

State Auto Financial CORP  
Form 11-K  
May 28, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 11-K**

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: December 31, 2009

OR

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

Commission File Number: 000-19289

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

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

518 East Broad Street

Columbus, Ohio 43215-3976

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REQUIRED INFORMATION

The following financial statements and supplemental schedules for the State Auto Insurance Companies Capital Accumulation Plan are being filed herewith:

Financial Statements for the two years ended December 31, 2009 and 2008 and Supplemental Schedule for the year ended December 31, 2009

<u>Report of Independent Registered Public Accounting Firm</u>	1
Audited Financial Statements:	
<u>Statements of Net Assets Available for Benefits</u>	2
<u>Statements of Changes in Net Assets Available for Benefits</u>	3
<u>Notes to Financial Statements</u>	4
Supplemental Schedule:	
<u>Schedule of Assets (Held at End of Year)</u>	13

The following exhibits are being filed herewith:

<u>Exhibit No.</u>	<u>Description</u>	
1	Consent of Independent Registered Public Accounting Firm	Included herein

Report of Independent Registered Public Accounting Firm

Plan Administrative Committee

State Auto Insurance Companies Capital Accumulation Plan

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

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

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

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2009 is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Clark, Schaefer, Hackett & Co.

Columbus, Ohio

May 28, 2010

## STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

## Statements of Net Assets Available for Benefits

	December 31	
	2009	2008
<b>Assets</b>		
<u>Investments, at fair value:</u>		
Shares of registered investment companies	\$ 137,065,837	103,402,774
Interest-bearing cash	13,686,726	15,530,969
Common/collective trust	17,684,321	18,382,775
Affiliated Stock	1,651,616	2,178,499
Loans to participants	3,327,399	3,141,045
<i>Total investments</i>	<b>173,415,899</b>	142,636,062
<u>Contribution receivables:</u>		
Employee	44,000	41,000
Employer	17,150	16,100
<i>Total receivables</i>	<b>61,150</b>	57,100
Net assets reflecting investments at fair value	<b>173,477,049</b>	142,693,162
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	<b>328,843</b>	991,604
<b>Net assets available for benefits</b>	<b>\$ 173,805,892</b>	143,684,766

See accompanying notes.

STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Statements of Changes in Net Assets Available for Benefits

	Year Ended December 31	
	2009	2008
<b><u>Investment income (loss):</u></b>		
Interest and dividends	\$ 2,799,615	5,028,315
Net appreciation (depreciation) in fair value of investments	26,927,816	(65,208,557)
<i>Total investment income (loss)</i>	<b>29,727,431</b>	(60,180,242)
<b><u>Contributions:</u></b>		
Employee contributions	10,197,741	9,930,478
Participant rollovers	441,014	465,841
Employer contributions	4,015,671	3,862,148
<i>Total contributions</i>	<b>14,654,426</b>	14,258,467
<b><u>Deductions:</u></b>		
Benefit payments	17,213,576	14,230,965
Participant loan fees	18,173	16,206
<i>Total deductions</i>	<b>17,231,749</b>	14,247,171
<i>Net increase (decrease) before transfer</i>	<b>27,150,108</b>	(60,168,946)
Transfer of plan assets	2,971,018	1,710,102
<i>Net increase (decrease) after transfer</i>	<b>30,121,126</b>	(58,458,844)
<b><u>Net assets available for benefits:</u></b>		
Beginning of year	143,684,766	202,143,610
<b>End of year</b>	<b>\$ 173,805,892</b>	143,684,766

See accompanying notes.

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STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Notes to the Financial Statements

December 31, 2009

## 1. Description of the Plan

### Organization

The State Auto Insurance Companies Capital Accumulation Plan (the Plan), a defined contribution plan which qualifies as a 401(k) plan, was adopted effective June 1, 1982, by State Automobile Mutual Insurance Company and its affiliates (the Company) for the purpose of providing a savings plan for the benefit of its employees.

In 2009, the following amendments were made to the Plan:

Amendment to the Plan's eligibility requirements to provide that employees hired on or after June 1, 2009 are eligible to participate in the Plan after the completion of 90 days of employment with the Company;

Amendment to provide for an employer nonelective contribution equal to a stated percentage (as determined by the Compensation Committee in its discretion, from time to time) of an eligible participant's compensation for employees hired on or after January 1, 2010, as well as those participants who irrevocably elect to freeze future benefit accruals under the State Auto Insurance Companies Employee Retirement Plan, a defined benefit pension plan, effective July 1, 2010; and

Amendment to change the name of the Plan to the State Auto Insurance Companies Retirement Savings Plan, effective January 1, 2010.

Effective January 1, 2008, the Plan was amended to implement a safe harbor design using a qualified automatic contribution arrangement. Participants meeting eligibility criteria will be automatically enrolled in the Plan and automatically contribute 3% in the first year, 4% in the second year, 5% in the third year and 6% in the fourth and subsequent years. Employer matching contributions for safe harbor contributions are 100% of the first 1% of compensation and 50% of the contributions from 2% to 6%. Participants are 100% vested in the safe harbor matching contributions after two years.

The following description of the Plan provides only general information. Participants should refer to the Plan document for a complete description of the Plan.

### General

An employee of the Company is eligible to participate in the Plan as of the first pay period after the completion of 90 days of employment with the Company; provided the employee is or will attain age 21 during the calendar year of the employee's hire date. Employees who were hired prior to June 1, 2009, were eligible to participate in the Plan as of the first pay period subsequent to 30 days after the employee's hire date. A participant will be automatically enrolled in the Plan upon meeting eligibility requirements unless a different election is affirmatively made by such participant.

### Transfer of Plan Assets

In 2007, the Company acquired Beacon National Insurance Company and its affiliates (collectively, the Beacon Insurance Group) and affiliated with Patrons Mutual Insurance Company of Connecticut and Litchfield Mutual Fire Insurance Company (collectively, the Patrons Insurance Group). Effective January 1, 2009 and 2008, the former employees of Patrons Insurance Group and Beacon Insurance Group, respectively,

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became participants in the Plan and received credit for their participation and vesting service as measured under the terms of the respective previously administered plans. The net assets of the Patrons Employees 401(k) Profit Sharing Plan and Beacon Insurance Group 401(k) Profit Sharing Plan were transferred into the Plan resulting in asset transfers of \$2,971,018 and \$1,710,102 in January 2009 and February 2008, respectively.

### **Contributions**

Each participant may contribute any whole percentage of their salary between 1% and 50% of his or her salary ( basic contribution ). Subject to certain limitations, the Company makes safe harbor matching contributions

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STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Notes to the Financial Statements (continued)

December 31, 2009

for the first 1% of basic contributions of a participant's salary at the rate of \$1.00 for each \$1.00 contributed by the participant and for basic contributions from 2% to 6% of a participant's salary at the rate of \$0.50 for each \$1.00 contributed by the participant. Prior to January 1, 2008, the Company matched the first 2% of basic contributions of a participant's salary at the rate of \$0.75 for each \$1.00 contributed; basic contributions from 3% to 6% were matched at the rate of \$0.50 for each \$1.00 contributed. Participants can change their rate of deferral as of any given pay date. Participants who are automatically enrolled in the Plan contribute an automatic 3% of their salary with automatic increases to 4% in the second year, 5% in the third year and 6% in the fourth and subsequent years. Participants may also suspend contributions at any time. Participants may elect to make supplemental contributions in the form of after tax salary deferrals. Total participant contributions may not exceed 50% of a participant's salary.

All Plan participants who are older than 50 as of the beginning of the calendar year or who attain age 50 during the calendar year and are making the maximum Internal Revenue Code (the Code) pre-tax contribution may make additional Catch-up Contributions.

#### **Vesting**

Plan participants are immediately fully vested in employee contributions and related net earnings or losses. Plan participants are 100% vested in the safe harbor matching contributions and related earnings or losses after two years. Full vesting in other employer contributions and related net earnings and losses occurs upon three completed years of service. Any employee terminating prior to completing years of service requirements vests in employer contributions and related net earnings and losses at percentages set forth in the Plan document. In addition, employer contributions and related net earnings or losses are fully vested upon retirement at age 65, death or total and permanent disability. Any forfeiture of non-vested employer contributions and related net earnings or losses are first used to restore balances of participants who are re-employed and any remaining forfeiture reduces future employer contributions.

#### **Participant's Accounts**

Each participant's account is credited with the participant's contributions and allocations of a) the Company's contributions and b) Plan earnings, and is charged with applicable participant loan fees. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

#### **Participant Loans**

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum of the lesser of \$50,000 or 50% of their vested account balance. Loan terms range from 1-5 years, or up to 10 years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate based on the current prime rate as determined quarterly by the Plan Administrative Committee. Principal and interest is paid ratably through bi-weekly payroll deductions.

#### **Administrative Expenses**

All administrative expenses, excluding participant loan fees, are paid by the Company.

#### **Payment of Benefits**

Upon termination of service, participants generally receive a lump-sum amount equal to the value of their account less outstanding loan balances. Alternatively, qualifying participants can elect to receive their account value, less outstanding loan balances, in installments over a period not to exceed 10 years or, in the case of a retired participant, over a period not to exceed normal life expectancy.



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Participants may semiannually withdraw from their supplemental accumulated contributions and, subject to certain conditions, participants may withdraw from their accumulated basic and supplemental contributions based on financial hardship. Participants may withdraw the vested portion of employer contributions credited to their account.

STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Notes to the Financial Statements (continued)

December 31, 2009

**Plan Termination**

While the Company has not expressed any intent to terminate the Plan or to discontinue contributions, it is free to do so at any time, subject to the provisions set forth in the Employee Retirement Income Security Act of 1974. If the Plan terminates at some future date, all participants will become 100% vested in benefits earned as of the termination date.

**2. Significant Accounting Policies**

**Basis of Presentation**

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

**Use of Estimates**

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

**Valuation of Investments and Related Investment Income**

The investments of the Plan at December 31, 2009 consisted of shares of registered investment companies, interest-bearing cash, a common/collective trust, shares of the State Auto Financial Corporation Common Stock Fund ( Affiliated Stock ) and loans to participants. The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 4 for discussion on fair value measurements.

In accordance with the Plan Accounting Defined Contribution Pension Plans Topic of the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ), the Plan's common/collective trust, which includes a fully benefit-responsive investment contract, is reported at fair value based on information reported by Fidelity Management Trust Company (the fund trustee ), with a corresponding adjustment on the statements of net assets available for benefits to reflect the investment at contract value. The statements of changes in net assets available for benefits are prepared on a contract value basis.

Investment income, including appreciation and depreciation in fair value of investments, is allocated to participant accounts daily based upon the ratio of each participant's account to the total fund balance.

**Benefit Payments**

Benefit payments are recognized when paid.

**Risks and Uncertainties**

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

**Adoption of New Accounting Pronouncements**

*Fair Value Measurements and Disclosures Investments in Certain Entities That Calculate Net Asset Value per Share*

In September 2009, the FASB issued new guidance on the fair value measurements and disclosures of investments in certain entities that calculate net asset value per share (or its equivalent). The new guidance, which is

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STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Notes to the Financial Statements (continued)

December 31, 2009

now part of the FASB ASC Topic Fair Value Measurements and Disclosures, permits, as a practical expedient, a reporting entity to estimate the fair value of an investment within its scope using net asset value per share of the investment (or its equivalent) without adjustment, as long as the net asset value is calculated as of the reporting entity's measurement date in a manner consistent with the measurement principles of FASB ASC Topic Financial Services—Investment Companies. The new guidance also requires certain disclosures about the attributes of investments measured at net asset value, such as the nature of any restrictions on the investor's ability to redeem its investment at the measurement date or any unfunded capital commitments. The new guidance was effective on a prospective basis for the first reporting period, including interim periods, ending after December 15, 2009. The Plan adopted this new guidance effective December 31, 2009, and determined it had no effect on the Plan's financial statements.

*Accounting Standards Codification*

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162* (the Codification). The Codification reorganized existing U.S. accounting and reporting standards issued by the FASB and other related private sector standard setters into a single source of authoritative accounting principles arranged by topic. The Codification supersedes all existing U.S. accounting standards; all other accounting literature not included in the Codification (other than Securities and Exchange Commission guidance for publicly-traded companies) is considered non-authoritative. The Codification was effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification changed the Plan's references to U.S. GAAP accounting standards but did not impact the Plan's financial statements.

*Subsequent Events*

In May 2009, the FASB issued new guidance for accounting for subsequent events. The new guidance, which is now part of the FASB ASC Topic Subsequent Events, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, the new guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. The new guidance was effective on a prospective basis for interim or annual periods ending after June 15, 2009. The Plan adopted this new guidance effective December 31, 2009, and determined it had no effect on the Plan's financial statements.

*Additional Fair Value Measurement Guidance*

In April 2009, the FASB issued new guidance for determining when a transaction is not orderly and for estimating fair value when there has been a significant decrease in the volume and level of activity for an asset or liability. The new guidance, which is now part of the FASB ASC Topic Fair Value Measurements and Disclosures, requires disclosure of the inputs and valuation techniques used, as well as any changes in valuation techniques and inputs used during the period, to measure fair value in interim and annual periods. In addition, the presentation of the fair value hierarchy is required to be presented by major security type as described in the FASB ASC Topic Investments—Debt and Equity Securities. The provisions of the new guidance were effective for interim periods ending after June 15, 2009. The Plan adopted this new guidance effective December 31, 2009, and determined it did not have a material effect on the Plan's financial statements.

*Pending Adoption of New Accounting Pronouncements*

*Improving Disclosures about Fair Value Measurements*

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

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each level disclosed separately from transfers out of each level. For Level 3 fair value measurements, information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements shall be presented separately on a gross basis, rather than as one net number. In addition, clarification is provided about existing disclosure requirements, such as presenting fair value measurement disclosures for each class of assets and liabilities that are determined based on

## STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Notes to the Financial Statements (continued)

December 31, 2009

their nature and risk characteristics and their placement in the fair value hierarchy (that is, Level 1, 2, or 3), as opposed to each major category of assets and liabilities, as required in the previous guidance. Disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements will be required for fair value measurement that fall in either Level 2 or Level 3. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures related to the gross presentation of purchases, sales, issuances and settlements for Level 3 fair value measurements, which are effective for reporting periods beginning after December 15, 2010. The expanded disclosures will be included in the Plan's financial statements effective December 31, 2010, except for the disclosures related to the gross Level 3 presentation, which will be included in the Plan's financial statements effective December 31, 2011.

**3. Investments**

The following investments, at fair value, represented 5% or more of assets available for benefits as of December 31, 2009 and 2008:

	December 31	
	2009	2008
<u>Investments in shares of registered investment companies:</u>		
Fidelity Contrafund	\$ 39,869,691	32,404,409
MFS Value Fund Class A	18,425,625	
Fidelity Equity Income Fund		16,459,027
Fidelity Diversified International Fund	12,587,715	9,783,339
Fidelity Puritan Fund	10,958,572	8,799,492
<u>Interest-bearing cash:</u>		
Fidelity U.S. Government Reserves	\$ 13,686,726	15,530,969
<u>Investment in common/collective trust:</u>		
Fidelity Managed Income Portfolio	\$ 17,684,321	18,382,775
During 2009 and 2008, the Plan's investments (including investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows:		
	2009	2008
<u>Realized appreciation (depreciation):</u>		
Shares of registered investment companies	\$ 2,351,092	(6,722,772)
Affiliated Stock	(109,249)	16,663
<i>Total realized appreciation (depreciation)</i>	<b>2,241,843</b>	<b>(6,706,109)</b>
<u>Unrealized appreciation (depreciation):</u>		
Shares of registered investment companies	25,391,446	(58,792,122)
Affiliated Stock	(705,473)	289,674
<i>Total unrealized appreciation (depreciation)</i>	<b>24,685,973</b>	<b>(58,502,448)</b>

<i>Total realized and unrealized appreciation (depreciation)</i>	<b>\$ 26,927,816</b>	(65,208,557)
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STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Notes to the Financial Statements (continued)

December 31, 2009

#### 4. Fair Value Measurements

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

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

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

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

The following is a description of the valuation methods used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2009.

*Registered investment companies:* Registered investment companies are public investment vehicles valued using net asset value ( NAV ) provided by the administrator of the mutual fund. For all but one security, the NAV is an unadjusted quoted price on an active market and classified within Level 1 of the fair value hierarchy. The Plan holds one fund with underlying investments in real estate whose NAV is not a quoted price on an active market and is therefore classified in Level 3 of the fair value hierarchy.

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

*Common/collective trust:* The common/collective trust is a public investment vehicle valued using the NAV provided by the fund trustee based on the value of the underlying assets owned by the trust, minus its liabilities, and then divided by the number of shares outstanding. The NAV is classified within Level 2 of the fair value hierarchy.

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

*Loans to participants:* Participant loans are valued at their outstanding balances, which approximate fair value, and are classified within Level 3 of the fair value hierarchy.





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STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Notes to the Financial Statements (continued)

December 31, 2009

The following tables reflect the Plan's investments within the fair value hierarchy at December 31, 2009 and 2008:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>At December 31, 2009</b>				
Registered investment companies:				
Large cap equity investments	\$ 71,719,019	71,719,019		
Mid cap equity investments	6,115,506	6,115,506		
Small cap equity investments	1,491,149	1,491,149		
International equity investments	13,890,261	13,890,261		
Blended fund investments	35,315,501	35,315,501		
Income bond investments	8,357,779	8,357,779		
Other	176,622			176,622
<i>Total registered investment companies</i>	<b>137,065,837</b>	<b>136,889,215</b>		<b>176,622</b>
Interest-bearing cash	13,686,726	13,686,726		
Common/collective trust	17,684,321		17,684,321	
Affiliated Stock	1,651,616	1,651,616		
Loans to participants	3,327,399			3,327,399
<i>Total investments</i>	<b>\$ 173,415,899</b>	<b>152,227,557</b>	<b>17,684,321</b>	<b>3,504,021</b>

At December 31, 2008

Registered investment companies	\$ 103,402,774	103,402,774		
Interest-bearing cash	15,530,969	15,530,969		
Common/collective trust	18,382,775		18,382,775	
Affiliated Stock	2,178,499	2,178,499		
Loans to participants	3,141,045			3,141,045
<i>Total investments</i>	<b>\$ 142,636,062</b>	<b>121,112,242</b>	<b>18,382,775</b>	<b>3,141,045</b>

STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Notes to the Financial Statements (continued)

December 31, 2009

For loans to participants measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2009 and 2008, a reconciliation of the beginning and ending balances is as follows:

	Participant loans		Registered investment companies - Other
	2009	2008	2009
Balance, January 1	\$ 3,141,045	3,182,056	
Realized gains (losses) relating to assets sold			
Unrealized gains (losses) relating to assets held at reporting date			(81,553)
Purchases, sales, issuances, and settlements, net*	186,354	(41,011)	258,175
Transfers in and/or out of Level 3, net			
Balance, December 31	\$ 3,327,399	3,141,045	176,622

\* \$71,762 and \$258,173 of participant loans and registered investment companies, respectively, is included in the transfer of assets in 2009.

**5. Federal Income Tax Status**

The Plan has received a determination letter from the Internal Revenue Service dated August 16, 2002, stating that the Plan is qualified under Section 401(a) of the Code and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the Internal Revenue Service, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

## STATE AUTO INSURANCE COMPANIES CAPITAL ACCUMULATION PLAN

Notes to the Financial Statements (continued)

December 31, 2009

**6. Reconciliation to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of December 31:

	2009	2008
Net assets available for benefits per the financial statements	\$ 173,805,892	143,684,766
Contribution receivables	(61,150)	(57,100)
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	(328,843)	(991,604)
<i>Net assets available for benefits per the Form 5500</i>	<b>\$ 173,415,899</b>	142,636,062

The following is a reconciliation of the changes in net assets per the financial statements to the Form 5500 for the year ended December 31:

	2009	2008
Net increase (decrease) in net assets available for benefits per the financial statements	\$ 30,121,126	(58,458,844)
Less contributions:		
Employee	3,000	(5,500)
Employer	1,050	(7,525)
	<b>4,050</b>	(13,025)
Adjustments from fair value to contract value for fully benefit-responsive investment contracts:		
Current year	(328,843)	(991,604)
Prior year	991,604	168,013
<i>Net increase (decrease) in net assets available for benefits per Form 5500</i>	<b>\$ 30,779,837</b>	(59,269,410)

**7. Transactions with Parties-In-Interest**

The Plan invests in shares of registered investment companies managed by Fidelity Management Trust Company and Principal Life Insurance Company, custodians of the Plan. Transactions in such investments qualify as party-in-interest transactions, which are exempt from the prohibited transaction rules. Participants may also invest in Affiliated Stock.

**Supplemental**  
**Schedule**

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State Auto Insurance Companies Capital Accumulation Plan

EIN: 31-4316080 PN: 004

Form 5500 Schedule H Line 4(i) Schedule of Assets (Held at End of Year)

December 31, 2009

(a)	(b)	(c)	(e)
Identity of Issue		Shares	Fair Value
Shares of Registered Investment Companies:			
Baron Growth Fund		80,155	\$ 3,311,197
Harbor International Fund Institutional Class		23,739	1,302,546
PIMCO Total Return Fund Institutional Class		408,452	4,411,284
Vanguard Mid-Cap Index Fund Investor Shares		11,873	194,246
CALAMOS Growth Fund Class A		148,348	6,595,571
MFS Value Fund Class A		887,127	18,425,625
JP Morgan Mid Cap Value Fund Class A Shares		137,516	2,610,063
American Beacon Small Cap Value Fund Investor Class		96,203	1,491,149
* Principal U.S. Property Separate Account		412	176,622
* Fidelity Puritan Fund		682,352	10,958,572
* Fidelity Contrafund		684,106	39,869,691
* Fidelity Intermediate Bond Fund		388,817	3,946,495
* Fidelity Diversified International Fund		449,561	12,587,715
Spartan U.S. Equity Index Fund Investor Class		173,171	6,828,132
* Fidelity Freedom Income Fund		25,568	274,595
* Fidelity Freedom 2000 Fund		23,507	266,799
* Fidelity Freedom 2005 Fund		9,275	93,025
* Fidelity Freedom 2010 Fund		235,069	2,940,719
* Fidelity Freedom 2015 Fund		387,547	4,038,236
* Fidelity Freedom 2020 Fund		434,897	5,457,958
* Fidelity Freedom 2025 Fund		306,618	3,185,762
* Fidelity Freedom 2030 Fund		307,196	3,806,161
* Fidelity Freedom 2035 Fund		142,286	1,459,853
* Fidelity Freedom 2040 Fund		270,015	1,933,305
* Fidelity Freedom 2045 Fund		69,927	592,283
* Fidelity Freedom 2050 Fund		36,914	308,233
			<b>\$ 137,065,837</b>

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State Auto Insurance Companies Capital Accumulation Plan

EIN: 31-4316080 PN: 004

Form 5500 Schedule H Line 4(i) Schedule of Assets (Held at End of Year) continued

**December 31, 2009**

(a)	(b)	(c)	(e)
Identity of Issue		Shares	Fair Value
Investment in common/collective trust:			
*	Fidelity Managed Income Portfolio	18,013,164	\$ 17,684,321
Interest-bearing cash:			
*	Fidelity U.S. Government Reserves	13,686,726	13,686,726
Affiliated Stock:			
*	State Auto Financial Corporation Common Stock	89,207	1,650,327
	Stock Purchase Account <sup>(1)</sup>	-	1,289
			<b>1,651,616</b>
*	Participant loans (interest rate 3.25% to 10.25%)	-	3,327,399
<i>Total</i>			<b>\$ 173,415,899</b>

\* Indicates a party-in-interest to the Plan.

(1) The Stock Purchase Account consists of the Fidelity Cash Reserves, a money market fund that is used as a plan-level account in the recordkeeping of the purchases and sales of fractional shares of employer stock. Participants cannot invest their account balances in the Stock Purchase Account.

Note: Column (d) is not applicable for participant directed investments.

SIGNATURES

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

STATE AUTO INSURANCE COMPANIES CAPITAL

ACCUMULATION PLAN

Date: May 28, 2010

By: /s/ Steven E. English  
Printed Name: Steven E. English  
Title: Chief Financial Officer

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



EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>	
1	Consent of Independent Registered Public Accounting Firm	Included herein

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