

National Interstate CORP
Form PRER14A
April 15, 2013
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SCHEDULE 14A
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-12

NATIONAL INTERSTATE CORPORATION
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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(3) Filing Party:

(4) Date Filed:

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Preliminary Copy, Subject to Completion

3250 Interstate Drive

Richfield, Ohio 44286

Notice of Annual Meeting of Shareholders

and Proxy Statement

To Be Held On May 2, 2013

Dear Shareholder:

We invite you to attend our Annual Meeting of Shareholders on Thursday, May 2, 2013 at 9:00 AM, Eastern Time, at 3250 Interstate Drive, Richfield, Ohio. At the meeting, we will report on our operations and you will have an opportunity to meet our directors and executives.

This booklet includes the formal notice of the meeting and the Proxy Statement. The Proxy Statement tells you more about the agenda and procedures for the meeting. It also describes how our Board of Directors operates, provides information about the director candidates and discusses our executive compensation information.

Our Board of Directors recommends that shareholders elect the six nominees described in this Proxy Statement and listed on the white proxy card.

We have received notice that Alan R. Spachman, one of our current Directors, has nominated one additional candidate for election to our Board of Directors. You may receive communications from or on behalf of Mr. Spachman, asking you to return an alternative proxy card supporting his nominee. Nevertheless, we ask that you please return the enclosed white proxy card. Only the latest dated proxy card that you submit will be counted.

All shareholders are important to us. We want your shares to be represented at the meeting and urge you to vote by promptly returning a properly completed white proxy form.

Sincerely,

David W. Michelson
President and Chief Executive Officer

Richfield, Ohio

April [], 2013

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
OF NATIONAL INTERSTATE CORPORATION**

Date: Thursday, May 2, 2013

Time: 9:00 AM Eastern Time

Place: 3250 Interstate Drive
Richfield, Ohio 44286

Purpose:

1. Elect as directors six Class I nominees named in the Proxy Statement and recommended by the Board of Directors
2. Ratify appointment of Ernst & Young LLP as our independent registered public accounting firm
3. Advisory vote on the approval of executive compensation (Say on Pay)
4. Approval of amendment to our Long Term Incentive Plan to increase the number of shares reserved for issuance under the plan
5. Conduct other business if properly raised

Record Date: March 8, 2013 Shareholders registered in our records or our agents' records on that date are entitled to receive notice of and to vote at the meeting.

Mailing Date: The approximate mailing date of this Proxy Statement and accompanying WHITE proxy form is April [], 2013.

Important Notice Regarding the Availability of Proxy Materials

for the Annual Meeting of Shareholders to be held on May 2, 2013:

The Proxy Statement, WHITE proxy card and Annual Report on Form 10-K for the year ended December 31, 2012 are available at our Investor Relations internet website at <http://invest.NATL.com>

Your vote is important

Whether or not you attend the meeting, you may vote by mailing a signed WHITE proxy card, which is the bottom portion of the enclosed perforated form. If you do attend the meeting, you may either vote by proxy or revoke your proxy and vote in person. You may also revoke your proxy in writing at any time before the vote is taken at the meeting by submitting a later-dated proxy card.

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We make available, free of charge on our website, all of our filings that are made electronically with the Securities and Exchange Commission, including Forms 10-K, 10-Q and 8-K. To access these filings, go to our investor relations website (<http://invest.natl.com>) and click on the Financial Information tab at the right. Copies of our Annual Report on Form 10-K for the year ended December 31, 2012, including financial statements and schedules, filed with the Securities and Exchange Commission, are also available without charge to shareholders upon written request addressed to:

Gary N. Monda

Vice President

National Interstate Corporation

3250 Interstate Drive

Richfield, Ohio 44286

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GENERAL INFORMATION

This statement is furnished in connection with the solicitation of proxies for use at our Annual Meeting of Shareholders to be held at 9:00 AM, Eastern Time, on Thursday, May 2, 2013, at 3250 Interstate Drive, Richfield, Ohio 44286, and at any adjournment or postponement thereof. This statement, our Annual Report to Shareholders for the fiscal year ended December 31, 2012, and the accompanying white proxy will be sent to shareholders on or about April [], 2013.

We have received notice that Alan R. Spachman, one of our current directors, has nominated one additional candidate for election to the Board of Directors. You may receive communications from or on behalf of Mr. Spachman asking you to return an alternative proxy card supporting his nominee. Nevertheless, we ask that you please return the enclosed white proxy card. Only the latest dated proxy card that you submit will be counted.

Record Date; Shares Outstanding

As of March 8, 2013, the record date for determining shareholders entitled to notice of and to vote at the meeting, we had 19,685,999 common shares deemed outstanding and eligible to vote. Each share of outstanding common stock is entitled to one vote on each matter to be presented at the meeting. Abstentions (including instructions to withhold authority to vote for one or more nominees) and broker non-votes are counted for purposes of determining a quorum, but will have no effect on the outcome of any matter voted on at the meeting, except as to Proposal No. 4, with respect to which abstentions will count as votes AGAINST the proposal.

Cumulative Voting

Under the Ohio General Corporation Law, subject to the requirements described below, shareholders have the right to exercise cumulative voting in the election of directors. If properly invoked, cumulative voting would apply only to the election of directors. Shareholders have one vote per share on all other matters. Nominees who receive the greatest number of votes will be elected.

Under the Ohio General Corporation Law, if a shareholder desires cumulative voting for election of directors, then the shareholder must provide written notice to the President, a Vice President or the Secretary of our Company at least 48 hours before the Annual Meeting. The notice must state that the shareholder desires that the voting at the election of directors be cumulative. As of the date of this Proxy Statement, we have not received a notice from any shareholder of his, her or its intention to invoke cumulative voting. If we receive such notice at least 48 hours before the Annual Meeting, we will announce it by issuing a press release.

For voting at the election of directors to be cumulative, an announcement of the Company's receipt of the shareholder's intent to exercise cumulative voting rights must be made when the Annual Meeting is convened by the Chairman of the Board, the Secretary or by or on behalf of a shareholder giving proper notice. Each shareholder that has delivered proper notice, if any, will be eligible to make the requisite announcement at the meeting and trigger cumulative voting. However, we cannot predict whether any eligible shareholder will submit a notice of cumulative voting at least 48 hours before the meeting or, if so submitted, whether any shareholder will make such an announcement. In some instances, an eligible shareholder will elect not to make such an announcement (even after having earlier given proper notice) for reasons of the shareholder's own choosing.

Even if following the submission of the shareholder notice of cumulative voting, no eligible shareholder elects to make an announcement and trigger cumulative voting, our Chairman of the Board or Secretary may make such an announcement at the meeting if we so choose. We have not yet made a determination as to whether our Chairman of the Board or our Secretary will do so if the circumstance arises. Our determination as to whether we will make such an announcement and trigger cumulative voting in such circumstances will depend on which method of voting we believe will result in the election of the greatest number of the nominees for directors recommended by the Board of Directors and named in this Proxy Statement based on the proxies that we receive before the Annual Meeting.

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For the reasons stated above, it is unknown at this time whether cumulative voting will be in effect at the Annual Meeting. If a proper notice is timely received and properly announced at the meeting, each shareholder will have cumulative voting rights. Cumulative voting allows a shareholder to multiply the number of shares owned on the record date by the number of directors to be elected and to cast the total for one nominee or distribute the votes among the nominees, as the shareholder desires. For example, if a shareholder owns 100 common shares of the Company, because there are six directors to be elected at the Annual Meeting, the shareholder may allocate 600 FOR votes (six times 100) to one director nominee or distribute such votes among two or more of the directors to be voted on at the Annual Meeting as the shareholder sees fit. Shareholders may not, however, cumulate their votes against a nominee. If cumulative voting is properly invoked and you choose to cumulate your votes, you will need to submit a proxy card or a ballot and make an explicit statement of your intent to cumulate your votes, either by so indicating in writing on the proxy card or by indicating in writing on your ballot when voting at the Annual Meeting. If you hold your shares through a bank or broker, you should contact your bank or broker. If you submit the proxy card cumulating the votes for one or more nominee(s) but cumulative voting is not properly invoked at the Annual Meeting, your cumulative voting instructions will be disregarded.

If cumulative voting is properly invoked for the election of directors and you return a proxy card without giving specific voting instructions as to cumulative voting, the proxy holders intend, unless otherwise instructed in any proxy, to vote all proxies received by them in such manner in accordance with cumulative voting as will assure the election of as many of our nominees named in this Proxy Statement as possible. If cumulative voting is properly invoked, votes will be cumulated in accordance with the best judgment of the proxy holders in order to elect as many of Messrs. Consolino, Larson, Gruber, Schwegman, Michelson and Elliott as possible, in that order, except that none of your votes will be cast for any director nominee as to whom you instruct that your votes be withheld. This means that if you vote for our six nominees named in this Proxy Statement and then cumulative voting is invoked, the proxy holders may exercise their discretion to cumulate votes in such a manner that may result in your vote for fewer than our six nominees. If cumulative voting is invoked and if authority to vote for any of our nominees is withheld in any proxy, the proxy holders will, unless otherwise instructed in such proxy, vote the shares represented by such proxy, in their discretion, cumulatively, but not necessarily equally, for our other nominees. We have been notified that Great American Insurance Company (GAIC), our largest shareholder holding approximately 52% of our voting power, has not determined how it will vote its shares if cumulative voting is invoked for the meeting.

Proxies and Voting Procedures

Solicitation of proxies through the mail, in person, by telephone, by press releases, through internet, by electronic means and otherwise is conducted by management at the direction of our Board of Directors, without additional compensation. We have not yet retained, but may retain, a proxy solicitor in conjunction with the Annual Meeting, and its employees may assist us in the solicitation. We will pay all costs of soliciting proxies, including a fee and reasonable out-of-pocket expenses for the proxy solicitor, if any. In addition, we will request brokers and other custodians, nominees and fiduciaries to forward proxy-soliciting material to the beneficial owners of shares held of record by such persons at our expense.

As a result of the additional director nominee, we currently estimate we may incur approximately \$100,000 of additional expense in furtherance of, and in connection with, this solicitation. These fees are excess of those normally spent by us for an Annual Meeting and include attorney fees, potential public relations fees, printer costs incurred in connection with the preparation and filing of preliminary proxy materials with the Securities and Exchange Commission, the preparation of additional solicitation materials, and potentially the fees of the proxy solicitor. We estimate that approximately [\$] of additional expense has been incurred to date. However, this estimate does not include the costs represented by salaries and wages of our officers and other employees engaged in the solicitation process, costs we would normally incur in an uncontested director election or any costs associated with any potential litigation that may arise in connection with the proxy solicitation.

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Furthermore, the actual amount of additional expense we may incur could be materially different from what we currently estimate, depending on possible actions that might be taken by Mr. Spachman in connection with this election of Company directors.

Appendix A to this Proxy Statement sets forth information relating to our directors and officers and employees who are considered participants in our solicitation under the rules of the Securities and Exchange Commission.

Registered shareholders may vote by completing a white proxy card and mailing it to our transfer agent and proxy tabulator, Computershare. To vote, shareholders should complete and sign the bottom portion of the white proxy card and return only that portion to the proxy tabulator.

Shareholders whose shares are held in the name of a broker, bank or other nominee should refer to the white proxy card or the information forwarded by such broker, bank or other nominee to see what voting options are available to them. If you hold your shares through a bank, broker or other nominee in street name but you do not provide the firm that holds your shares with specific voting instructions, the firm will only be allowed to vote your shares on your behalf in its discretion on routine matters, but it cannot vote your shares in its discretion on your behalf on any non-routine matter. Proposal 1 relating to the election of six directors nominated by the Board of Directors, Proposal 3 relating to the approval of executive compensation, and Proposal 4 relating to the amendment of our Long Term Incentive Plan (LTIP) are considered non-routine matters. Proposal 2 relating to the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm is considered a routine matter. Therefore, you must give specific instructions to your broker for your shares to be voted at the Annual Meeting on the election of directors, the advisory vote relating to the approval of our executive compensation, and the vote related to amending our LTIP.

Shareholders who hold shares through the Company's 401(k) plan must give instructions to the trustee on how to vote their shares by completing and returning the white proxy card. The trustee will not vote shares for which no instructions are received.

The authority solicited by this Proxy Statement includes discretionary authority to cumulate votes in the election of directors. If any other matters properly come before the meeting or any adjournment or postponement thereof, each properly executed proxy card will be voted in the discretion of the proxies named therein.

A shareholder may revoke a prior proxy by writing to our Secretary at our principal offices or by properly executing and delivering a proxy bearing a later date. In addition, persons attending the meeting in person may withdraw their proxies at the meeting and then vote in person.

If a choice is specified on a properly executed proxy card, the shares will be voted accordingly. If a proxy card is signed without a preference indicated, those shares will be voted FOR the election of the six nominees recommended by our Board of Directors (or, if cumulative voting is in effect, to elect as many of such nominees as possible), FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm, FOR the approval of the advisory resolution regarding executive compensation, and FOR the amendment to our LTIP. Proxy cards indicating an abstention from voting on a particular matter will not be counted as a vote for or against that matter, except with respect to Proposal No. 4 as to which they will count as votes against the proposal, but the shares will be included as part of the shares making up the quorum.

With respect to Proposal No. 1, the six nominees who receive the greatest number of votes will be elected. If our shareholders do not ratify the appointment of our auditors under Proposal No. 2, we will take that fact into consideration, but may, nevertheless, retain the independent registered public accounting firm recommended by our Board and Audit Committee. The vote for Proposal No. 3 is an advisory vote, the results of which our Board of Directors will take under advisement. Approval of all other matters at the meeting, including Proposal No. 4 to amend our LTIP, and postponement or adjournment of the Annual Meeting, require the affirmative vote of a majority of votes cast.

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MATTERS TO BE CONSIDERED

Proposal No. 1 Election of Class I Directors

The Board of Directors oversees our management on your behalf. The Board reviews our long-term strategic plans and exercises direct decision-making authority in key areas such as choosing the president and chief executive officer, setting the scope of their authority to manage our business day-to-day and evaluating management's performance.

Our Board of Directors is currently comprised of ten directors divided into two classes. Each director serves for a two-year term, with Class I directors elected in odd numbered years and Class II directors elected in even numbered years. The term for our Class I directors expires at this year's Annual Meeting of Shareholders. Joseph E. (Jeff) Consolino, Theodore H. Elliott, Jr., Gary J. Gruber, Donald D. Larson, David W. Michelson and Donald W. Schwegman are our current Class I directors. Keith A. Jensen, Vito C. Peraino, Joel Schiavone and Alan R. Spachman are our current Class II directors. During 2012, the entire Board of Directors met eight times. All of our directors except Mr. Consolino attended the Annual Meeting of Shareholders held on April 26, 2012. No director attended fewer than 75 percent of the aggregate number of meetings of the Board and Board committees on which he served during 2012.

After considering all relevant facts and circumstances, including those described under Certain Relationships and Related Transactions beginning on page 42 of this Proxy Statement, our Board of Directors has determined that three of our current ten directors, Mr. Elliott, Mr. Schiavone, and Mr. Schwegman are independent in accordance with NASDAQ Stock Market listing standards and Securities and Exchange Commission regulations. We are not required to have a majority of independent directors on our Board as would otherwise be required by the rules of the NASDAQ Stock Market because of the controlled company exemption from these rules that applies to companies where more than 50% of the voting power for the election of directors is held by an individual, a group or another company. As described elsewhere in this Proxy Statement, GAIC is our largest shareholder and holds approximately 52% of our voting power for the election of directors.

Our Board of Directors, acting on the recommendation of its Nominating/Governance Committee, has nominated the six incumbent Class I directors to hold office until the 2015 Annual Meeting of Shareholders or until their successors are elected and qualified. If any of the nominees should become unable to serve as a director, the proxies will be voted for any substitute nominee designated by our Board of Directors but, in any event, no proxy may be voted for more than six nominees. The six nominees who receive the greatest number of votes will be elected.

Following are the Board recommended nominees for election as Class I members of the Board of Directors. Information regarding the nominees, as well as our Class II directors, includes a description of the business experience of each nominee and director and the names of other publicly-held companies for which each currently serves as a director or has served as a director during the past five years. In addition to the information presented below regarding each nominee's or director's specific experience, qualifications, attributes and skills that led our Board to the conclusions that the nominee or director should serve as a director at this time, the Board also believes that all of our nominees and directors are individuals of substantial accomplishment with demonstrated leadership capabilities. Each of our nominees and directors also has the following personal characteristics: integrity, commitment, independence of thought, judgment essential for effective decision making and the ability and willingness to dedicate the necessary time, energy and attention to prepare for, attend and participate in meetings of the Board and its committees.

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The nominees for election as Class I members of the Board of Directors are:

Joseph E. (Jeff) Consolino, Chairman

Director since May 2006

Joseph E. (Jeff) Consolino became our Chairman of the Board effective February 15, 2013, and previously served as our Audit Committee Chairman from 2006 through February 2013. Mr. Consolino has served as executive vice president of American Financial Group, Inc. (AFG), the parent of our largest shareholder, since February 16, 2013 and since March 1, 2013, has served as chief financial officer of AFG. Prior to joining AFG, Mr. Consolino served as president and chief financial officer of Validus Holdings, Ltd. (Validus), a Bermuda-based property and casualty reinsurance holding company. Before joining Validus in 2006, Mr. Consolino was a managing director in Merrill Lynch's Financial Institutions Group specializing in insurance company advisory and financing transactions. Mr. Consolino worked on a broad range of investment banking assignments for insurance company clients after joining Merrill Lynch, and led the underwriting of our initial public offering, which provided him with specific experience related to our operations. We believe Mr. Consolino's experience serving as president and chief financial officer for both a property and casualty insurance company group and a publicly-traded holding company, coupled with his role at AFG and his twenty years of experience in insurance-related financial matters, give him unique qualifications to serve as Chairman of our Board. Mr. Consolino also serves on the boards of directors of AFG, Validus, and AmWINS Group, Inc., a wholesale insurance brokerage. Mr. Consolino is a member of the Compensation Committee.

Theodore H. Elliott, Jr.

Director since 1989

Since 1981, Mr. Elliott has been in the venture capital business as the chairman of Prime Capital Management Company, Inc. and as a private investor. Prime Capital was one of our founding investors in 1989. Mr. Elliott's service as a director for us for the past 23 years gives him historical perspective and experience with us that are of value to us in a Board member. Prior to Prime Capital Management, Mr. Elliott was vice president of General Electric's venture capital subsidiary. Mr. Elliott has served on multiple public company boards, including ION Geophysical Corporation (NYSE) prior to February, 2011. Mr. Elliott is an attorney and a Chartered Financial Analyst with over fifty years of investment banking and venture capital experience. We believe Mr. Elliott's public company board experience and knowledge of our operations make him uniquely qualified to serve as a member of our Board. Mr. Elliott is a member of the Audit and Compensation Committees.

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Gary J. Gruber

Director since April 1991

Mr. Gruber serves as executive vice president of GAIC. Mr. Gruber joined GAIC in 1977 and has held a variety of financial, management and officer positions since 1983. Mr. Gruber has served as a director of GAIC since 1993, is a Certified Public Accountant and has over 35 years of experience with property and casualty insurance operations, financial statements, loss reserving, reinsurance and investments. We believe that Mr. Gruber's extensive executive management and board experience with property and casualty insurance operations provide him with specific skills and knowledge that we value for service as our Board member. Mr. Gruber is the Chair of the Nominating/Governance Committee.

Donald D. Larson

Director since April 1991

Mr. Larson was named president and chief operating officer of Great American Property & Casualty Insurance Group in 2010. Prior to being named president, Mr. Larson served as executive vice president and president, specialty group, for the Great American Property & Casualty Insurance Group since 1999. Mr. Larson joined AFG in 1973 and GAIC in 1981. Mr. Larson has served as a director of GAIC since 1988. Additionally, Mr. Larson served as our Chairman from 1993 until 2004. Mr. Larson holds both a Certified Public Accountant license and a Chartered Property and Casualty Underwriter professional designation and has over 32 years of experience in the property and casualty insurance industry. We believe that Mr. Larson's prior service as our Chairman and executive management experience, specifically as it relates to our industry, make him uniquely qualified to serve as a member of our Board. Mr. Larson is the Chair of the Compensation Committee and a member of the Nominating/Governance and Steering Committees.

David W. Michelson

Director since October 2009

Mr. Michelson became our President and Chief Executive Officer effective January 1, 2008. Prior to being named Chief Executive Officer, Mr. Michelson served as our President and Chief Operating Officer during 2007. He has held several other positions during his initial employment with us from 1992-1998 and since rejoining us in 1999, including serving as our Senior Vice President and Executive Vice President. Mr. Michelson holds an Associate in Research and Planning professional designation and has over 33 years of insurance industry experience including management of all departments and facets of our company and through serving in various positions at Reliance Insurance Company, Liberty National Fire and Progressive Corporation. Mr. Michelson's service as our Chief Executive Officer and his experience as it relates to us and the property and casualty industry as a whole provide him with skills and knowledge that qualify him to serve on our Board.

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Donald W. Schwegman

Director since February 2013

Donald W. Schwegman was the lead client service partner for various complex insurance organizations for over 20 years at Deloitte & Touche LLP (Deloitte), until he retired in June of 2012. Most recently, Mr. Schwegman served as the Insurance Industry Profession Practice Director for Deloitte with responsibility for formulating the U.S. firm s position on insurance accounting and auditing issues, developing internal insurance training programs, and overseeing risk management. Mr. Schwegman was admitted as a partner with Deloitte in 1984, has significant experience with insurance industry accounting policies and procedures, and has a substantial background with SEC registrants filings. We believe that Mr. Schwegman s financial expertise, depth of knowledge and experience with insurance industry accounting policies and procedures, his substantial background in public company reporting, and his experience with insurance transactions make him highly qualified to serve as a member of our Board. Mr. Schwegman is a member of the American Institute of Certified Public Accountants and is a licensed Certified Public Accountant in multiple states. Mr. Schwegman is the Chair of our Audit Committee.

Our Board of Directors recommends that shareholders vote FOR the election of the six Class I nominees as directors.

Below is information about our Class II directors:

Keith A. Jensen

Director since April 2000

Mr. Jensen served as senior vice president of AFG since 1999 and was named its chief financial officer in January 2005, retiring in that capacity effective February 15, 2013. Mr. Jensen joined the Great American Insurance Group in 1999 as senior vice president and chief financial officer and was promoted to executive vice president in 2004. Mr. Jensen has served on the Board of Directors of GAIC since 1999. Before working with AFG, Mr. Jensen was a partner with Deloitte & Touche LLP, where he served several insurance company clients. We believe that Mr. Jensen s extensive public accounting experience, as well as his experience serving as chief financial officer for both a property and casualty insurance company group and a publicly-traded holding company, give him unique qualifications to serve as a member of our Board. Mr. Jensen is a member of the Compensation Committee and Steering Committee.

Vito C. Peraino

Director since October 2010

Mr. Peraino has been general counsel and senior vice president of AFG since 2012. Previously, Mr. Peraino served as senior vice president of GAIC since 2002 and assistant general counsel of GAIC since 2004. Since joining GAIC in 1999, Mr. Peraino has held various executive claims management positions. Additionally, Mr. Peraino spent several years in private practice and has represented various insurance industry entities as an attorney since 1981. We believe that Mr. Peraino s industry experience, his insurance claims specific experience, and legal background provide him with the qualifications and characteristics we value in a Board member. Mr. Peraino is a member of the Nominating/Governance Committee and Compensation Committee.

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Joel Schiavone

Director from January 1989 until December 1989 and then re-elected in 2001

Since 1999, Mr. Schiavone has been the managing partner of several privately-held New Haven, Connecticut based real estate companies. Prior to that, Mr. Schiavone was the owner and chief executive officer of Schiavone Corporation, a holding company for a variety of investments. Mr. Schiavone has experience owning two transportation companies, which provides him with personal and professional experience related to our business, as well as past public company director experience. In addition to his experience, his service on our Board for over 12 years provides him with extensive knowledge about us and our business. Mr. Schiavone is a member of the Audit, Compensation, Nominating/Governance and Steering Committees.

Alan R. Spachman

Director since 1989

Mr. Spachman is our founder, and served as Chairman from 2004 until February 15, 2013. This provides him with unique qualifications to serve on our Board. In addition to being our founder and former Chairman, Mr. Spachman served as our chief executive from our inception in 1989 through 2007. From 1984 to 1988, Mr. Spachman was a senior vice president at Progressive Corporation, where he initiated its passenger transportation insurance business. Since 2008, Mr. Spachman has been president and owner of Belmont Insurance Services, LLC, an independent insurance agency. In addition to his more than 27 years of insurance industry experience, Mr. Spachman previously served in various labor relations and human resource management positions with Collins and Aikman, Inc. and Frito-Lay, Inc. Mr. Spachman is the Chair of the Steering Committee and a member of the Compensation Committee.

Additional Nomination

Alan R. Spachman, one of our current directors, has nominated his son for election as a director at the Annual Meeting. Accordingly, there are seven nominees for election as Class I members of the Board of Directors, but only six nominees will be elected. No other nominations of persons for election as directors were submitted to us pursuant to the advance notice provisions of our Amended and Restated Code of Regulations (the "Regulations"). The background of Mr. Spachman's nomination follows.

On March 21, 2013, counsel to Mr. Spachman contacted the Company requesting information regarding the procedures under the Regulations for nominating a candidate for election as a director at the Annual Meeting and a copy of the Regulations. On the same day, counsel to the Company responded to this request.

On March 28, 2013, the Company received a letter from Mr. Spachman stating his intention to nominate one candidate for election as a director at the Annual Meeting. In consultation with counsel, the Company determined that such purported nomination was not in compliance with the Regulations.

In the afternoon of March 29, 2013, at a previously scheduled meeting of the Compensation Committee, Mr. Consolino, Chairman of the Board, advised the members in attendance of Mr. Spachman's intention to nominate a candidate for election as a director at the Annual Meeting.

On the same day, Mr. Gonzales, Vice President, General Counsel and Secretary of the Company, at Mr. Consolino's direction, provided to Mr. Spachman in writing and telephonically a list of items that had to be remedied for Mr. Spachman's nomination to be in compliance with the Regulations.

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On March 30, 2013, Mr. Spachman submitted a revised nomination notice, including the consent of Mr. Spachman’s nominee to serve if elected.

On April 2, 2013, the Company filed a preliminary proxy statement with the Securities and Exchange Commission, followed by the filing of a revised preliminary proxy statement on April 15, 2013 and a definitive proxy statement on April [], 2013, relating to the Company’s solicitation of proxies in connection with the Annual Meeting. The Company has not received any notice from Mr. Spachman of whether he intends to solicit proxies in connection with the Annual Meeting.

Any references to the recommendations of the Board or solicitation on behalf of the Board in this Proxy Statement do not necessarily include Mr. Alan Spachman, one of our current directors. If you receive any communications from or on behalf of Mr. Alan Spachman, please note that we are not responsible for their accuracy.

The Board of Directors recommends that you elect the six nominees described above, by completing the enclosed white proxy card, dating and signing it, and returning it in the enclosed postage-paid envelope. Voting against Mr. Alan Spachman’s nominee on a proxy card sent to you by him or on his behalf is not the same as voting for the Board’s nominees because a vote against Mr. Alan Spachman’s nominee on his proxy card will revoke any previous proxy submitted by you. Only the latest validly executed proxy card that you submit will be counted.

Proposal No. 2 Ratification of the Appointment of Our Independent Registered Public Accounting Firm

Our Audit Committee Charter provides that the Audit Committee shall recommend annually to the Board of Directors the appointment of an independent registered public accounting firm to serve as auditors. In April 2013, the Audit Committee expects to recommend the appointment of Ernst & Young LLP to serve as auditors for the year ending December 31, 2013.

Both our Board of Directors and Audit Committee would like to know the opinion of shareholders regarding the appointment of Ernst & Young LLP as auditors for the year ending December 31, 2013. For this reason, shareholders are being asked to ratify this appointment. If the shareholders do not ratify the appointment, our Audit Committee and Board of Directors will take that fact into consideration, but may, nevertheless, continue to retain Ernst & Young LLP. We may also engage a different independent registered public accounting firm at any time during the year if our Audit Committee and Board of Directors determine that such a change would be in our best interests.

Audit Fees and Non-Audit Fees

The following table presents fees for professional audit services by Ernst & Young LLP for the audit of our annual financial statements for the years ended December 31, 2012 and 2011, respectively, and fees billed for other services rendered by them during these periods.

	2012	2011
Audit fees (1)	\$ 1,104,880	\$ 1,034,110
Audit-related fees (2)	2,000	20,400
Tax fees (3)	27,000	34,275
All other fees (4)	2,125	2,125
Total	\$ 1,136,005	\$ 1,090,910

(1) Ernst & Young LLP’s aggregate fees for services related to the audits of the U.S. generally accepted accounting principles financial statements, statutory insurance company audits, reviews of Securities and Exchange Commission filings and for quarterly reviews.

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- (2) Ernst & Young LLP's audit-related fees relate primarily to assurance services, which for 2012 relate to review services associated with the SEC comment letter received on our 2011 Form 10-K. For 2011, these fees primarily included assistance provided during our regular periodic examination by the Ohio Department of Insurance.
- (3) Ernst & Young LLP's tax fees relate primarily to tax compliance services, including the review of federal and state tax returns.
- (4) All other fees are related to an EYOnline subscription, which we use to conduct financial research.

Representatives of Ernst & Young LLP are expected to be at the meeting and will be given the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions from shareholders.

Our Board of Directors recommends that shareholders vote FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2013.

Proposal No. 3 Advisory Vote on the Approval of Executive Compensation (Say on Pay)

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in July 2011 (the Dodd-Frank Act) and Section 14A of the Securities Exchange Act of 1934, as amended, you are entitled to vote to approve, on a non-binding, advisory basis, our executive compensation for our executive officers. This is commonly known as Say on Pay. Although the vote is non-binding, we and our Board of Directors value the opinion of our shareholders and will consider your votes when making executive compensation decisions in the future.

The Dodd-Frank Act also provides that, at least once every six years, shareholders must be given the opportunity to vote, on a non-binding, advisory basis, for their preference as to how frequently we should seek future advisory votes on the compensation of our named executive officers (commonly referred to as Say When on Pay). We provided this opportunity to our shareholders in 2011, and approximately 99% of our shareholders voted to hold the Say on Pay vote annually. Accordingly, our Board implemented annual Say on Pay votes, and the next Say on Pay vote will occur at our 2014 Annual Meeting of Shareholders.

As explained more fully in the Compensation Discussion and Analysis beginning on page 22, our executive compensation philosophy seeks to recognize the importance of our executive officers to our overall success. Our compensation program objectives are:

to attract and retain talented individuals,

to motivate our executive team to achieve our overall goals and objectives,

to reward our excellent performers, and

to align the interests of our key managers with those of our shareholders.

Our executive compensation program is comprised of annual base salary, annual cash incentive bonuses and long term incentive awards. We strive to maintain a compensation system that is internally equitable and externally competitive. We seek to encourage and reward performance by our executive officers that achieves or exceeds our financial and operational performance goals, without encouraging excessive risk taking that could be detrimental to our shareholders.

We believe our compensation program principles have been effective because in 2012 we:

increased our book value per share plus dividends by 11.6%,

exceeded our overall sales plan objective of \$531 million,

paid a special dividend to shareholders in addition to regular quarterly dividends,

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maintained our group A.M. Best rating of A (Excellent), and

achieved a combined ratio of 97.5%.

We believe that our executive compensation appropriately compensates and rewards our executive officers for their significant roles in these achievements. Accordingly, although the votes of shareholders on this proposal are non-binding and advisory, we are asking our shareholders to indicate their support for our overall executive compensation philosophy and practices.

Our Board of Directors recommends that shareholders vote FOR the following resolution:

RESOLVED, that the shareholders of National Interstate Corporation approve, on an advisory basis, the compensation of the named executive officers as disclosed in the Company's 2013 Proxy Statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission (which includes the Compensation Discussion and Analysis, the compensation tables and any related material).

Proposal No. 4 Approval of Amendment to our Long Term Incentive Plan to Increase the Number of Shares Reserved for Issuance Under the Plan

We are requesting your approval of an amendment to the National Interstate Corporation Long Term Incentive Plan (the LTIP) to increase the number of shares reserved for issuance under the LTIP by 500,000 shares. The LTIP was adopted by our Board of Directors and approved by shareholders on October 18, 2004, prior to our initial public offering and amended previously in 2009. Shareholder approval is required to increase the number of shares reserved for issuance under the LTIP.

The complete text of the LTIP is attached as Appendix B to this Proxy Statement. The following summary of the LTIP does not purport to be complete and is qualified in its entirety by reference to Appendix B.

General

The LTIP provides for the grant of incentive awards, including incentive stock options, stock appreciation rights, performance units, performance shares, restricted shares, deferred shares, other awards relating to our common shares and dividend equivalents to key employees, consultants and non-employee Directors.

Administration and Amendments

The Compensation Committee administers the LTIP and makes recommendations to our full Board regarding LTIP amendments. The LTIP may be amended by our Board as long as any amendment that must be approved by our shareholders in order to comply with applicable law or the rules of any securities exchange on which our common shares are traded or quoted is not effective until shareholder approval has been obtained.

Shares Available; Adjustment

As of March 8, 2013, we had 1,041,401 common shares remaining reserved, including the additional 500,000 shares for which we are asking your approval, for issuance or transfer for awards under the LTIP, subject to adjustment in the event of forfeitures, transfers of common shares to us in payment of the exercise price, or tax withholding amounts. Currently, 62,763 shares are not allocated to outstanding awards and remain available for future grants. After amending the LTIP, 562,763 shares will be available for future awards. The closing price of our common shares on March 8, 2013 as reported on the NASDAQ Stock Market was \$34.12 per share.

The number of shares that may be issued upon exercise of incentive stock options may not exceed the plan limit. During any calendar year, no participant may be granted option rights and appreciation rights, in the

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aggregate, for more than 115,200 shares, nor shall any participant be granted performance shares, restricted shares specifying management objectives or other share-based awards specifying management objectives, in the aggregate, for more than 69,000 shares, nor shall any participant be granted performance units having an aggregate maximum value at the time of grant in excess of \$375,000. During any calendar year, no non-employee Director may be granted awards for more than 69,000 shares. The number of shares covered by outstanding awards, the number of shares reserved for issuance under the LTIP and other share limits contained in the LTIP are subject to adjustment in the event of stock splits, stock dividends, recapitalizations and other similar events.

Eligibility

Any officer, key employee or consultant of the company or its subsidiaries (or any individual who has agreed to commence serving in any such capacities within 90 days of the date of grant), and our non-employee Directors may be selected by the Compensation Committee to receive benefits under the LTIP. Officers, key employees and consultants may be granted each type of award available under the LTIP. Non-employee Directors may be granted nonqualified stock options, appreciation rights, restricted shares, deferred shares and other share-based awards, but are not eligible for grants of incentive stock options, performance shares or performance units. At this time, the Compensation Committee anticipates that only our officers and non-employee Directors will receive awards under the LTIP. Accordingly, approximately 22 officers and three non-employee Directors are currently eligible for these awards.

The Compensation Committee may provide for special terms for awards to participants who are foreign nationals or who are employed by us outside the United States as the Compensation Committee may deem necessary or appropriate to accommodate differences in local law, tax policy or custom.

Stock Options

The Compensation Committee may, in its discretion, award option rights that provide the right to participants to purchase common shares at a specified price, which may not be less than their fair market value on the date of grant. Option rights may include incentive stock options or nonqualified stock options. No option rights may be exercised more than ten years from the date of grant. Each grant must specify the period of continuous employment that is necessary before the option rights become exercisable, and may provide for the earlier exercise of such option rights in the event of a change in control of the company, retirement, death or disability of the optionee, or other similar transaction or event approved by the Compensation Committee. Any grant of option rights may specify management objectives (as described below) that must be achieved as a condition to exercise such rights.

Appreciation Rights

The Compensation Committee may, in its discretion, award appreciation rights to participants. Appreciation rights represent the right to receive an amount, determined by the Compensation Committee and expressed as a percentage, not exceeding 100 percent, of the difference between the base price established for such appreciation rights (not less than the fair market value of a share on the date of grant) and the market value of our common shares on the date the appreciation rights are exercised. Appreciation rights may be granted in tandem (granted with option rights to provide an alternative to exercise of the option rights) or freestanding and payable in cash, in common shares or in any combination thereof.

Each grant must specify the period of continuous employment that is necessary before the appreciation rights become exercisable, and may provide for the earlier exercise of the appreciation rights in the event of a change in control of the company, retirement, death or disability of the employee or other similar transaction or event approved by the Compensation Committee. Any grant of stock appreciation rights may specify management objectives (as described below) that must be achieved as a condition to exercise such rights.

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Performance Shares and Performance Units

The Compensation Committee may, in its discretion, award performance shares and/or performance units to participants. A performance share is the equivalent of one common share and a performance unit is the equivalent of \$1.00. The participant will be given one or more management objectives (as described below) to meet within a specified period (the performance period). The Compensation Committee will also establish a minimum level of acceptable achievement. If by the end of the performance period, the participant has achieved the specified management objectives, the participant will be deemed to have fully earned the performance shares or performance units. If the participant has not achieved the management objectives, but has attained or exceeded a predetermined minimum level of acceptable achievement, the participant will be deemed to have partly earned the performance shares or performance units in accordance with a predetermined formula. To the extent earned, the performance shares or performance units will be paid to the participant at the time and in the manner determined by the Compensation Committee in cash, common shares or any combination thereof. The grant may provide for the payment of dividend equivalents in cash or in common shares on a current, deferred or contingent basis. The grant may also provide for the earlier termination of the performance period in the event of a change in control of the company, retirement, death or disability of the participant or other similar transaction or event approved by the Compensation Committee.

Restricted Shares

The Compensation Committee may, in its discretion, award restricted shares to participants, which constitute an immediate transfer of ownership to the recipient in consideration of the performance of services. The participant has dividend and voting rights on such shares. Restricted shares must be subject to a substantial risk of forfeiture for a period determined by the Compensation Committee on the date of the grant, and may provide for the earlier termination of the forfeiture provisions in the event of a change in control of the company, retirement, death or disability of the participant or other similar transaction or event approved by the Compensation Committee. In order to enforce these forfeiture provisions, the transferability of restricted shares will be prohibited or restricted in the manner prescribed by the Compensation Committee on the date of grant for the period during which such forfeiture provisions are to continue.

Any grant of restricted shares may specify management objectives which, if achieved, will result in termination or early termination of the restrictions applicable to such shares. Any such grant may also specify in respect of such specified management objectives, a minimum acceptable level of achievement and must set forth a formula for determining the number of restricted shares on which restrictions will terminate if performance is at or above the minimum level, but below full achievement of the specified management objectives.

Deferred Shares

The Compensation Committee may, in its discretion, award deferred shares to participants, which constitute an agreement to deliver common shares in the future subject to the terms and conditions established by the Compensation Committee. Prior to the delivery of such shares, the participant has no right to vote or receive dividends on the deferred shares, but the Compensation Committee may authorize the payment of dividend equivalents with respect to the deferred shares in cash or common shares on a current, deferred or contingent basis. The Compensation Committee must fix a restriction period at the time of grant and may provide for the earlier termination of the restriction period in the event of a change in control of the company, retirement, death or disability of the employee or other similar transaction or event approved by the Compensation Committee.

Other Awards

The Compensation Committee may, subject to limitations under applicable law, grant to any participant 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, common shares or factors that may influence the value of common shares. The Compensation Committee may also grant cash awards as an element of or supplement to any other award granted under the LTIP. The Compensation Committee will determine the terms and conditions of these awards.

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Non-employee Directors

The Board may, from time to time and upon such terms and conditions as it may determine, authorize the grant to non-employee Directors of option rights (that are not intended to qualify as incentive stock options), appreciation rights, restricted shares, deferred shares, or any combination of the foregoing. Each such grant shall be upon terms and conditions consistent with the above description of such awards.

Management Objectives

The LTIP requires that the Compensation Committee establish management objectives for purposes of performance shares and performance units. When so determined by the Compensation Committee, option rights, appreciation rights and restricted shares may also specify management objectives.

Management objectives may be described in terms of either company-wide objectives or objectives that are related to the performance of the individual participant or subsidiary, division, department, region or function in which the participant is employed. Management objectives applicable to any award to a participant who is, or is determined by the Compensation Committee likely to become, a covered employee within the meaning of Section 162(m)(3) of the Internal Revenue Code (and that is intended to qualify for the performance-based compensation exception to Section 162(m) of the Internal Revenue Code) will be limited to specified levels of or growth in one or more of the following criteria: revenues, earnings from operations, earnings from underwriting activities, earnings from investment activities, earnings before or after interest and taxes, net income, cash flow, earnings per share, debt to capital ratio, economic value added, return on total capital, return on invested capital, return on equity, return on assets, total return to shareholders earnings before or after interest, depreciation, amortization or extraordinary or special items, return on investment, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, cash flow in excess of cost of capital, operating margin, profit margin, stock price and/or strategic business criteria consisting of one or more objectives based on meeting specified product development, strategic partnering, research and development, market penetration, geographic business expansion goals, cost targets, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology and goals relating to acquisitions or divestitures of subsidiaries, affiliates and joint ventures. Except in the case of a covered employee where such modification would result in the loss of an otherwise available exemption under Section 162(m) of the Internal Revenue Code, if the Compensation Committee determines that a change in our business, operations, corporate structure or capital structure of the company, or the manner in which we conduct our business, or other events or circumstances render the management objectives unsuitable, the Compensation Committee may modify such management objectives, in whole or in part, as the Compensation Committee deems appropriate and equitable.

Transferability

Except as otherwise determined by the Compensation Committee, option rights, appreciation rights and any other derivative security granted under the LTIP will not be transferable by a participant other than by will or the laws of descent and distribution. Except as otherwise determined by the Compensation Committee, option rights and appreciation rights are exercisable during a participant's lifetime only by him or her or by his or her guardian or legal representative. Any award made under the LTIP may provide that any common shares issued or transferred as a result of the award will be subject to further restrictions upon transfer.

Adjustments

The Compensation Committee shall make or provide for such adjustments in the numbers of common shares covered by outstanding option rights, appreciation rights, performance shares, deferred shares and other share-based awards, in the option price and base price provided in outstanding options and appreciation rights, and in the kind of shares covered thereby, as the Compensation Committee in its sole discretion may in good faith determine to be equitably required in order to prevent dilution or enlargement of the rights of participants that

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would otherwise result from (1) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the company, (2) any merger, consolidation, spinoff, spin-out, split-off, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (3) any other corporate transaction or event having an effect similar to any of the foregoing. In the event of any such transaction or event, the Compensation Committee may provide in substitution for any or all of the outstanding awards under the LTIP such alternative consideration (or no consideration) as it may in good faith determine to be equitable in the circumstances and may require in connection therewith the surrender of all awards so replaced.

Miscellaneous

The Compensation Committee may permit participants to elect to defer the issuance of common shares or the settlement of awards in cash under the LTIP pursuant to such rules, procedures or programs as it may establish. The Compensation Committee is not permitted to grant stock options or appreciation rights at an exercise price that is less than the fair market value of the underlying shares on the date of grant (*i.e.*, in-the-money options) and may not re-price outstanding option rights or appreciation rights granted under the LTIP without the approval of our shareholders.

Acceleration of Awards

Where the Compensation Committee has established conditions to the exercisability or retention of certain awards, the LTIP allows the Compensation Committee to take action in its sole discretion at or after the date of grant to adjust such conditions in certain circumstances, including in the case of a change in control of the company or the death, disability, retirement or hardship of a participant. With respect to stock option and restricted share awards granted since 2005, the Compensation Committee has exercised this discretion by including a provision in each award agreement requiring the acceleration of awards in the event of a change in control in the company. Generally, a change in control will be deemed to have occurred if (1) any person or group becomes the beneficial owner of 30% or more of the combined voting power of our outstanding securities (subject to certain exceptions), (2) there is a change in the majority of our Board of Directors, (3) certain corporate reorganizations take place where the existing shareholders do not retain more than 51% of the combined voting power of the outstanding securities or (4) our shareholders approve a complete liquidation or dissolution.

Awards Under the LTIP

Because it is within the discretion of our Compensation Committee or the Board, as applicable, to determine which officers, key employees, consultants and non-employee Directors will receive awards, and the amount and type of awards received, it is not presently possible to determine the number of individuals to whom awards will be made in the future under the LTIP or the amount of the awards.

Federal Income Tax Consequences

The following is a brief summary of the federal income tax consequences of certain transactions under the LTIP. The discussion is general in nature and does not take into account a number of considerations which may apply in light of the circumstances of a particular participant under the LTIP. The income tax consequences under applicable state and local tax laws may not be the same as under federal income tax laws.

Non-Qualified Stock Options. A participant will not recognize taxable income at the time of grant of a non-qualified stock option, and we will not be entitled to a tax deduction at such time. A participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) upon exercise of a non-qualified stock option equal to the excess of the fair market value of the shares purchased over their exercise price, and we generally will be entitled to a corresponding deduction. At the time of sale of

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common shares acquired upon exercise of a non-qualified stock option, appreciation (or depreciation) in value of the common shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) to the participant, depending on how long the shares have been held.

Incentive Stock Options. A participant will not recognize taxable income at the time of grant of an incentive stock option. A participant will not recognize taxable income (except for purposes of the alternative minimum tax) upon exercise of an incentive stock option. If the shares acquired by exercise of an incentive stock option are held for the longer of two years from the date the option was granted and one year from the date the shares were transferred, any gain or loss arising from a subsequent disposition of such shares will be taxed as long-term capital gain or loss, and we will not be entitled to any deduction. If, however, such shares are disposed of within such two or one year periods, then in the year of such disposition the participant will recognize compensation taxable as ordinary income equal to the excess of the lesser of the amount realized upon such disposition and the fair market value of such shares on the date of exercise over the exercise price, and we generally will be entitled to a corresponding deduction.

Appreciation Rights. A participant will not recognize taxable income at the time of grant of an appreciation right, and we will not be entitled to a tax deduction at such time. Upon exercise, a participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) equal to the fair market value of any shares delivered and the amount of cash paid by us, and we generally will be entitled to a corresponding deduction.

Performance Shares. A participant will not recognize taxable income at the time of grant of performance shares, and we will not be entitled to a tax deduction at such time. A participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time of settlement of the award equal to the fair market value of any shares or property delivered and the amount of cash paid by us, and we will be entitled to a corresponding deduction, except to the extent the deduction limits of Section 162(m) of the Internal Revenue Code apply.

Restricted Shares. A participant will not recognize taxable income at the time of grant of shares of restricted stock, and we will not be entitled to a tax deduction at such time, unless the participant makes an election under Section 83(b) of the Internal Revenue Code to be taxed at such time. If such election is made, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time of the grant equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. If such election is not made, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time the restrictions lapse in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. We are entitled to a corresponding deduction at the time the ordinary income is recognized by the participant, except to the extent the deduction limits of Section 162(m) of the Internal Revenue Code apply. In addition, a participant receiving dividends with respect to restricted stock for which the above-described election has not been made and prior to the time the restrictions lapse will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee), rather than dividend income. We will be entitled to a corresponding deduction, except to the extent the deduction limits of Section 162(m) of the Internal Revenue Code apply.

Deferred Shares. Generally, a participant will not recognize taxable income at the time of grant of deferred shares, and we will not be entitled to a tax deduction at such time. The participant will be subject to tax at ordinary income rates on the fair market value of unrestricted common shares on the date that such shares are transferred to the participant under the award (reduced by any amount paid by the participant for such deferred shares), and the capital gain/loss holding period for such shares will also commence on that date.

Other Share-Based Awards. The recipient of a share-based award other than an award described above generally will be subject to tax at ordinary income rates on the fair market value of common shares on the date of grant of the share-based award, and the capital gain/loss holding period for such shares also will commence on such date.

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Dividend Equivalents. Any dividend equivalents awarded with respect to awards granted under the LTIP and paid in cash or unrestricted common shares will be taxed to the participant at ordinary income rates when received by the participant.

Section 409A. Awards granted under the LTIP are intended to be designed and administered in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A of the Internal Revenue Code. Because the tax consequences to a participant may vary depending on his or her individual circumstances, participants should consult their personal tax advisors regarding the federal and any state, local, foreign or other consequences to them. Each participant is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on the participant for the participant's account in connection with the LTIP and grants under the LTIP, including any taxes and penalties under Section 409A of the Internal Revenue Code. Neither we nor any of our affiliates have any obligation to indemnify or otherwise hold the participant harmless from any such taxes or penalties.

Tax Consequences to the Company. To the extent that a participant recognizes ordinary income in the circumstances described above, the company or the subsidiary for which the participant performs services will be entitled to a corresponding deduction provided that, among other things, the income (1) meets the test of reasonableness, (2) is an ordinary and necessary business expense, (3) is not an excess parachute payment within the meaning of Section 280G of the Internal Revenue Code and (4) is not disallowed by the \$1 million limitation on certain executive compensation.

Term

The LTIP will terminate in 2014, but awards effective at the time of the termination of the LTIP will continue in accordance with their terms.

New Plan Benefits

It is not possible to determine the specific amounts and types of awards that may be granted in the future under the LTIP because the grant of awards under the LTIP is within the discretion of the Compensation Committee.

Equity Compensation Plan Information

The table below shows information regarding awards outstanding and common shares available for issuance (as of December 31, 2012) under the LTIP:

	Number of Securities to be Issued upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Securities Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans			
Approved by shareholders	519,638	\$ 21.51	567,330
Not approved by shareholders	none	N/A	none

Vote Required

Approval of the amendment to the LTIP will require the affirmative vote of the holders of a majority of votes cast at the annual meeting, either in person or by proxy.

Our Board of Directors recommends that shareholders vote FOR the approval of the Amendment to the National Interstate Corporation Long Term Incentive Plan.

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The following shareholders are the only persons known by us to beneficially own 5% or more of our outstanding common shares as of March 8, 2013:

Name and Address of Beneficial Owner	Common Shares Held (1)	Percent of Class
Great American Insurance Company 301 East Fourth Street Cincinnati, Ohio 45202	10,200,000	51.8%
T. Rowe Price Associates, Inc. (2) 100 E. Pratt Street Baltimore, Maryland 21202	1,942,850	9.9%
Alan R. Spachman (3) c/o National Interstate Corporation 3250 Interstate Drive Richfield, Ohio 44286	1,695,626	8.6%
FMR LLC (4) 82 Devonshire Street Boston, Massachusetts 02109	1,000,000	5.1%

- (1) Beneficial ownership is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended, and generally includes voting and investment power with respect to securities, subject to community property laws, where applicable.
- (2) Based on information contained in a Schedule 13G/A filed with the Securities and Exchange Commission on February 8, 2013. T. Rowe Price Associates, Inc. ("Price Associates") has sole voting power with respect to 687,250 of these shares and has sole dispositive power with respect to all of these shares. These securities are owned by various individuals and institutional investors including T. Rowe Price Small-Cap Value Fund, Inc., which owns 1,244,500 shares, representing 6.3% of the shares outstanding. Price Associates serves as investment adviser with the power to direct investments and/or sole power to vote the securities; however, Price Associates expressly disclaims beneficial ownership of such securities.
- (3) Mr. Spachman has sole voting power and sole dispositive power with respect to all of these shares. In addition to the amount listed in the table above, Mr. Spachman is the beneficiary, but not the trustee, of the Alan R. Spachman GRAT No. 3 and the Alan R. Spachman GRAT No. 4, which currently hold 221,907 and 241,322 common shares, respectively. Mr. Spachman does not have voting or dispositive power with respect to these 463,229 shares.
- (4) Based on information contained in a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2013. Fidelity Management & Research Company ("Fidelity"), a wholly-owned subsidiary of FMR LLC, acting as investment adviser to Fidelity Low-Priced Stock Fund ("Fund"), is the beneficial owner of 1,000,000 shares. Edward C. Johnson 3d (Chairman of FMR LLC) and FMR LLC, through its control of Fidelity and the Fund, each has sole power to dispose of the shares. Neither FMR LLC nor Edward C. Johnson 3d has the power to vote or direct the voting of the shares owned directly by the Fund, which power resides with the Fund's Board of Trustees.

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The table below provides information regarding our directors and executive officers as of March 8, 2013. There are no family relationships among any of our directors or executive officers.

Name	Age	Position	Director or Executive Officer Since
David W. Michelson (1)	55	Director, President and Chief Executive Officer	1992
Julie A. McGraw	49	Vice President, Chief Financial Officer and Treasurer	2006
Anthony J. Mercurio	40	Executive Vice President and Chief Operating Officer	2013
Terry E. Phillips	63	Senior Vice President	1999
Arthur J. Gonzales	53	Vice President, General Counsel and Secretary	2009
Gary N. Monda	56	Vice President and Chief Investment Officer	1999
Joseph E. (Jeff) Consolino (3)	46	Chairman of the Board	2006
Theodore H. Elliott, Jr. (2)(3)	77	Director	1989
Gary J. Gruber (8)	57	Director	1991
Keith A. Jensen (3)(5)	62	Director	2000
Donald D. Larson (4)(5)(7)	61	Director	1991
Vito C. Peraino (3)(4)	56	Director	2010
Joel Schiavone (2)(3)(4)(5)	76	Director	2001
Donald W. Schwegman (6)	62	Director	2013
Alan R. Spachman (3)(9)	65	Director	1989

- (1) David W. Michelson was initially employed by us in 1992 through 1998 and rejoined us in 1999.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Nominating/Governance Committee.
- (5) Member of the Steering Committee.
- (6) Chair of the Audit Committee.
- (7) Chair of Compensation Committee.
- (8) Chair of Nominating/Governance Committee.
- (9) Chair of the Steering Committee.

For biographical information concerning the directors and nominees for director, including our President and Chief Executive Officer, Mr. Michelson, please see pages 5-8.

Arthur J. Gonzales has served as our Vice President, General Counsel and Secretary since February 2009. Prior to joining us, Mr. Gonzales served as executive vice president and general counsel of J. and P. Holdings, Inc. and its insurance subsidiaries from 2005 to 2008 and held various positions at Vesta Shelby Select Insurance Companies from 1998 to 2005, including senior vice president, general counsel and secretary. Additionally, Mr. Gonzales served as corporate counsel for Anthem Shelby Insurance Companies, served as a judicial clerk for the Third District Court of Appeals of Ohio for five years and worked in private practice.

Julie A. McGraw has served as our Vice President, Chief Financial Officer and Treasurer since January 2006. Prior to joining us, Ms. McGraw held various positions at HMI Industries Inc. from 1996 to 2006, including vice president and chief financial officer/treasurer. Prior to that time, Ms. McGraw held various financial management positions at Moen Inc. and Isolab Inc. and worked for five years at the public accounting firm of Price Waterhouse.

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Anthony J. Mercurio has served as our Executive Vice President and Chief Operating Officer since January 1, 2013, and has held other management and executive positions since 1997 with our subsidiaries, National Interstate Insurance Company and Vanliner Insurance Company. Prior to joining us, Mr. Mercurio held various product and management positions with Westfield Insurance Company and American International Group.

Gary N. Monda has served as our Vice President and Chief Investment Officer since January 2006 and was previously our Vice President and Chief Financial Officer since 1999. Prior to joining us, Mr. Monda served the insurance industry as vice president, strategic planning, for Victoria Financial Corporation and held various financial and general management positions with Progressive Corporation over a period of fifteen years. Mr. Monda also worked for four years at the public accounting firm of Ernst & Young LLP.

Terry E. Phillips has served as our Senior Vice President since May 2006. Mr. Phillips has held other executive positions with our subsidiary, National Interstate Insurance Company, including Vice President, Claims, since 1999. Prior to joining us, Mr. Phillips was senior vice president for Continental National Indemnity from 1989 to 1999. Mr. Phillips previously served in both management and claims capacities for Midwestern Group, USF&G and TransAmerica Group Insurance Companies.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and the holders of more than 10% of our common shares to file reports with the Securities and Exchange Commission. Such reports include initial reports of ownership of our common shares and other equity securities on a Form 3 and reports of changes in such ownership on a Form 4 or Form 5. Executive officers, directors and 10% shareholders are required by Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) forms that they file.

Based solely on our review of the filings of our executive officers, directors and 10% shareholders, we believe that all of our executive officers, directors and 10% shareholders complied with all filing requirements applicable to them with respect to transactions during 2012.

Table of Contents**Securities Ownership**

The following table sets forth information, as of March 8, 2013, concerning the beneficial ownership of our equity securities by our current Directors, the executive officers in the Summary Compensation Table and by all of our Directors and executive officers as a group. Such information is based on data furnished by the persons named. Except as set forth in the following table, no Director or executive officer beneficially owned 1% or more of any class of our equity securities outstanding at March 8, 2013. Unless otherwise indicated, beneficial ownership of the equity securities held by each individual consists of sole voting power and sole investment power or of voting power and investment power that is shared with the individual's spouse or family member.

Name of Beneficial Owner	Number of Shares (1)	Percent
David W. Michelson (2)	229,455	1.2%
Julie A. McGraw (2)	41,238	*
Terry E. Phillips (2)	65,991	*
Gary N. Monda (2)	65,238	*
Arthur Gonzales	24,000	*
Anthony J. Mercurio (2)	46,880	*
Joseph E. (Jeff) Consolino	9,479	*
Theodore H. Elliott, Jr.	128,668	*
Gary J. Gruber	1,000	*
Keith A. Jensen	1,500	*
Donald D. Larson	1,000	*
Vito Peraino	1,000	*
Joel Schiavone	82,975	*
Donald W. Schwegman		*
Alan R. Spachman	1,695,626	8.6%
Directors and executive officers as a group (15 people)	2,394,350	12.1%

* Less than 1%.

- (1) Beneficial ownership is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934 and generally includes voting and investment power with respect to securities, subject to community property laws, where applicable. The table also includes the number of common shares that may be acquired pursuant to options that are currently exercisable or will be exercisable within 60 days of March 8, 2013 (Ms. McGraw 39,800; Mr. Phillips 21,088; Mr. Monda 19,500; Mr. Gonzales 24,000; Mr. Mercurio 20,000). Mr. Schiavone and Mr. Elliott have 82,975 and 128,668 shares pledged as security, respectively.
- (2) Beneficial ownership includes shares of service based restricted stock, in which the owners have sole voting power (Mr. Michelson 60,000; Ms. McGraw 1,238; Mr. Phillips 928; Mr. Monda 1,238; Mr. Mercurio 1,856).

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COMPENSATION DISCUSSION AND ANALYSIS

Introduction

Our Compensation Committee establishes and implements our compensation policies and programs for our executive officers. Although this Compensation Discussion and Analysis will focus on our policies and programs as they relate to our executive officers, it is also intended to give our shareholders a general overview of our compensation strategies.

The Compensation Committee of the Board of Directors (the Compensation Committee or Committee) consists of seven directors, Joseph E. (Jeff) Consolino, Theodore H. Elliott, Jr., Keith A. Jensen, Donald D. Larson, Vito C. Peraino, Joel Schiavone, and Alan R. Spachman, none of whom is an employee of ours or any of our subsidiaries. Messrs. Consolino, Jensen, Larson, and Peraino are officers of AFG. The Committee's functions include reviewing and making recommendations to the Board of Directors with respect to our executive compensation policies and programs. For a more complete discussion of the Committee's responsibilities, see the discussion in the section titled Corporate Governance, Committee Descriptions and Reports Compensation Committee in this Proxy Statement beginning on page 40. The Committee has the exclusive authority to approve bonuses, award salary adjustments and grant awards to our executive officers under our LTIP. Prior to making compensation decisions with respect to our executive officers, the Committee takes into account the recommendations of our Chief Executive Officer and our other Board members. The Committee and our Board of Directors have also considered the results of our 2012 shareholders advisory vote on executive compensation (the 2012 Say on Pay vote), through which approximately 99% of our shareholders expressed approval of our executive compensation. Based on the results of the 2012 Say on Pay vote, the Compensation Committee concluded that the compensation paid to the executive officers and that our overall pay practices received strong shareholder support and do not require substantial revision to address any shareholder concerns. The Committee has not engaged any compensation consultant or other outside advisor to assist the Committee.

This report contains management's discussion and analysis of the compensation awarded to, earned by, or paid to the following executive officers during and for 2012 (the Named Executive Officers):

David W. Michelson	President and Chief Executive Officer
Julie A. McGraw	Vice President, Chief Financial Officer and Treasurer
Terry E. Phillips	Senior Vice President
Arthur J. Gonzales	Vice President, General Counsel and Secretary
Gary N. Monda	Vice President and Chief Investment Officer

Our Compensation Philosophy

Our compensation and benefits programs recognize the importance of our executive officers to our overall success. The objectives of our compensation program are simple:

to attract and retain talented individuals,

to motivate our executive team to achieve our overall goals and objectives,

to reward our excellent performers, and

to align the interests of our key managers with those of our shareholders.

We strive to maintain a compensation system that is internally equitable and externally competitive. The Compensation Committee reviews and approves the compensation package of each executive officer, including our Chief Executive Officer. Our Chief Executive Officer makes recommendations to the Compensation Committee regarding the compensation of our other executive officers.

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Our compensation program for all officers, including executive officers, has three principal components:

annual base salary,

annual cash incentive bonuses, and

long term incentive (equity) awards.

Our management by objective philosophy requires each executive officer, along with all of our other employees, to set specific, measurable objectives at the beginning of each calendar year. Examples of objectives for our Named Executive Officers include the development and implementation of strategic initiatives, the completion of important corporate or departmental projects by targeted dates, process improvements for operating workflow or specific employment-related matters concerning the management of our business units and products and the development of management personnel. These individual objectives are based on market competitiveness and the Named Executive Officer's relative impact on our financial and underwriting results.

We primarily determine base salaries by an analysis of relevant market data by our Human Resources department and by working with our Chief Executive Officer and other members of senior management. As described in more detail below, we set Mr. Michelson's base salary in his employment agreement. We primarily design base salaries to recognize an individual employee's regular commitment to his or her job and the achievement of specific individual objectives.

We use annual cash incentive bonus programs to encourage each employee to reach, or to assist us in reaching, specific, measurable individual and/or corporate objectives. Our incentive programs reward all levels of eligible employees for their contributions toward meeting our written premium growth and underwriting profit objectives. Through 2012, we maintained two primary annual incentive plans: (1) our Management Bonus Plan, historically reserved for our key managers representing approximately 6% of our employee base and (2) our Goalshare program in which every other employee (except for certain salespersons) participates. Specific sales positions are eligible for sales bonuses outside of either the Management Bonus Plan or Goalshare program. We believe these plans give our employees a sense of ownership and interest in our Company. To encourage a continuing relationship with us, bonuses under our annual incentive bonus programs are subject to a multi-year payout, considered earned when paid, and the individual must be actively employed on the date of payment to receive the bonus.

We reserve awards under our LTIP for our officers, including officers of our subsidiaries. We have historically granted such awards in connection with an officer's initial hire or promotion. These awards are designed to align the interests of our officers with the interests of our shareholders. Awards granted historically have been in the form of stock options and restricted stock. Our stock option awards only have value if the share price of our stock increases over the price on the grant date. Similar to our annual cash incentive bonus programs, our long term incentive awards have the additional benefit of encouraging employees to continue their employment relationship with us as these awards typically vest over a multi-year period. No options were awarded to any Named Executive Officer during 2012.

During 2012, our Compensation Committee performed a comprehensive review of our long term incentive awards. The Compensation Committee decided, beginning in 2013, to utilize two types of awards under the LTIP: position share awards and performance share awards. Each award would involve the issuance of restricted shares to participants which would generally cliff vest three years after the date of grant, or such earlier date as specified by the Compensation Committee. Position share awards would generally be granted in five-year cycles vesting each January 1 in amounts based on the participant's position with us. Participants would begin new five-year cycles upon promotion and would be eligible to receive new five-year awards if they remain in the same position after the conclusion of a cycle. Performance share awards, which also would be subject to five-year cycles, would be based on our annual return on equity. As long as our annual return on equity exceeded a minimum percentage established by the Compensation Committee, additional restricted share awards would be

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granted on the basis of a multiple of the position share award applicable to the participant, with a higher return on equity corresponding to a higher multiple. The maximum multiple achievable would equal three times the participant's position share award. Officers with unvested options may not be eligible for position or performance share awards until those options are fully vested.

A primary objective of our compensation and benefits programs is to encourage and reward performance by our Named Executive Officers that achieves or exceeds our financial and operational performance goals, without encouraging the taking of excessive risks that could be detrimental to the interests of our shareholders. Overall, the Committee does not believe that any aspect of our compensation program encourages the Named Executive Officers to take unnecessary and excessive risks.

The discussion below further describes the main elements of compensation paid to our Named Executive Officers.

Specific Elements of Our Compensation Program and Compensation of Named Executive Officers

Annual Base Salaries. We establish base salaries primarily using competitive market data. Although we do not have a defined peer group, we do consult available information from insurance and other companies of similar size and structure as well as industry benchmarking data in analyzing base salaries and total compensation for our executive officers. We strive to pay competitive base salaries to our executive officers, but we generally do not seek to be above market in this component as we believe our annual bonus and long term incentive compensation programs more appropriately align our executives' overall compensation with achievement of corporate objectives and individual goals.

We review the salaries of all executive officers on an annual basis, and more frequently in the event of promotions or other changes in responsibilities. Annual merit increases are typically effective retroactive to January 1 of each year after approval by the Compensation Committee in February. After the year concludes, our Chief Executive Officer evaluates each executive's success relative to pre-defined objectives. The Compensation Committee then evaluates all officers' performance, including our Chief Executive Officer's, as part of the annual salary and bonus review process. Our Chief Executive Officer makes base salary and bonus recommendations annually to the Committee based on competitive market data, our underwriting and overall corporate operating results for the preceding accident year and each of our executives' performance relative to his or her individual objectives, which are described below. After receiving the recommendations of our Chief Executive Officer with respect to the other executive officers and key managers, the Committee discusses the recommendations with our other Board members, deliberates, makes any necessary adjustments and approves final base salary and annual management bonus figures for all executive officers (including our Chief Executive Officer) and other key managers.

The Compensation Committee approves annual base salaries for the Named Executive Officers that it considers appropriate for each officer's position, responsibilities and performance to objectives. The Committee reviewed the recommendations of our Chief Executive Officer, considering both corporate objectives and specific individual performance objectives of each Named Executive Officer, and approved increases ranging up to 15.5% over 2011 base salaries.

Annual Management Bonuses. We have a management bonus plan that is designed to provide an equitable sharing of underwriting profits between management and shareholders. The Committee determines participation in the Management Bonus Plan upon recommendation of our Chief Executive Officer. An officer's inclusion in the program one year does not guarantee his or her future participation. However, for the 2012 accident year bonus pool (with the first payments in 2013) and historically, our Chief Executive Officer has recommended and the Committee has approved the inclusion of all executive officers in the program. A threshold consideration for any bonus is whether we make an underwriting profit. If we do not make an underwriting profit for an accident year, then we have not historically paid any management bonuses for that accident year. Although some insurance companies consider investment results when determining actual corporate profitability, consistent with our corporate objective of underwriting discipline, we require that we achieve an underwriting profit. Assuming a

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corporate underwriting profit is achieved, then, as with the annual base salary review, the Committee reviews the recommendations of our Chief Executive Officer related to the evaluation of each Named Executive Officer's success in achieving individual performance objectives during the prior year.

To be entitled to receive a bonus award, a participant must be employed by us when the bonus is paid. Therefore, the estimated bonus payouts for a given year are not considered to be individually earned by each participant until the bonus is paid in the following years. We currently pay bonus amounts over a three-year period (50%, 35% and 15%). This multi-year payout structure allows accident year results to sufficiently mature, thereby helping to ensure we do not prematurely pay an executive for accident year results that develop unfavorably, and allows for the possibility of additional payments in years two and three if accident year results develop favorably. Each year, we examine the prior accident years in the Management Bonus Plan to determine the impact of any negative development on the current year payouts. If there is negative development in the prior year, payouts for that year are reduced. We believe this feature in our Management Bonus Plan would allow us to recover all or a portion of any award upon a restatement or other adjustment of performance measures.

The Committee is responsible for the administration of the Management Bonus Plan, which makes a substantial portion of each executive officer's total compensation dependent on our underwriting profit as well as on the pre-established performance objectives specific to each executive officer. The Committee, with recommendations from our Chief Executive Officer, approves the target incentive award for each participant (expressed as a percentage of base salary) annually. Our Named Executive Officers had the following bonus targets (expressed as a percentage of their base salary) for the 2011 (the first portion of which is paid in 2012) and 2012 (the first portion of which is paid in 2013) accident years: Mr. Michelson 100%; Ms. McGraw 50%; Mr. Phillips 70%; Mr. Monda 50%; Mr. Gonzales 50%. The bonus targets for each Named Executive Officer reflect their respective individual impact on our financial results and individual performance objectives. According to the terms of Mr. Michelson's employment agreement, his target bonus is set at 100% of his base salary for each year during the term of the agreement.

With the exception of himself, our Chief Executive Officer recommends to the Committee the allocation of the annual accident year bonus pool to each participant, considering the individual's targeted bonus, contributions relative to his or her individual performance objectives and the performance of other participants relative to their individual objectives. There is no specific weighting attributed to any one factor in the evaluation, and the objectives are generally measured by substantial completion, or with respect to financial targets, substantial achievement. Our Chief Executive Officer subjectively reviews the achievement of each Named Executive Officer's objectives, considers their overall discharge of their responsibilities as executives, as well as any corporate objectives applicable for the accident year and determines the amount of bonuses that should be paid, and the Compensation Committee reviews such determinations. The Committee has the ability, and has in the past exercised its discretion, to adjust a Named Executive Officer's bonus based on the Committee's own or the Chief Executive Officer's recommendation.

Mr. Michelson's 2012 and 2011 objectives included researching and identifying niches for new product offerings and product extensions to continue growth in the Company's business components, maximizing investment yield, capital management, potential acquisition target research, staffing and succession planning initiatives, achieving a return on shareholders' equity target of 12.4% for 2012 and 15% plus the rate of inflation for 2011, attainment of an overall gross premiums written target of \$531 million for 2012 and \$517 million for 2011, achievement of a corporate after-tax profit plan, inclusive of investment income, of \$45.6 million for 2012 and \$46.5 million for 2011 and, to be determined on a subjective basis, overall company operating and financial performance.

Specific 2012 and 2011 individual objectives for Mr. Phillips included accountability for assigned products achieving top line plans of gross premiums written of \$531 million for 2012, and \$517 million for 2011, ensuring that non-product departments achieve their departmental objectives, pursuit and achievement of growth objectives, including development of specified new product(s), research and development of new product niches, identifying talent and distribution sources, assisting with acquisition research, and involvement in and presence at appropriate sales, industry and association meetings.

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Ms. McGraw's 2012 and 2011 objectives included leading and managing our SEC and statutory financial filings processes, managing or assisting in strategic initiatives, serving as liaison to our Audit Committee and external auditors, continued promotion of process efficiencies, active management of our finance and accounting functions, including ensuring that the functions are adequately staffed and trained, supporting and enhancing key regulatory, banking, corporate governance and rating related obligations and relationships, and managing or assisting in capital adequacy and corporate tax planning.

Specific 2012 and 2011 objectives for Mr. Monda included management of our investment portfolio within our investment policy guidelines including achievement of returns consistent with established benchmarks including Barclays Intermediate Aggregate Index, Merrill Lynch Preferred Stock, Agency and Treasury Indices, and S&P 500 Index, development and management of relationships with investment service vendors, active management of our investor relations function including managing relationships with analysts and responsiveness to investors, active management of our reinsurance and corporate services functions and facilities, and administrative oversight of the internal audit function, including responsibility for enterprise risk management initiatives.

Mr. Gonzales' 2012 and 2011 objectives included serving as our lead in-house legal counsel, supporting strategic business initiatives, management of our legal and regulatory compliance functions, serving as liaison to our Board of Directors, management of our corporate records, development of legal and regulatory staff, indirect oversight of the internal audit function and management of outside legal expenses.

For 2011 performance, after reviewing the Chief Executive Officer's recommendations and subjectively reviewing each Named Executive Officer's performance to objectives, the Committee determined that each Named Executive Officer, including our Chief Executive Officer, substantially completed or complied with his or her stated objectives. The Committee formally approved percentage allocations of the 2011 accident year bonus pool for the Named Executive Officers as follows: Mr. Michelson 16.1% (\$260,825); Ms. McGraw 6.4% (\$103,722); Mr. Phillips 7.8% (\$126,375); Mr. Monda 5.3% (\$85,113); Mr. Gonzales 5.5% (\$88,673). Subject to adjustment due to development in 2011 accident year results, approved amounts for the 2011 accident year bonus pool are to be paid over a three-year period (50% in 2012, 35% in 2013, 15% in 2013). Each Named Executive Officer was paid 50% of his or her approved amount for the 2011 accident year in March of 2012.

Similarly, in February of 2013, for the 2012 accident year bonus pool, the Committee formally approved percentage allocations of the 2012 accident year bonus pool for the Named Executive Officers as follows: Mr. Michelson 15.5% (\$351,003); Ms. McGraw 8.2% (\$185,692), Mr. Phillips 6.5% (\$147,195), Mr. Monda 7.0% (\$158,517), and Mr. Gonzales 7.0% (\$158,517). Subject to adjustment due to development in 2012 accident year results, approved amounts for the 2012 accident year bonus pool are to be paid over a three-year period (50% in 2013, 35% in 2014, 15% in 2015). Each Named Executive Officer was paid 50% of his or her approved amount for the 2012 accident year in March of 2013.

Long Term Incentive Plan Awards. Incentive awards represent an important part of our performance-based compensation system. The Compensation Committee believes that our shareholders' interests are served by aligning our executives' interests with those of our shareholders through the award of incentive compensation like stock options and restricted shares. The Committee has several award alternatives under our LTIP, including stock options, stock appreciation rights, performance units and shares, restricted shares, deferred shares and other similar awards.

Our Compensation Committee has typically approved LTIP awards in the form of stock options to officers only in connection with their initial employment or promotion. The exercise price of our stock option awards granted has been the closing market price on the date of grant, which is typically the date of the applicable officer's hire or promotion unless a different price is established at the discretion of the Compensation Committee. The amount of each award has been based upon the level of the officer. As previously noted, our Compensation Committee reviewed our historical LTIP awards and determined that awarding performance

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shares and position shares will further align our executives' interests with those of our shareholders, and appropriately compensate our officers in conjunction with other aspects of their compensation and individual performance. These awards will cliff vest three years after the date of grant or such earlier date as specified by the Compensation Committee, and will be based on an officer's position and our performance.

Retirement Plan Contribution. In addition to the other forms of compensation described above, we may make a discretionary retirement contribution to every employee's, including our Named Executive Officers', 401(k) plan account. In March 2013, each Named Executive Officer received an amount equal to \$6,875 as a company contribution to his or her 401(k) account.

Perquisites. We believe our Named Executive Officers are most effectively motivated by the types of compensation noted above. We do, however, make limited use of certain perquisites to attract and retain our key executives and to support their ability to further our business objectives. All our Named Executive Officers are eligible for our company car program, which includes Company payment of reasonable monthly auto payments, as well as gas and maintenance on the vehicles, and all vehicles are covered by our corporate automobile insurance policy. In addition, all Named Executive Officers receive supplemental long term disability insurance and, as a supplemental health benefit, are eligible to receive additional short term disability payments if their paid time off (PTO) is exhausted while awaiting eligibility for long term disability. All officers, including subsidiary officers, also receive an additional five days of PTO annually. Finally, although there is no associated incremental cost, our executive officers also have occasional access to our corporate season tickets for sporting events, when the tickets are not being used for business purposes.

Employment Agreements. In 2007, we entered into an Employment and Non-Competition Agreement with Mr. Michelson. We entered into this agreement to help us ensure a successful transition of the position of Chief Executive Officer from our prior chief executive officer to Mr. Michelson. In addition, we were party to an Employee Retention Agreement with Mr. Michelson, which included a retention bonus for Mr. Michelson to stay employed with us for the long-term, and which was paid to Mr. Michelson in 2012. We entered into this agreement in 1997 to secure Mr. Michelson's employment and to retain his services. These agreements are described in detail under the section titled Potential Payments Upon Termination or Change in Control on page 34. None of our other Named Executive Officers are parties to any types of employment agreements.

Tax and Accounting Considerations

Management and the Compensation Committee consider Section 162(m) of the Internal Revenue Code, which generally limits the deductibility of executive pay in excess of one million dollars, and which specifies the requirements for the performance-based exemption from this limit, when determining annual compensation. The Compensation Committee has the opportunity to review with our senior management any potential tax implications before making decisions regarding compensation. When reviewing preliminary recommendations, and in connection with approving the terms of a long term incentive award, the Committee may also consider the accounting implications of a given award, including the estimated expense and/or dilutive considerations. The Compensation Committee reserves the right to grant non-deductible compensation when it is deemed to be in the best interest of shareholders.

Change of Control Payments

Long Term Incentive Plan. Our LTIP provides for accelerated benefits to participants in the event of a change of control. Such acceleration is within the Committee's sole discretion. Included in each award agreement is a provision requiring the acceleration of awards in the event of death or permanent disability of the grantee, or a change in control in the Company. Generally, a change in control will be deemed to have occurred if (1) any person or group becomes the beneficial owner of 30% or more of the combined voting power of our outstanding securities (subject to certain exceptions), (2) there is a change in the majority of our Board of Directors, (3) certain corporate reorganizations take place where the existing shareholders do not retain more than 51% of the combined voting power of the outstanding securities or (4) our shareholders approve a complete liquidation

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or dissolution. We chose these change-in-control triggers based on an evaluation of market practices at the time we implemented our LTIP, tempered by the fact that more than 50% of our common shares are held by one shareholder.

Management Bonus Plan. In order to provide additional protection to our Named Executive Officers (and other participants), our Management Bonus Plan provides for the accelerated payment of awards in the event of certain termination of employment scenarios triggered by a Change in Control, as defined under our LTIP described above. For a further description of the potential payments due upon a change in control under the Management Bonus Plan, see the section of this Proxy Statement titled "Potential Payments Upon Termination or Change in Control" beginning on page 34.

Employment Agreement with Mr. Michelson. For a description of the terms of the employment agreement, see the section of this Proxy Statement titled "Potential Payments Upon Termination or Change in Control" beginning on page 34.

Employee Retention Agreement with Mr. Michelson. Although no benefits are accelerated upon a change in control, any successor entity was to assume our obligations to Mr. Michelson under the Employee Retention Agreement. For a description of the terms of this agreement, see the section of this Proxy Statement titled "Potential Payments Upon Termination or Change in Control - Employee Retention Agreement with Mr. Michelson" on page 35.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis that appears in this Proxy Statement. Based on such review and discussions, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement, and incorporated by reference in the Company's Form 10-K.

Members of the Compensation Committee:

Donald D. Larson, Chairman

Joseph E. (Jeff) Consolino

Theodore H. Elliott, Jr.

Keith A. Jensen

Vito C. Peraino

Joel Schiavone

Alan R. Spachman

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The following table sets forth information with respect to the annual and long-term compensation earned by our principal executive officer, our principal financial officer and the next three highest paid executive officers for the year ended December 31, 2012. Throughout the Proxy Statement, we refer to these officers together as our Named Executive Officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$ (1))	Stock Awards (\$ (2))	Non-Equity Incentive Plan Compensation	All Other Compensation (\$ (4))	Total (\$)
					(\$) (3)(6)(7)		
David W. Michelson, President and Chief	2012	\$ 390,000	\$ 1,000,000		\$ 449,413	\$ 25,575	\$ 1,864,988
	2011	390,000			479,825	25,029	894,854
Executive Officer	2010	367,509		162,810	357,525	25,625	913,469
Julie A. McGraw, Vice President, Chief Financial Officer and Treasurer	2012	260,000			149,369	19,471	428,840
	2011	225,087			148,563	18,017	391,667
Terry E. Phillips, Senior Vice President	2010	206,502			134,138	17,955	358,595
	2012	265,000			194,484	21,632	481,116
Arthur J. Gonzales Vice President, Secretary and	2011	254,962			198,236	23,616	476,814
	2010	234,988			176,386	22,616	433,990
General Counsel	2012	225,000			107,264	18,342	350,606
	2011	204,966			128,041	16,525	349,532
Gary N. Monda, Vice President and Chief	2010	185,994			86,562	105,842	378,398
	2012	205,000			126,438	20,729	352,167
Investment Officer	2011	189,919			122,279	19,720	331,918
	2010	177,993			105,818	19,492	303,303

- (1) Represents the amount paid to Mr. Michelson on June 1, 2012 in accordance with the terms of his Employee Retention Agreement.
- (2) Represents the aggregate grant date fair value of a restricted share award and stock bonus made in 2010, as computed under FASB ASC 718.
- (3) Represents the amounts earned by the Named Executive Officers under the Management Bonus Plan for accident years 2010-2012 which is discussed further in the Compensation Discussion and Analysis Specific Elements of our Compensation Program and Compensation of Named Executive Officers Annual Management Bonuses section in this Proxy Statement.

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(4) The amounts in the All Other Compensation column are comprised of the following compensation items:

	Year	Perquisites and Other Personal Benefits (\$ (5))	Company Contributions to Retirement Plan (\$)	Total (\$)
David W. Michelson	2012	\$ 18,225	\$ 7,350	\$ 25,575
	2011	17,679	7,350	25,029
	2010	18,275	7,350	25,625
Julie A. McGraw	2012	12,121	7,350	19,471
	2011	10,667	7,350	18,017
	2010	10,605	7,350	17,955
Terry E. Phillips	2012	14,282	7,350	21,632
	2011	16,266	7,350	23,616
	2010	15,266	7,350	22,616
Arthur J. Gonzales	2012	10,992	7,350	18,342
	2011	9,175	7,350	16,525
	2010	100,372	5,470	105,842
Gary N. Monda	2012	13,379	7,350	20,729
	2011	12,370	7,350	19,720
	2010	12,142	7,350	19,492

- (5) Perquisites and other personal benefits include car allowances, use of corporate season tickets to sporting events and supplemental long-term disability insurance. Mr. Gonzales' after-tax amounts for 2010 also include \$50,000 toward the documented loss on the sale of his home in Illinois, and approximately \$42,000 related to closing costs on this home. All perquisites are further discussed in the Compensation Discussion and Analysis - Specific Elements of our Compensation Program and Compensation of Named Executive Officers - Perquisites section in this Proxy Statement.
- (6) Excluded from this column are estimated payouts for the 2012, 2011 and 2010 accident year results that will be paid contingent upon the employee's continued employment with us over a three year period (50%, 35% and 15%), with the exception of Mr. Gonzales who had an accelerated payment schedule for his 2010 bonus (60%, 30%, 10%). Estimated payouts for these accident year results, which are subject to adjustment for development of accident year results, are as follows:

	2012	2011	2010
David W. Michelson	\$ 351,003	\$ 260,825	\$ 643,125
Julie A. McGraw	185,692	103,722	169,810
Terry E. Phillips	147,195	126,375	246,787
Arthur J. Gonzales	158,517	88,673	161,737
Gary N. Monda	158,517	85,113	153,953

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- (7) Non-equity incentive plan compensation paid in 2012 related to accident years 2009-2011. All named executive officers listed below satisfied the performance condition for these bonuses by being employed by us in 2012 when bonuses were paid. Mr. Gonzales' accident year 2009 bonus was paid over two years (70% and 30%) and therefore he was not owed bonus compensation for this accident year in 2012. The 2012 bonus payments are comprised of the following accident year related amounts:

	AY 2011	AY 2010	AY 2009	Total
David W. Michelson	\$ 171,973	\$ 223,440	\$ 54,000	\$ 449,413
Julie A. McGraw	68,388	58,997	21,984	149,369
Terry E. Phillips	83,324	85,741	25,419	194,484
Arthur J. Gonzales	58,466	48,798		107,264
Gary N. Monda	56,119	53,488	16,831	126,438

Table of Contents**GRANTS OF PLAN-BASED AWARDS**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
		Threshold (\$) (1)	Target (\$)	Maximum (\$) (3)
David W. Michelson	(2)	\$ 0	\$ 390,000	(3)
Julie A. McGraw	(2)	0	130,000	(3)
Terry E. Phillips	(2)	0	185,500	(3)
Arthur J. Gonzales	(2)	0	112,500	(3)
Gary N. Monda	(2)	0	102,500	(3)

- (1) Our Management Bonus Plan, as discussed in further detail in the Compensation Discussion and Analysis Specific Elements of our Compensation Program and Compensation of Named Executive Officers Annual Management Bonuses section in this Proxy Statement, does not provide for a minimum performance level; therefore the threshold is zero. Payment of bonuses is contingent upon the participant being employed with us on the date of payment and therefore bonuses are not considered individually earned until paid.
- (2) There is no grant date for the non-equity incentive plan awards made under our cash-based Management Bonus Plan.
- (3) The Management Bonus Plan does not set a maximum amount that could be paid to a Named Executive Officer. In the 2012 plan, there was \$2.3 million available for potential bonus payments to all plan participants. Accordingly, the maximum that any one person could be paid would theoretically be \$2.3 million, although this would mean that no other participants in the Management Bonus Plan would receive a bonus payment.

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**NARRATIVE DISCLOSURE TO SUMMARY COMPENSATION TABLE
AND GRANTS OF PLAN-BASED AWARDS TABLE**

Non-Equity Incentive Plan Awards

Our bonuses are tied to underwriting performance measured on an accident-year basis and are adjusted annually. Bonuses are payable over a three-year period for the 2012 accident year. The recipient must be employed when the bonus is paid in order to be entitled to receive such bonus award.

Each year, our Named Executive Officers are given a target bonus percentage of their base salaries. For 2012, target percentages were as follows: Mr. Michelson 100%, Ms. McGraw 50%, Mr. Phillips 70%, Mr. Monda 50%, and Mr. Gonzales 50%. Actual payouts are reflected in the Summary Compensation Table. The Compensation Committee determined actual bonus percentages for the 2012 accident year and reviewed the recommendations of the Chief Executive Officer, which were based off of both corporate objectives and specific individual performance objectives. The actual estimated total payouts for 2012 accident year results are as follows: Mr. Michelson \$351,003, Ms. McGraw \$185,692, Mr. Phillips \$147,195, Mr. Monda \$158,517, and Mr. Gonzales \$158,517. This bonus, subject to adjustment due to the development of 2012 accident year results, will be paid in the following installments; 50% in 2013, 35% in 2014 and 15% in 2015. The terms of our Management Bonus Plan are discussed in the Compensation Discussion and Analysis Specific Elements of our Compensation Program and Compensation of Named Executive Officers Annual Management Bonuses section on page 24 of this Proxy Statement.

Stock Bonus and Restricted Share Awards

The amount in the Stock Awards column of the Summary Compensation table represents a restricted share award granted to Mr. Michelson under our LTIP. In March of 2010, Mr. Michelson received a restricted share award of 4,500 shares, of which 2,700 shares vested on March 2, 2011, and 1,800 shares vested on March 2, 2012. Pursuant to the terms of our LTIP, restricted share awards have dividend and voting rights equivalent to those of our other outstanding common shares. Additionally, restricted share awards allow for the grantee to surrender a portion of the common shares that become vested to pay for any tax withholding obligation.

Employment Agreement

The targets and compensation amounts we pay to Mr. Michelson in salary, bonus and perquisites were determined according to his employment agreement. For further discussion of this employment agreement, see the Potential Payments Upon Termination or Change in Control section on page 34 of this Proxy Statement.

Risk Assessment of Compensation Policies and Procedures

Our Compensation Committee has reviewed our material compensation policies and practices applicable to our employees, including our Named Executive Officers, and concluded that these policies and practices do not create risks that are reasonably likely to have a material adverse effect on us.

Table of Contents**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

Name	Number of Securities Underlying Unexercised Options/SARs (#) (1)	Option /SAR Awards			Stock Awards	
		Number of Securities Underlying Unexercised Options/SARs (#) Unexercisable (2)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (3)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (4)
David W. Michelson			\$	N/A	60,000	\$ 1,729,200
Julie A. McGraw	39,800		21.81	1/9/2016		
Terry E. Phillips	16,035		13.50	2/2/2015		
	5,053		19.79	8/15/2015		
Arthur J Gonzales	24,000	16,000	22.95	2/17/2019		
Gary N. Monda	19,500		13.50	2/2/2015		

- (1) This column includes stock options that were fully exercisable at December 31, 2012.
- (2) These options vest each January 1, with 8,000 vesting on January 1, 2013 and 8,000 vesting on January 1, 2014.
- (3) These shares vest each January 1, with 12,000 shares vesting each year through 2017.
- (4) The value of restricted shares that have not vested is calculated by multiplying the number of the non-vested shares by \$28.82, the closing market price of our common shares at December 31, 2012.

OPTION EXERCISES AND STOCK VESTED

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) (1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (2)
David W. Michelson	80,000	843,600	13,800	\$ 339,150
Julie A. McGraw				
Terry E. Phillips	29,947	131,455		
Arthur Gonzales				
Gary N. Monda			Durham, NC	
	15,500	212,195	27703	

Richard P Brown	Preferred			
4625 Creekstone Drive, Suite 130 Research Triangle Park Durham, NC 27703	B	750,000(9)	8.82	

(1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of August 13, 2009 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

(2) For purposes of calculating the percentage beneficially owned, the number of shares of each class of stock deemed outstanding include 1,324,955,532 common shares and 8,500,000 Preferred "B" Shares outstanding as of August 13, 2009.

(3) This column represents the total number of votes each named shareholder is entitled to vote upon matters presented to the shareholders for a vote.

(4) For purposes of calculating the percentage of total votes on shareholder matters, the total number of votes entitled to vote on matters submitted to shareholders is 1,409,955,532, which includes: one vote for each share of common stock currently outstanding (1,324,955,532) and 10 votes for each share of outstanding Series B preferred stock which converts to 10 underlying shares of common stock (8,500,000 * 10 = 85,000,000 shares of common stock) for a total Series B preferred votes of 85,000,000 (85,000,000 underlying shares of common stock * 10 votes per share).

(5) Includes 2,650,000 shares of Series B convertible preferred stock convertible into 26,500,000 shares of common stock and the right to cast 265,000,000 votes.

(6) Includes 1,700,000 shares of Series B convertible preferred stock convertible into 17,000,000 shares of common stock and the right to cast 170,000,000 votes.

(7) Includes 2,100,000 shares of Series B convertible preferred stock convertible into 21,000,000 shares of common stock and the right to cast 210,000,000 votes.

(8) Includes 1,300,000 shares of Series B convertible preferred stock convertible into 13,000,000 shares of common stock and the right to cast 130,000,000 votes.

(9) Includes 750,000 shares of Series B convertible preferred stock convertible into 7,500,000 shares of common stock and the right to cast 75,000,000 votes.

(10) Includes 8,500,000 shares of Series B convertible preferred stock convertible into 85,000,000 shares of common stock and the right to cast 850,000,000 votes.

AMENDMENT TO THE ARTICLES OF INCORPORATION

On August 13, 2009, the majority stockholders of the Company approved an amendment to the Company's Articles of Incorporation, as amended, to increase the number of authorized shares of Common Stock from 1,450,000,000 to 5,000,000,000 and to increase the number of authorized shares of Preferred Stock from 10,000,000 to 50,000,000. The Company currently has authorized capital stock of 1,450,000,000 shares and approximately 1,324,955,532 shares of Common Stock are outstanding and has authorized preferred stock of 10,000,000 and approximately 9,999,030 shares of Preferred Stock are outstanding as of August 13, 2009. The Board believes that the increase in authorized common and preferred shares would provide the Company greater flexibility with respect to the Company's capital structure for such purposes as additional equity financing, and stock based acquisitions.

INCREASE IN AUTHORIZED COMMON STOCK

The terms of the additional shares of Common Stock will be identical to those of the currently outstanding shares of Common Stock. However, because holders of Common Stock have no preemptive rights to purchase or subscribe for any un-issued stock of the Company, the issuance of additional shares of Common Stock will reduce the current stockholders' percentage ownership interest in the total outstanding shares of Common Stock. This amendment and the creation of additional shares of authorized common stock will not alter the current number of issued shares. The relative rights and limitations of the shares of Common Stock will remain unchanged under this amendment.

As of the Record Date, a total of 1,324,955,532 shares of the Company's currently authorized 1,450,000,000 shares of Common Stock are issued and outstanding. The increase in the number of authorized but un-issued shares of Common Stock would enable the Company, without further stockholder approval, to issue shares from time to time as may be required for proper business purposes, such as raising additional capital for ongoing operations, business and asset acquisitions, stock splits and dividends, present and future employee benefit programs and other corporate purposes.

The proposed increase in the authorized number of shares of Common Stock could have a number of effects on the Company's stockholders depending upon the exact nature and circumstances of any actual issuances of authorized but un-issued shares. The increase could have an anti-takeover effect, in that additional shares could be issued (within the limits imposed by applicable law) in one or more transactions that could make a change in control or takeover of the Company more difficult. For example, additional shares could be issued by the Company so as to dilute the stock ownership or voting rights of persons seeking to obtain control of the Company, even if the persons seeking to obtain control of the Company offer an above-market premium that is favored by a majority of the independent shareholders. Similarly, the issuance of additional shares to certain persons allied with the Company's management could have the effect of making it more difficult to remove the Company's current management by diluting the stock ownership or voting rights of persons seeking to cause such removal. The Company does not have any other provisions in its articles or incorporation, by-laws, employment agreements, credit agreements or any other documents that have material anti-takeover consequences. Additionally, the Company has no plans or proposals to adopt other provisions or enter into other arrangements, except as disclosed below, that may have material anti-takeover consequences. The Board of Directors is not aware of any attempt, or contemplated attempt, to acquire control of the Company, and this proposal is not being presented with the intent that it be utilized as a type of anti- takeover device.

There are currently no plans, arrangements, commitments or understandings for the issuance of the additional shares of Common Stock which are proposed to be authorized:

ADDITIONAL INFORMATION

As a reporting company, we are subject to the informational requirements of the Exchange Act and accordingly file our annual report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, proxy statements and other information with the SEC. The Public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at (800) SEC-0330 for further information on the Public Reference Room. As an electronic filer, our public filings are maintained on the SEC's Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is <http://www.sec.gov>. In addition, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act may be accessed free of charge through our website as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the SEC. The address of that website is <http://www.cyberlux.com>.

By Order of the Board of
Directors,

/s/John W. Ringo

John W. Ringo
Chairman of the Board

Durham, North Carolina
August 13, 2009

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EXHIBIT A

Ross Miller

Secretary of State
204 North Carson Street, Ste 1
Carson City, Nevada 89701-4299
(775 684 5708
Website: secretaryofstate.biz

Certificate of Amendment
(PURSUANT TO NRS 78.385 AND 78.390)

Certificate of Amendment to Articles of Incorporation
For Nevada Profit Corporations
(Pursuant to NRS 78.385 and 78.390 – After Issuance of Stock)

1. Name of Corporation:

Cyberlux Corporation

2. The articles have been amended as follows (provide article numbers, if available):

Article four has been amended to state that the total number of shares of stock of each class which the Corporation shall have authority to issue and the par value of each share of each class of stock are as follows:

Class	Par Value	Authorized Shares
Common	\$ 0.001	5,000,000,000
Preferred	\$ 0.001	50,000,000
Total		5,050,000,000

3. The vote by which the stockholders holding shares in the corporation entitling them to exercise at least a majority of the voting power, or such greater proportion of the voting power as may be required in the case of a vote by classes of series, or as may be by the provisions of the* articles of incorporation have voted in favor of the amendment is: 56%

4. Effective date of filing (optional)

(must not be later than 90 days after the certificate is filed)

5. Officer Signature (Required): X_____

* If any proposed amendment would alter or change any preference or any relative or other right given to any class or series of outstanding shares, the the amendment must be approved by vote. In addition to the affirmative vote otherwise required, of the holders of shares representing a majority of the voting power of each class or series affected by the amendment regardless of limitations or restrictions on the voting power thereof.

