable transaction after the later of two years from the date on which the incentive stock option is granted or one year from the date on which such shares are transferred to the optionee, long-term capital gain or loss will be realized by the optionee in an amount equal to the difference

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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 the excess, if any, of the amount realized by the optionee over the exercise price.

(ii) Short-term or long-term capital gain will be realized by the optionee at the time of the disqualifying disposition in an amount equal to the excess, if any, of the amount realized over the fair market value of the shares at the time of such exercise.

(iii) Short-term or long-term capital loss will be realized by the optionee at the time of the disqualifying disposition in an amount equal to the excess, if any, of the exercise price over the amount realized.

(d) No deduction will be allowed to the Company with respect to incentive stock options granted or shares transferred upon exercise thereof, except that if a disposition is made by the optionee within the two-year period referred to above, the Company will be entitled to a deduction in the taxable year in which the disposition occurred in an amount equal to the amount of ordinary income realized by the optionee making the disposition, provided that the deduction is not otherwise disallowed under the Code.

(e) With respect to the exercise of an incentive stock option and the payment of the option price by the delivery of shares to the extent that the number of shares received does not exceed the number of shares surrendered, no taxable income will be realized by the optionee at that time, the tax basis of the shares received will be the same as the tax basis of the shares surrendered, and the holding period (except for purposes of the one-year period referred to in (c) above) of the optionee in the shares received will include his or her holding period in the shares surrendered. To the extent that the number of shares received exceeds the number of shares surrendered, no taxable income will be realized by the optionee at that time, such excess shares will be considered incentive stock option stock with a zero basis, and the holding period of the optionee in such shares will begin on the date such shares are transferred to the optionee. If the shares surrendered were acquired as the result of the exercise of an incentive stock option and the surrender takes place within two years from the date the option relating to the surrendered shares was granted or within one year from the date of such exercise, the surrender will result in a disqualifying disposition and the optionee will realize ordinary income at the time of exercise of the shares surrendered over the basis of such shares. If any of the shares received are disposed of within one year after the shares are transferred to the optionee, the optionee will be treated as first disposing of the shares with a zero basis.

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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 Equity Incentive Compensation 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 when a stock option or purchase plan in which officers or employees participate is materially amended. The Equity Incentive Compensation Plan constitutes a material amendment to the 2000 Stock Option Plan. For this reason, the Company's shareholders are being asked to approve the Equity Incentive Compensation Plan.

The favorable vote of a majority of the outstanding Common Shares present in person or by proxy at the Annual Meeting is required to approve the Equity Incentive Compensation Plan. The effect of an abstention is the same as a vote against 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 EQUITY INCENTIVE COMPENSATION PLAN.

PROPOSAL THREE: APPROVAL OF THE OUTSIDE DIRECTORS

RESTRICTED SHARE UNIT PLAN

Proposal

This proposal seeks the approval of the Company's Outside Directors Restricted Share Unit Plan (the Directors Plan). The Board of Directors approved the terms of the Directors Plan on March 4, 2005. The Directors Plan requires that it be submitted to the Company's shareholders for approval at the 2005 annual meeting of shareholders. At the Annual Meeting, unless otherwise indicated, proxies will be voted for approval of the Directors Plan.

Restricted Share Units to be Granted Under the Directors Plan

Promptly following each annual meeting of the shareholders of the Company on and after the date of approval of the Directors Plan by the shareholders of the Company, each non-employee member of the Board of Directors (an Outside Director) shall be automatically granted an award of 1,400 restricted share units (Restricted Share Units) under the Directors Plan. All Restricted Share

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Units will be fully vested upon the date of grant. The administrative committee of the Directors Plan has the power to increase the number of Restricted Share Units to be awarded to each of the Outside Directors to a maximum annual award of 5,000 Restricted Share Units.

Summary of the Directors Plan

The following discussion of the Directors Plan is qualified in its entirety by reference to the full text of the plan, which is attached to this Proxy Statement as Appendix B.

Purpose and Eligibility

The purpose of the Directors Plan is to advance the interests of the Company and its shareholders by aligning and strengthening the interests of Outside Directors with the interests of the Company's shareholders. This purpose will be achieved by annually granting to Outside Directors Restricted Share Units. As of the date of this Proxy Statement, there were seven Outside Directors.

The Directors Plan is an unfunded deferred compensation plan that is not intended to meet the qualification requirements under Section 401 of the Code. The Directors Plan is intended to comply with the requirements of new Code Section 409A and may be subsequently amended, subject to any required shareholder approval, to conform to any future requirements of Code Section 409A and any guidance or regulations issued thereunder by the Internal Revenue Service (IRS) within the applicable time limitations established by the IRS.

Administration

The Directors Plan is to be administered by the Compensation Committee of the Company's Board of Directors or such other committee of at least three persons appointed by the Compensation Committee to oversee administration of the Directors Plan (the Committee). The Committee's authority to administer the Directors Plan includes, among other things, the discretionary authority to interpret the Directors Plan, the discretionary authority to determine all questions relating to the rights and status of participants, the discretionary authority to make such rules and regulations for the administration of the Directors Plan as are not inconsistent with the terms and provisions of the Directors Plan or applicable law and the authority to change or waive any requirements of the Directors Plan to conform with the law or to meet special circumstances not anticipated or covered under the Directors Plan. The Committee also has the power to increase the number of Restricted Share Units to be awarded to each of the Outside Directors to a maximum annual award of 5,000 Restricted Share Units. Any such increase may be made without further shareholder approval if, in the Committee's discretion, such an increase is warranted to maintain Outside Director compensation at a competitive level. Each award grant must be evidenced by a written Restricted Share Unit Agreement between the Outside Director to whom the award was granted and the Company.

No consideration is received by the Company or its subsidiaries for the granting of awards under the Directors Plan.

Recapitalization, Reorganization, Consolidation, Merger or Asset Sale

In the event of a recapitalization, reorganization, reclassification, consolidation, or merger of the Company, or any sale of all or substantially all of the Company's assets to another person or entity, or any other transaction which is effected in such a way that holders of Common Shares are entitled to

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receive (either directly or upon subsequent liquidation) other stock, securities, or assets with respect to or in exchange for Common Shares of the Company (an Organic Change), the value of each participant s Restricted Share Units shall be adjusted so as to contain a value equivalent to such shares of stock, securities or assets (including cash) as would have been issued or payable with respect to or in exchange for the number of Common Shares credited to such participant s account immediately before such Organic Change, as if such Common Shares had been outstanding.

Amendment and Termination

The Board of Directors may at any time amend, modify, suspend, discontinue or terminate the Directors Plan. However, no amendment shall operate retroactively so as to affect adversely any rights to which a participant may be entitled under the provisions of the Directors Plan as in effect prior to such action and 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. Additionally, any suspension, discontinuance or termination of the Directors Plan shall not (a) accelerate the obligation to make payments to any person not otherwise currently entitled to payments under the Directors Plan, unless otherwise specifically so determined by the Company and permitted by applicable law, (b) relieve the Company of its obligations to make payments to any person then entitled to payments under the Directors Plan, or (c) reduce the balance of any participant s existing account under the Directors Plan.

Funding

All benefits under the Directors Plan are unfunded and the Company shall not be required to establish any special or separate fund or to make any other segregation of assets in order to assure the payment of any amounts under the Directors Plan; provided, however, that in order to provide a source of payment for its obligations under the Directors Plan, the Company may establish a trust fund. The right of a participant or his beneficiary to receive a distribution under the Directors Plan shall be an unsecured claim against the general assets of the Company, and neither the participant nor his beneficiary shall have any rights in or against any amounts credited under the Directors Plan or any other specific assets of the Company. All amounts credited under the Directors Plan to the benefit of a participant shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate.

Restricted Share Units

A Restricted Share Unit is a unit representing one Common Share. The number of Restricted Share Units awarded to participants under the Directors Plan and their corresponding value will be maintained in a separate bookkeeping account of the Company until the time of distribution of the Restricted Share Units in a form and at such time as are provided under the Directors Plan.

Annual Awards. Promptly following each annual meeting of the shareholders of the Company on and after the date of approval of the Directors Plan by the shareholders of the Company, each Outside Director shall be automatically granted an award of 1,400 Restricted Share Units under the Directors Plan; provided that the Committee has the power to increase the number of Restricted Share Units to be awarded to each of the Outside Directors to a maximum annual award of 5,000 Restricted Share Units. All Restricted Share Units will be fully vested upon the date of grant. For each award of

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Restricted Share Units, the Outside Director will select the form of payment upon distribution of awarded Restricted Share Units. The form of payment will be either in cash or Common Shares.

Value. The value of each Restricted Share Unit, on any particular day, shall be: (a) the last reported sale price of a Common Share on the Nasdaq National Market System on the most recent previous trading day (or if there was no trading in the Common Shares on that day, then on the next preceding trading day in which there was trading in the Common Shares), or (b) the mean between the high and low bid and ask price of a Common Share as reported by the National Association of Securities Dealers on the most recent previous trading day, or (c) the last reported sale price of a Common Share on any stock exchange on which the Common Shares are listed on the most recent previous trading day (or if there was no trading in the Common Shares on that day, then on the next preceding trading day on which there was trading in the Common Shares).

Dividends. Whenever a dividend is made with respect to the Common Shares, participants under the Directors Plan shall receive, with respect to each Restricted Share Unit held in the account of the participant on the dividend record date, additional Restricted Share Units in an amount equal to the value of the dividend.

Distribution of Benefits. Other than withdrawals for an unforeseeable emergency, a participant under the Directors Plan will not receive payment with respect to the Restricted Share Units until his or her termination from membership on the Board of Directors due to death, disability, retirement after attaining age 65 or any other reason. With respect to terminations of membership on the Board of Directors other than due to death or disability, the participant may elect to receive the distribution either (i) in a single lump sum payment approximately six months following the termination, or (ii) in annual installment payments over a period of five or ten years, as selected by the participant. In the event of death or disability, the distribution shall be made as soon as practicable following the termination from membership on the Board of Directors. Upon the occurrence of an unforeseeable emergency, the participant shall be eligible to receive payment of the amount necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the participant's assets (to the extent such liquidation would not itself cause severe financial hardship). The amount determined to be properly distributable under applicable regulations under Code Section 409A shall be payable in a single lump sum only. An unforeseeable emergency means a severe financial hardship to the participant resulting from an illness or accident of the participant, the participant's spouse, or a dependent of the participant (as defined in Code Section 152(a)); loss of the participant's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.

Non-Transferability

Generally no rights or benefits under the Directors Plan shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge; and any attempt to anticipate, alienate, sell, assign, pledge, encumber or charge the same shall be void. No right or benefit shall be liable for or subject to the debts, contracts, liabilities, or torts of the person entitled to such benefits.

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Federal Income Tax Information

The following is a summary of the general federal income tax consequences to U.S. taxpayers and the Company of awards of Restricted Share Units under the Directors Plan. Tax consequences for any particular individual may be different.

As a deferred compensation plan, a participant generally will not have taxable income at the time of an award of Restricted Shares Units. Instead, at the time of receipt of the deferred compensation plan benefits, he or she will recognize as ordinary income an amount equal to (i) the fair market value of the Common Shares received, if that payment distribution method is elected, or (ii) the cash received, if that payment method is elected. The Company generally will be entitled to a tax deduction in connection with an award of Restricted Shares Units under the Directors 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 of any new equity compensation plan. The Directors Plan constitutes a new equity compensation plan. For this reason, the Company's shareholders are being asked to approve the Directors Plan.

The favorable vote of a majority of the outstanding Common Shares present in person or by proxy at the Annual Meeting is required to approve the Directors Plan. The effect of an abstention is the same as a vote against 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 DIRECTORS PLAN.

**PROPOSAL FOUR: RATIFICATION OF SELECTION OF
INDEPENDENT PUBLIC ACCOUNTANTS**

The Audit Committee has selected Ernst & Young LLP (Ernst & Young) as independent public accountants for the Company for 2005. Although not required, the Board of Directors is submitting the selection of Ernst & Young to the Company's shareholders for ratification. Ernst & Young has served as the independent public accountants for the Company since 1994. The Audit Committee and the Board of Directors believe that the reappointment of Ernst & Young for 2005 is appropriate because of the firm's reputation, qualifications, and experience.

The favorable vote of a majority of the outstanding Common Shares present in person or by proxy at the Annual Meeting is required to approve the ratification of the selection of Ernst & Young. The effect of an abstention is the same as a vote against 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 RATIFICATION OF THE SELECTION OF ERNST & YOUNG AS THE INDEPENDENT PUBLIC ACCOUNTANTS FOR THE COMPANY FOR 2005.

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

BOARD OF DIRECTORS AND BOARD COMMITTEES

Board Meetings

The Company's Board of Directors (the Board) held four meetings during the fiscal year ended December 31, 2004. Each incumbent director attended at least 75% of the aggregate of the meetings of the Board and the meetings of all committees on which he or she served. A majority of the Company's directors are independent as defined by the Nasdaq Marketplace Rules. See Corporate Governance Director Independence.

Board Committees and Committee Meetings

The Board has established an Audit Committee, a Compensation Committee, a Nominating and Governance Committee (the Nominating Committee), an Investment Committee, and a standing Independent Committee. All of the members of the Audit, Compensation, Nominating and Independent Committees are independent as defined by the Nasdaq Marketplace 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). The Board has adopted charters for each of the foregoing Committees. Copies of the current charters for each of these Committees, along with copies of the Company's current Corporate Governance Guidelines, Code of Business Conduct, and Code of Ethics for Senior Financial Officers, are available on the Company's website at www.stfc.com under Corporate Governance.

The Audit Committee is charged with several responsibilities, including: (1) appointment, compensation, retention and oversight of the work performed by the Company's independent auditors; (2) reviewing the Company's accounting functions, operations, and management; (3) considering the adequacy and effectiveness of the internal controls and internal auditing methods and procedures of the Company; (4) meeting and consulting with the Company's independent auditors and with the Company's financial and accounting personnel concerning the foregoing matters; (5) reviewing with the Company's independent auditors the scope of their audit of the Company and the results of their examination of its financial statements; (6) participating in the process of administering the Company's Code of Business Conduct; (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 the Company's independent auditors that they are permitted by law to perform for the Company. Present members are Chairman Richard K. Smith, David J. D'Antoni, William J. Lhota and Paul S. Williams. Based on a recommendation of the Audit Committee, the Board has designated Richard K. Smith as the Audit Committee Financial Expert. The Audit Committee held eight meetings during 2004. See also Report of the Audit Committee contained elsewhere in this Proxy Statement.

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The Compensation Committee is charged with several responsibilities, including: (1) administering the Company's 2000 Stock Option Plan and 1991 Stock Option Plan (and the Equity Incentive Compensation Plan and Outside Directors Restricted Share Unit Plan, in each case if approved by shareholders - See Proposal Two and Proposal Three); (2) evaluating and approving the compensation, fringe benefits and perquisites provided to the Company's executive officers and adopting compensation policies applicable to the Company's officers; and (3) evaluating the compensation provided to the members of the Board and its committees. Present members of such committee are Chairman William J. Lhota, David J. D'Antoni, and Richard K. Smith. The Compensation Committee held seven meetings during 2004. See also Compensation Committee Report contained elsewhere in this Proxy Statement.

The Nominating Committee is charged with several responsibilities, including: (1) selecting nominees for election as directors; (2) reviewing the performance of the Board; and (3) annually reviewing and recommending to the Board changes to the Company's Corporate Governance Guidelines. The members of the Nominating Committee are Chairperson S. Elaine Roberts, William J. Lhota, James E. Kunk, and Paul S. Williams. This Committee met seven times in 2004. See also Corporate Governance - Nomination of Directors contained elsewhere in this Proxy Statement.

The Investment Committee oversees the investment functions of the Company and its insurance subsidiaries. The members of the Investment Committee are Chairman James E. Kunk, Paul W. Huesman, S. Elaine Roberts, and Richard K. Smith. This Committee met four times in 2004.

The standing Independent Committee principally serves to review inter-company transactions between or among the Company and its subsidiaries, on the one hand, and State Auto Mutual and its subsidiaries, on the other. This Committee also helps determine which entity, the 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 Chairman David J. D'Antoni, Paul S. Williams, James E. Kunk, and S. Elaine Roberts. This Committee, which only meets as needed, met three times in 2004.

Compensation of Directors

In 2004, outside directors of the Company received an annual fee of \$20,000, plus travel expenses incurred in attending directors' meetings, and a fee of \$500, plus travel expenses, for each committee meeting attended. Each committee chair also received an additional \$5,000 annual retainer, up to a maximum of \$5,000 even if a director chaired more than one committee. The Company paid \$500, plus travel expenses, for each special board meeting attended. In addition, there had been a Special Independent Committee in place to address issues created by the attempted takeover of the Company by Gregory M. Shepard. The chair of the Special Independent Committee received \$1,000 per meeting attended. The Special Independent Committee was dissolved following the termination of the tender offer of Mr. Shepard. Outside directors also received stock options pursuant to the 2000 Directors Stock Option Plan. Under this plan, promptly following each annual meeting of shareholders of the Company, each eligible director was granted a non-qualified option to purchase 4,200 Common Shares at the fair market value of such shares on the last trading day prior to the annual meeting. It is anticipated that the 2000 Directors Stock Option Plan will be replaced by the Outside Directors Restricted Share Unit Plan. See Proposal Three: Approval of the Outside Directors Restricted Share Unit Plan.

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For 2005, the compensation arrangements of directors have been modified following input from a compensation consultant retained by the Compensation Committee. For 2005, outside directors receive an annual retainer of \$25,000 plus \$1,000 for each regular, special or committee meeting attended (plus travel expenses incurred in attending such meetings). Each committee chair receives an additional \$5,000 annual retainer, except for the chair of the audit committee, who receives an additional \$10,000 annual retainer. If approved by shareholders, outside directors will also receive 1,400 restricted share units pursuant to the terms of the Outside Directors Restricted Share Unit Plan in lieu of the non-qualified option to purchase 4,200 Common Shares they had previously received under the 2000 Directors Stock Option Plan (the administrative committee of the Outside Directors Restricted Share Unit Plan has the power to increase the annual award of restricted share units to outside directors to a maximum of 5,000 restricted share units without further shareholder approval). Under the Outside Directors Restricted Share Unit Plan, outside directors will be required to hold their restricted share units until they conclude their board service, after which time these units will be settled in cash or Common Shares. See Proposal Three: Approval of the Outside Directors Restricted Share Unit Plan for a more detailed description of this plan.

Outside directors may defer all or a portion of the cash fees under the Company's deferred compensation plan for directors.

CORPORATE GOVERNANCE

Director Independence

The Nominating Committee has affirmatively determined that six of the Company's nine directors, namely David J. D'Antoni, James E. Kunk, William J. Lhota, S. Elaine Roberts, Richard K. Smith and Paul S. Williams, are independent as defined by the Nasdaq Marketplace Rules. Robert H. Moone and John R. Lowther, who are employees of the Company, and Paul W. Huesman, who has family members who are controlling shareholders and officers of an insurance agency which does a substantial amount of business with the Company, are not independent directors.

Communications with the Board

As further described in the Company's Corporate Governance Guidelines, the Company provides a process by which security holders may send communications to the Board. Any security holder who desires to communicate with a director of the Company may send such communication to any or all directors through the Secretary of the Company, John R. Lowther, by e-mail to Mr. Lowther at John.Lowther@stateauto.com or in writing to Mr. Lowther at the home office, 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. Mr. Lowther is responsible for forwarding such communication to the director or directors so designated by the security holder.

Director Attendance at Annual Meeting of Shareholders

The Company's Corporate Governance Guidelines provide that directors are expected to attend the Company's annual meetings of shareholders. All of the directors of the Company who were directors last year attended last year's annual meeting of shareholders.

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Executive Sessions of Non-Management Directors

Since 2002, the Board has met in executive session, without management present, prior to or following each regular quarterly Board meeting. Consistent with its Corporate Governance Guidelines and the Nasdaq Marketplace Rules, during 2004, there were four executive sessions with only independent directors present, each of which was followed or preceded by an executive session without management present. The Governance Guidelines provide that the chair of the Independent Committee is to act as the presiding director at these executive sessions. During 2004, Mr. D. Antoni led these executive sessions.

Nomination of Directors

The Nominating 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 to as "election") as a director of the Company. These minimum qualifications are described in the Nominating Committee's charter. The following matters will be considered in the Nominating Committee's determination of persons to recommend for nomination as directors of the Company: status as independent based on the then current Nasdaq rules; business or professional skills and experience; temperament; integrity; educational background; and judgment. The objective of the Nominating Committee in this regard is to nominate for election as directors persons who share the values of the Company 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 Committee will consider these criteria in the context of an assessment of the perceived needs of the Board as a whole and will seek to achieve diversity of occupational and personal backgrounds. Ultimately, the Nominating Committee's intention is to select nominees for election to the Board whom the Nominating Committee believes will be effective, in conjunction with the other members of the Board, in collectively serving the long-term interests of the shareholders. In the context of recommending an incumbent director to be nominated for election to the Board, the Nominating 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.

Based on the criteria described above, the Nominating Committee will recommend to the Board nominees for election to the Board at each annual shareholders meeting and at any other shareholders meeting held for the election of one or more directors.

In addition to incumbent directors who will be evaluated for re-nomination as described above, the Nominating Committee may maintain a list of other potential candidates whom the Nominating 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 Committee will consider and evaluate such candidates recommended by shareholders in the same manner as all other candidates for nomination to the Board who are not incumbent directors.

In the absence of extraordinary circumstances, when a director vacancy arises for any reason, the Nominating Committee will use the following process to identify the person(s) whom the Nominating Committee will recommend to the Board for election as a director to fill such vacancy(ies). The Nominating Committee will first look to the list of names of potential nominees, as described above,

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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 Committee may solicit other potential nominees' names from other directors of the Company, directors of the Company's parent, the Chairman or other persons whom the Nominating Committee reasonably believes would have the opportunity to possess first hand knowledge of a suitable candidate based on the criteria described above. The Nominating Committee may also hire a director search firm, as contemplated below.

Once the Nominating Committee has preliminarily concluded that a person(s) may meet the criteria described above, the Nominating 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, 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 Committee and the Chairman and counsel for the Company, the Nominating 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, which will include a background check and a criminal record check, the Nominating Committee will meet and decide whether or not to recommend such person(s) for nomination for election as a director of the Company. Any decision by the Committee in this regard will reflect its considered judgment of the person(s) being able to fulfill the objectives outlined above.

The Company has adopted procedures by which shareholders may recommend individuals for membership to the Board. As described in its charter, it is the policy of the Nominating Committee to consider and evaluate candidates recommended by shareholders for membership on the Board in the same manner as all other candidates for nomination to the 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 Secretary of the Company at 518 East Broad Street, Columbus, Ohio 43215 (the Recommendation Notice). For a recommendation to be considered by the Nominating Committee, the Recommendation Notice must contain, at a minimum, the following: the name and address, as they appear on the Company's books, and telephone number of the shareholder making the recommendation, including information on the number of shares owned; and 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; 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; a written acknowledgement by the individual being recommended that he or she has consented to that recommendation and consents to the Company's undertaking of an investigation into that individual's background, experience and qualifications in the event that the Nominating Committee desires to do so; the disclosure of any relationship of the individual being recommended with the Company or any of its subsidiaries or affiliates, whether direct or indirect; and, 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 the Company's next annual meeting of shareholders (or a statement to the effect that no material interest is known to such shareholder).

As of March 29, 2005, the Company had not received any such recommendations from shareholders for nominees for the Board.

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Availability of Corporate Governance Documents

The following documents are available on the Company's website at www.stfc.com under "Corporate Governance":

The charters for the Company's Audit Committee, Compensation Committee, Nominating Committee, Investment Committee, and standing Independent Committee;

The Company's Corporate Governance Guidelines;

The Company's Code of Business Conduct; and

The Company's Code of Ethics for Senior Financial Officers.

COMPENSATION OF EXECUTIVE OFFICERS

Pursuant to the 2000 Management Agreement and the 2005 Management Agreement (see "Certain Transactions" on page 43), the executive officers of the Company and its subsidiaries, as well as every other person providing services to the Company and its subsidiaries, are employees of State Auto P&C, with State Auto Mutual acting as the common paymaster and common agent for these employees. The costs and expenses associated with the employees of State Auto P&C are reimbursed to State Auto Mutual, as paymaster, in accordance with the terms of these management agreements. See "Certain Transactions" below.

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Set forth below is information concerning the compensation paid to, or accrued for, the Company's Chief Executive Officer and its four most highly compensated executive officers, other than the chief executive officer, for the Company's fiscal years ended December 31, 2004, 2003, and 2002:

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards	All Other Compensation(4)
		Salary(1)	Bonus(2)	Securities Underlying Options Granted(3)	
Robert H. Moone Chairman, President and Chief Executive Officer	2004	\$ 525,000	\$ 113,340	48,000	\$ 19,204
	2003	\$ 484,000	\$ 234,811	48,000	\$ 17,770
	2002	\$ 440,000	\$ 287,445	27,500	\$ 16,230
Mark A. Blackburn Senior Vice President	2004	\$ 250,000	\$ 54,041	14,500	\$ 2,251
	2003	\$ 231,231	\$ 97,313	14,500	\$ 906
	2002	\$ 220,220	\$ 85,012	10,400	\$ 906
Steven J. Johnston Senior Vice President, Treasurer and Chief Financial Officer	2004	\$ 283,000	\$ 61,428	14,500	\$ 10,558
	2003	\$ 264,507	\$ 111,241	14,500	\$ 9,069
	2002	\$ 235,155	\$ 94,806	11,600	\$ 6,803
John R. Lowther Senior Vice President, Secretary and General Counsel	2004	\$ 250,000	\$ 53,641	14,500	\$ 8,995
	2003	\$ 226,893	\$ 95,414	14,500	\$ 7,960
	2002	\$ 214,049	\$ 82,282	10,200	\$ 7,236
Steven R. Hazelbaker Vice President	2004	\$ 204,000	\$ 49,844	6,695	\$ 61,998
	2003	\$ 225,000	\$ 13,863	4,500	\$ 7,858
	2002	\$ 225,000	\$ 2,388	5,000	\$ 6,663

- (1) Includes amounts deferred pursuant to the State Auto Insurance Companies Capital Accumulation Plan (the "CAP") and the Non-Qualified Incentive Deferred Compensation Plan (the "Deferred Compensation Plan"). The CAP is a defined contribution plan (within the meaning of the Employee Retirement Income Security Act of 1974) ("ERISA") and is intended to be a qualified plan under Sections 401(a) and 401(k) of the Code. Under the CAP, each participant is eligible to enter into a written salary reduction agreement with the participant's employer whereby the participant's salary will be reduced by a whole percentage from 1% to 50%, as elected by the participant, in accordance with the rules governing cash or deferred arrangements under Section 401(k) of the Code. The amount deferred by a participant is contributed by his or her employer to the trust fund for the CAP and invested in accordance with the election of the participant from among investment funds established under the trust agreement, including the Common Shares. The Deferred Compensation Plan is a non-qualified, unfunded deferred compensation plan for eligible key employees who are legally precluded from contributing a full 6% of compensation to the CAP or who choose to defer a portion of their salary beyond the amount matched by the CAP. Under the Deferred Compensation Plan, such employees are eligible to enter into a salary reduction agreement to defer payment of an additional portion of the employee's salary as the employee prescribes on an election form executed annually in advance of the year in which such compensation would be earned. The total amount of salary deferred

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under the CAP and the Deferred Compensation Plan cannot exceed in the aggregate 50% of salary. Deferred amounts, along with the Company matching amounts on that portion deferred that is eligible for the match (see footnote (4), below), are invested by State Auto P&C in a variety of investment options made available to participants in the Deferred Compensation Plan pursuant to the terms of such plan.

- (2) The amounts appearing in this column represent bonuses paid pursuant to the State Auto Quality Performance Bonus Plan (the QPB Plan). Under the QPB Plan for 2004, quarterly bonuses were paid to employees who had completed two full calendar quarters of service if the direct statutory combined ratio for such quarter was 100% or less for all combined affiliated insurers. Beginning in the second quarter of 2004, quarterly bonuses were reduced by 10% if the Company did not achieve targeted sales amounts for the calendar quarter in which the bonus was earned.

Also included in this column are special incentive bonuses earned in 2003 and 2002 under special incentive bonus plans recommended by the Chief Executive Officer and approved by the Compensation Committee for Mr. Johnston, Mr. Blackburn, and Mr. Lowther. While similar plans were in place for 2004, the amounts of those bonuses were not determined as of the date this Proxy Statement was printed. The Compensation Committee also had in place special incentive bonus plans for Mr. Moone in 2004, 2003, and 2002. The bonus shown for Mr. Moone for 2003 and 2002 includes the special bonus earned in each such year. The 2004 incentive bonus for Mr. Moone has not been determined as of the date this Proxy Statement was printed. See Compensation Committee Report contained elsewhere in this Proxy Statement.

- (3) In each year noted, the persons listed in the Summary Compensation Table were granted options to purchase the number of Common Shares of the Company set forth in this column pursuant to the Company s 2000 Stock Option Plan.
- (4) The amounts appearing in this column represent the Company s contributions and credits on behalf of each named person under the CAP or the Deferred Compensation Plan. Each participant in the CAP is credited annually with his or her allocable share of employer matching contributions made to the CAP from the consolidated net accumulated or current earnings of State Auto P&C and its affiliates. A participant s share of the matching contribution equals 75% of his or her salary reduction contributions up to 2% of compensation, plus 50% of his or her salary reduction contributions from 3% to 6% of compensation. While a participant is always vested in his or her own salary reduction contributions, the rights of a participant to amounts credited to his or her account as matching contributions vest as follows: (a) one-third of matching contributions allocated for the plan year preceding the plan year in which termination of employment occurs, two-thirds of matching contributions allocated for the second plan year before the plan year in which termination of employment occurs, and 100% of the matching contributions allocated for the third and earlier plan years before the plan year in which termination of employment occurs; and (b) notwithstanding the foregoing, after the participant has completed three or more years of service with State Auto P&C and its affiliates, all matching contributions become vested. The following are the amounts of the Company matching contributions under the CAP for 2004 for the officer indicated: Mr. Moone \$7,175; Mr. Blackburn \$1,346; Mr. Johnston \$7,175; Mr. Lowther \$7,175; and Mr. Hazelbaker- \$7,140. Each employee who is eligible to participate in the Deferred Compensation Plan is credited annually with his or her allocable share of Company matching contributions on the same basis that contributions are matched under the CAP, provided that no more than 6% of any employee s salary is subject to being matched under either the CAP or the Deferred Compensa-

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tion Plan. The following amounts reflect the Company's contribution to the Deferred Compensation Plan for 2004: Mr. Moone \$11,200; Mr. Johnston \$2,730; and Mr. Lowther \$1,149. The amounts appearing in this column also represent the premiums for policies of whole life insurance purchased on behalf of the officers of the Company, including the executive officers named above. The following amounts represent the premiums paid for whole life insurance for 2004: Mr. Moone \$829; Mr. Blackburn \$905; Mr. Johnston \$653; Mr. Lowther \$671; and Mr. Hazelbaker \$858. In addition, for Mr. Hazelbaker, there is reflected a payment of \$54,000 made under a retention agreement entered into with the Company in May of 2004, in consideration of Mr. Hazelbaker's relinquishing his rights under a change in control agreement between him and Meridian Insurance Group, Inc. The retention agreement contemplates five annual installments of which this was the first, provided he remains in the employ of the Company, unless the Company terminates his employment without good cause, as defined in the agreement, or as a result of his death or total disability. In addition to the cash installments, he also was granted 2,195 non-qualified stock options that will vest over a five-year period in 20% increments, under the retention agreement.

OPTION GRANTS IN LAST FISCAL YEAR

The following table shows the number of options granted in 2004 to the individuals named in the Summary Compensation Table and estimates the potential realizable value of these option grants.

Name	Individual Grants			Expiration Date	Potential	Potential
	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees In Fiscal Year	Exercise or Base Price (\$/sh)(2)		Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term 5%(\$)(3)	Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term 10%(\$)(3)
Robert H. Moone	48,000	10.91%	\$30.86	05/27/2014	\$931,569	\$2,360,779
Mark A. Blackburn	14,500	3.29%	\$30.86	05/27/2014	\$281,411	\$713,152
Steven J. Johnston	14,500	3.29%	\$30.86	05/27/2014	\$281,141	\$713,152
John R. Lowther	14,500	3.29%	\$30.86	05/27/2014	\$281,411	\$713,152
Steven R. Hazelbaker	4,500	1.02%	\$30.86	05/27/2014	\$87,334	\$221,325
	2,195(4)	0.5%	\$30.75	05/31/2014	\$42,913	\$108,312

(1) Options were granted on May 28, 2004, except as described in footnote (4) below. The options are fully exercisable in 1/3 increments over a three-year vesting period, so long as employment with the Company or its subsidiaries or its parent continues, except in the case of retirement. There are no stock appreciation rights, performance units, or other instruments granted in tandem with these options, nor are there any reload provisions, tax reimbursement features or performance-based conditions to exercisability.

(2) The option exercise price is the closing price of the Company's shares on the Nasdaq National Market System on the day of the grant.

(3) The dollar amounts under these columns are the result of calculations at the 5% and 10% rates dictated by the Securities and Exchange Commission when the Potential Realizable Value alternative is used and are not intended to be a forecast of the Company's stock price.

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- (4) These are the options granted to Mr. Hazelbaker on June 1, 2004 pursuant to the retention agreement described in footnote (4) of the Summary Compensation Table.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR END OPTION VALUES**

The following table sets forth stock option exercises during 2004 by the executive officers named in the Summary Compensation Table and shows the number of Common Shares represented by both exercisable and non-exercisable stock options and the value of in-the-money stock options (exercisable and non-exercisable) held by each of the named executive officers as of December 31, 2004.

Name	Shares Acquired on Exercise(#)	Value Realized\$(1)	Number of Securities Underlying Unexercised Options at FY-End(#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at FY-End(\$) Exercisable/ Unexercisable(2)
Robert H. Moone(3)	29,100	\$ 664,114	156,913/89,167	\$ 1,987,696/317,815
Mark A. Blackburn	0	0	34,064/27,636	\$ 382,139/102,899
Steven J. Johnston	6,750	\$ 160,891	66,714/28,036	\$ 898,132/106,839
John R. Lowther(4)	11,000	\$ 204,829	57,833/27,567	\$ 771,387/102,222
Steven R. Hazelbaker	0	0	5,271/10,924	\$ 43,485/37,760

- (1) Aggregate market value of the Common Shares covered by the option less the aggregate price paid by the executive officer.
- (2) The value of in-the-money options was determined by subtracting the exercise price from the market value of the Company's Common Shares as of December 31, 2004 (\$25.85), based on the closing price of the Company's Common Shares on the Nasdaq National Market System on that date, the last trading day of 2004.
- (3) 13,440 of the options indicated as exercisable at fiscal year end have been assigned to the living trust of Mr. Moone's spouse of which he is the co-trustee.
- (4) 6,500 of the options indicated as exercisable at fiscal year end have been assigned to Mr. Lowther's spouse and 2,000 of such options have been assigned to trusts maintained for the benefit of Mr. Lowther's children.

Employees Retirement Plan

During 2004, the executive officers named in the Summary Compensation Table, as well as substantially all employees of State Auto P&C, were eligible to participate in the State Auto Insurance Companies' Employee Retirement Plan (the "Retirement Plan"). The Retirement Plan is a defined benefit plan (within the meaning of ERISA) which is intended to be a qualified plan under Section 401(a) of the Code, and is subject to the minimum funding standards of Section 412 of the Code. Benefits payable under the Retirement Plan are funded through employer contributions to a trust fund.

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In addition, the executive officers named in the Summary Compensation Table benefited in 2004 from a non-qualified Amended and Restated Supplemental Executive Retirement Plan (the Supplemental Plan). The Supplemental Plan is intended to offset the impact of the Code's and ERISA's limitations on retirement benefits available under the Retirement Plan by providing for a lump sum or deferred cash payments in an actuarially determined amount upon retirement of officers whose participation in the Supplemental Plan is approved by the Board of Directors of State Auto Mutual.

The table below shows estimated annual benefits payable under the Retirement Plan and the Supplemental Plan to a participant upon retirement at age 65 with indicated average annual compensation and period of service:

ESTIMATED ANNUAL RETIREMENT BENEFIT

Annual Average Compensation	Annual Retirement Benefit Based on Years of Service				
	15 Years	20 Years	25 Years	30 Years	35 Years
\$ 125,000	\$42,452	\$53,503	\$ 64,554	\$ 75,605	\$ 86,607
\$ 150,000	\$51,169	\$64,688	\$ 78,207	\$ 91,725	\$105,182
\$ 175,000	\$54,703	\$70,689	\$ 86,675	\$102,661	\$118,581
\$ 200,000	\$56,718	\$75,172	\$ 93,626	\$112,079	\$130,466
\$ 225,000	\$58,733	\$79,655	\$100,576	\$121,497	\$142,351
\$ 250,000	\$60,748	\$84,137	\$107,526	\$130,915	\$154,236
\$ 300,000	\$63,708	\$90,722	\$117,736	\$144,750	\$171,693
\$ 400,000	\$63,708	\$90,722	\$117,736	\$144,750	\$171,693
\$ 450,000	\$63,708	\$90,722	\$117,736	\$144,750	\$171,693
\$					