

State Auto Financial CORP
Form 8-K
November 13, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 13, 2012 (November 6, 2012)

STATE AUTO FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction
of incorporation)

000-19289
(Commission
File Number)

31-1324304
(IRS Employer
Identification No.)

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518 East Broad Street, Columbus, Ohio
(Address of principal executive offices)

43215-3976
(Zip Code)

Registrant's telephone number, including area code: (614) 464-5000

Not Applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 2. Financial Information

Item 2.02. Results of Operations and Financial Condition.

On November 6, 2012, State Auto Financial Corporation (the **Company**) issued a press release disclosing the Company's results of operations for the three- and nine-month periods ended September 30, 2012 (the **Release**). The full text of the Release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The Release included a non-GAAP financial measure, net income (loss) from operations per diluted share. Net income (loss) from operations differs from GAAP net income (loss) only by the exclusion of realized capital gains (losses), net of applicable taxes, on investment activity for the periods being reported. For the three-month periods ended September 30, 2012 and 2011, GAAP net income (loss) was \$(0.14) per diluted share and \$(1.46) per diluted share, respectively, while net income (loss) from operations was \$(0.25) per diluted share and \$(1.62) per diluted share for the same respective periods. For the three-month periods ended September 30, 2012 and 2011, realized capital gains, net of applicable taxes, decreased the GAAP net loss per diluted share by \$0.11 and \$0.16, respectively.

Management uses net income (loss) from operations because it believes this calculation better indicates the Company's operating performance than GAAP net income (loss) in that net income (loss) from operations excludes the sometimes volatile realized capital gains/losses, net of applicable federal income taxes, that can produce inconsistent results.

The Release also included non-GAAP financial measures as to net written premium. Due to the significant changes in the Company's net written premium as a result of implementing the homeowners quota share arrangement and the 2011 pooling participation percentage changes at the end of 2011, the following non-GAAP financial measures were provided in the Release in order to enable investors to perform a meaningful comparison of the Company's current and historical net written premium:

- (1) A 2.9% increase in total net written premium for the third quarter of 2012 from the same period in 2011, which excluded the impact of the homeowners quota share arrangement⁽¹⁾ and the 2011 pooling participation percentage change⁽²⁾;
- (2) A 0.8% decrease in net written premium for the personal insurance segment for the third quarter of 2012 from the same period in 2011, which excluded the impact of the homeowners quota share arrangement⁽¹⁾ and the 2011 pooling participation percentage change⁽²⁾;
- (3) A 23.7% increase in net written premium for the business insurance segment for the third quarter of 2012 from the same period in 2011, which excluded the impact of the 2011 pooling participation percentage change⁽²⁾;
- (4) A 12.6% decrease in net written premium for the specialty insurance segment for the third quarter of 2012 from the same period in 2011, which excluded the impact of the 2011 pooling participation percentage change⁽²⁾;

- (5) A 1.9% decrease in net written premium for the personal insurance segment for the first nine months of 2012 from the same period in 2011, which excluded the impact of the homeowners quota share arrangement⁽¹⁾ and the 2011 pooling participation percentage change⁽²⁾;
- (6) A 12.0% increase in net written premium for the business insurance segment for the first nine months of 2012 from the same period in 2011, which excluded the impact of the 2011 pooling participation percentage change⁽²⁾; and
- (7) A 7.9% increase in net written premium for the specialty insurance segment for the first six months of 2012 from the same period in 2011, which excluded the impact of the 2011 pooling participation percentage change⁽²⁾.

(1) Homeowners quota share arrangement: On December 31, 2011, the State Auto Group entered into a quota share reinsurance agreement with a syndicate of unaffiliated reinsurers covering its homeowners book of business.

(2) 2011 pooling participation percentage change: As of December 31, 2011, the intercompany reinsurance pooling arrangement was amended to reduce the overall participation percentage of the Company's insurance subsidiaries from 80% to 65%.

Section 7. Regulation FD

Item 7.01. Regulation FD Disclosure.

The Company's management conducted a conference call on November 6, 2012, at approximately 10:00 a.m., ET, to review the Company's financial results for the three- and nine-month periods ended September 30, 2012, and to respond to questions from interested investors and financial analysts. A transcript of the conference call is furnished as Exhibit 99.2 to this Current Report on Form 8-K.

Section 9. Financial Statements and Exhibits

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

| Exhibit No. | Description |
|-------------|---|
| 99.1 | Press release issued by State Auto Financial Corporation on November 6, 2012, regarding results of operations for the three- and nine-month periods ended September 30, 2012. |
| 99.2 | Transcript of conference call held by management of State Auto Financial Corporation on November 6, 2012. |
| 99.3 | Press release issued by State Auto Financial Corporation on November 9, 2012. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STATE AUTO FINANCIAL CORPORATION

Date: November 13, 2012

By /s/ Steven E. English
Vice President and Chief Financial Officer

EXHIBIT INDEX

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