

National Interstate CORP  
Form DEF 14A  
March 24, 2010  
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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)

Payment of Filing Fee (Check the appropriate box):

No fee required

## Edgar Filing: National Interstate CORP - Form DEF 14A

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total Fee Paid:

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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**3250 Interstate Drive**

**Richfield, Ohio 44286**

**Notice of Annual Meeting of Shareholders  
and Proxy Statement**

**To Be Held On April 28, 2010**

Dear Shareholder:

We invite you to attend our Annual Meeting of Shareholders on Wednesday, April 28, 2010 at 9:00 AM, Eastern Daylight Saving 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.

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 proxy form.

Sincerely,

David W. Michelson

President and Chief Executive Officer

Richfield, Ohio

March 29, 2010

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

- Date:** Wednesday, April 28, 2010
- Time:** 9:00 AM Eastern Daylight Saving Time
- Place:** 3250 Interstate Drive  
Richfield, Ohio 44286
- Purpose:**
1. Elect as directors four Class II 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. Conduct other business if properly raised
- Record Date:** March 1, 2010 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 proxy form is March 29, 2010.  
**Important Notice Regarding the Availability of Proxy Materials**  
**for the Annual Meeting of Shareholders to be held on April 28, 2010:**

The proxy statement, proxy card and Annual Report on Form 10-K for the year ended December 31, 2009 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 proxy form, 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 form.

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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, 2009, including financial statements and schedules thereto, 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 Daylight Saving Time, on Wednesday, April 28, 2010, at 3250 Interstate Drive, Richfield, Ohio 44286, and at any adjournment thereof. This statement, our Annual Report to Shareholders for the fiscal year ended December 31, 2009, and the accompanying proxy will be sent to shareholders on or about March 29, 2010.

#### **Record Date; Shares Outstanding**

As of March 1, 2010, the record date for determining shareholders entitled to notice of and to vote at the meeting, we had 19,422,916 shares of common stock deemed outstanding and eligible to vote, which excludes 2,510,000 shares owned by one of our subsidiaries. Under Ohio law, shares held by subsidiaries are not entitled to vote and are therefore not considered to be outstanding for purposes of the meeting. 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.

#### **Cumulative Voting**

Shareholders have cumulative voting rights in the election of directors and one vote per share on all other matters. 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. Nominees who receive the greatest number of votes will be elected. In order to invoke cumulative voting, notice of cumulative voting must be given in writing to our Secretary not less than 48 hours before the Annual Meeting.

#### **Proxies and Voting Procedures**

Solicitation of proxies through the mail, in person and otherwise, is conducted by management at the direction of our Board of Directors, without additional compensation. We will pay all costs of soliciting proxies. 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.

Registered shareholders may vote by completing a proxy form and mailing it to our transfer agent and proxy tabulator, Computershare. To vote, shareholders should complete and sign the bottom portion of the proxy form and return only that portion to the proxy tabulator. If a choice is specified on a properly executed proxy form, the shares will be voted accordingly. If a proxy form is signed without a preference indicated, those shares will be voted FOR the election of the four nominees recommended by our Board of Directors and FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm.

Shareholders whose shares are held in the name of a broker, bank or other nominee should refer to the 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, it 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 four directors nominated by the Board of Directors is considered a non-routine matter and 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 on the election of directors at the Annual Meeting.

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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 thereof, each properly executed proxy form 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.

With respect to Proposal No. 1, the four nominees who receive the greatest number of votes will be elected. Proposal No. 2 will be adopted only if it receives approval of a majority vote of those shares cast at the meeting.

## **Adjournment and Other Matters**

Approval of a motion for adjournment or other matters brought before the meeting requires the affirmative vote of a majority of the shares voting at the meeting. We know of no other matters to be presented at the meeting other than those stated in this document.

## **MATTERS TO BE CONSIDERED**

### ***Proposal No. 1 Elect Four 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 respective authority to manage our business day-to-day and evaluating management's performance.

Our Board of Directors is currently comprised of nine 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 II directors expires at this year's Annual Meeting of Shareholders. Joseph E. (Jeff) Consolino, Theodore H. Elliott, Jr., Gary J. Gruber, Donald D. Larson and David W. Michelson are our current Class I directors. Keith A. Jensen, James C. Kennedy, Joel Schiavone and Alan R. Spachman are our current Class II directors. During 2009, the entire Board of Directors met seven times. We expect our directors to attend the Annual Meeting of Shareholders. All of our directors attended the Annual Meeting of Shareholders held on April 29, 2009. No director attended fewer than 75 percent of the aggregate number of meetings of the Board and Board committees on which he served.

After considering all relevant facts and circumstances, including those described under "Certain Relationships and Related Transactions" beginning on page 34 of this Proxy Statement, our Board of Directors has determined that three of our current nine directors, Mr. Consolino, Mr. Elliott and Mr. Schiavone, are "independent" in accordance with Nasdaq Global Select 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 Global Select 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, Great American Insurance Company holds approximately 53% of our voting power for the election of directors.

Our Board of Directors, acting on the advice of its Nominating/Governance Committee, has nominated four individuals to hold office until the 2012 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 four nominees. The four nominees who receive the greatest number of votes will be elected.



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Following are the nominees for election as Class II members of the Board of Directors and Class I directors, a description of the business experience of each nominee and director and the names of other publicly-held companies for which he 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.

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

**Keith A. Jensen**

*Director since April 2000*

Mr. Jensen has served as senior vice president of American Financial Group, Inc., parent of our largest shareholder, since 1999 and was named its chief financial officer in January 2005. Mr. Jensen joined the Great American Property and Casualty 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 Great American Insurance Company, our largest shareholder, since 1999. From February 2003 to December 2003, Mr. Jensen served on the Board of Directors of Infinity Property & Casualty Corporation. Before working with American Financial Group, Inc., Mr. Jensen was a partner with Deloitte & Touche LLP. 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.

**James C. Kennedy**

*Director since January 2005*

Mr. Kennedy has been the vice president, deputy general counsel and secretary of American Financial Group, Inc., parent of our largest shareholder, since 1998. Mr. Kennedy joined American Financial Group, Inc. in 1976, was named secretary in 1984, deputy general counsel in 1988 and vice president in 1998. We believe that Mr. Kennedy's thirty-three years of experience with corporate law, securities law, financial transactions and governance issues, particularly as they relate to a publicly held insurance holding company provide him with specific qualifications and skills to serve as a member of our Board. Mr. Kennedy is the Chair of the Nominating/Governance 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 ten years provides him with extensive knowledge about us and our business. Mr. Schiavone is a member of the Audit, Nominating/Governance and Steering Committees.

**Alan R. Spachman**

*Director since 1989*

Alan R. Spachman is our founder, and has served as Chairman since 2004. This provides him with unique qualifications to serve on our Board and as Chairman. In addition to being our founder and serving as Chairman for the last several years, Mr. Spachman served as the chief executive since 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. In addition to his more than twenty-five 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.

**Our Board of Directors recommends that shareholders vote FOR the election of the four Class II nominees as directors.**

Below is information about our Class I directors:

**Joseph E. (Jeff) Consolino**

*Director since May 2006*

Mr. Consolino is executive vice president and chief financial officer for Validus Holdings, Ltd., a Bermuda-based reinsurance company. Prior to joining Validus in March 2006, Mr. Consolino was a managing director in Merrill Lynch's Financial Institutions Group specializing in insurance company advisory and financing transactions and led the underwriting of our initial public offering, which provided him with specific experience related to our operations. Mr. Consolino has over eighteen years of experience in insurance-related financial matters, which gives him unique insurance industry financial experience that we value from a member of our Board. Mr. Consolino also currently serves as a director for AmWINS Group, Inc., a wholesale insurance brokerage based in Charlotte, North Carolina. Mr. Consolino is the Chair of the Audit Committee and a member of the Compensation Committee.

**Table of Contents****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 twenty-one years gives him historical perspective and experience with us that is 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 is an attorney and a Chartered Financial Analyst with over fifty years of investment banking and venture capital experience. Mr. Elliott is currently also a director of ION Geophysical Corporation (NYSE). 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.

**Gary J. Gruber***Director since April 1991*

Mr. Gruber serves as senior vice president of Great American Insurance Company, our largest shareholder. Mr. Gruber joined Great American Insurance Company in 1977 and has held a variety of financial, management and officer positions since 1983. Mr. Gruber has served as a director of Great American Insurance Company since 1993 and has over thirty-three years of experience with property and casualty insurance operations, financial statements, loss reserving 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 a member of the Nominating/Governance Committee.

**Donald D. Larson***Director since April 1991*

Mr. Larson served as our Chairman from 1993 until 2004. Mr. Larson has served as executive vice president and president, specialty group, for the Great American Property and Casualty Insurance Group since 1999. Mr. Larson began his career with American Financial Group, Inc., parent of our largest shareholder, in 1973 and joined Great American Insurance Company, our largest shareholder, in 1981. Mr. Larson has served as a director of Great American Insurance Company since 1988. Mr. Larson holds both a Certified Public Accountant license and a Chartered Property and Casualty Underwriter professional designation and has over thirty years of experience in the property and casualty insurance industry. We believe that Mr. Larson's prior service as our Chairman and his 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 thirty-one years of insurance industry experience including 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.

**Table of Contents*****Proposal No. 2 Ratification 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 2010, the Audit Committee expects to recommend the appointment of Ernst & Young LLP to serve as auditors for the year ending December 31, 2010. Ernst & Young LLP (or its predecessor) has served as our independent registered public accounting firm since our formation in 1989.

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, 2010. 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, 2009 and December 31, 2008, and fees billed for other services rendered by them during these periods.

	2009	2008
Audit fees (1)	\$ 780,325	\$ 788,725
Audit related fees (2)	34,368	
Tax fees (3)	44,713	15,225
All other fees (4)	2,125	2,656
<b>Total</b>	<b>\$ 861,531</b>	<b>\$ 806,606</b>

- (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.
- (2) Ernst & Young LLP's audit related fees relate primarily to assurance and consulting services.
- (3) Ernst & Young LLP's tax fees relate primarily to tax consulting services and 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, 2010.**

**Table of Contents****PRINCIPAL SHAREHOLDERS**

The following shareholders are the only persons known by us to beneficially own 5% or more of our outstanding common shares as of March 1, 2010:

<b>Name and Address of Beneficial Owner</b>	<b>Common Shares Held (1)</b>	<b>Percent of Class</b>	<b>Percent of Voting Power (2)</b>
Great American Insurance Company  530 Walnut Street  Cincinnati, Ohio 45202	10,200,000	46.5%	52.5%
T. Rowe Price Associates, Inc. (3)  100 E. Pratt Street  Baltimore, Maryland 21202	1,937,400	8.8%	10.0%
Alan R. Spachman (4)  c/o National Interstate Corporation  3250 Interstate Drive  Richfield, Ohio 44286	1,910,000	8.7%	9.8%

- (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 1, 2010.
- (2) Does not include 2,510,000 common shares held by our subsidiary, National Interstate Insurance Company. Under Ohio law, shares held by an issuer's wholly-owned subsidiary do not have voting rights and are not counted for quorum purposes.
- (3) Based on information contained in a Schedule 13G/A filed with the Securities and Exchange Commission on March 10, 2010. T. Rowe Price Associates, Inc. has sole voting power with respect to 704,200 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 1,191,400 shares, representing 6.1% of the shares outstanding. T. Rowe Price Associates, Inc. serves as investment adviser with the power to direct investments and/or sole power to vote the securities, but however, Price Associates expressly disclaims beneficial ownership of such securities.
- (4) 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. 1, which currently holds 500,000 common shares. Mr. Spachman does not have voting or dispositive power with respect to these 500,000 shares.

**Table of Contents****MANAGEMENT**

The table below provides information regarding our directors and executive officers as of March 1, 2010. There are no family relationships among any of our directors or executive officers.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director or Executive Officer Since</b>
David W. Michelson (1)	52	Director, President and Chief Executive Officer	1992
Julie A. McGraw	46	Vice President, Treasurer and Chief Financial Officer	2006
Terry E. Phillips	60	Senior Vice President	1999
Gary N. Monda	53	Vice President and Chief Investment Officer	1999
Arthur J. Gonzales	50	Vice President, General Counsel and Secretary	2009
Alan R. Spachman (9)	62	Chairman of the Board	1989
Joseph E. (Jeff) Consolino (3)(6)	43	Director	2006
Theodore H. Elliott, Jr. (2)(3)	74	Director	1991
Gary J. Gruber (4)	54	Director	1991
Keith A. Jensen (3)(5)	59	Director	2000
James C. Kennedy (8)	59	Director	2005
Donald D. Larson (4)(5)(7)	58	Director	1991
Joel Schiavone (2)(4)(5)	73	Director	2001

(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 page 5.

*Julie A. McGraw* has served as our Vice President, Treasurer and Chief Financial Officer 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. Additionally, 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.

*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.

*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

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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.

*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. In 2006, after Mr. Gonzales' departure, Vesta Shelby Select Insurance Companies went into receivership, and liquidation thereafter. 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.

**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% stockholders are required by Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) forms that they file.

Based on our review of the copies of such forms we have received, 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 fiscal year 2009 with one exception. Mr. Consolino inadvertently filed a late Form 4 reporting an acquisition of our common shares.

**Table of Contents****Securities Ownership**

The following table sets forth information, as of March 1, 2010, concerning the beneficial ownership of our equity securities by our current directors, the Named 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 1, 2010. 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.

<b>Name of Beneficial Owner</b>	<b>Number of Shares (1)</b>	<b>Percent</b>	<b>Voting Power (2)</b>
David W. Michelson (3)	245,521	1.1%	1.3%
Julie A. McGraw	32,000	*	*
Terry E. Phillips	120,000	*	*
Gary N. Monda	92,600	*	*
Arthur J. Gonzales	8,000	*	*
Alan R. Spachman	1,910,000	8.7%	9.8%
Joseph E. (Jeff) Consolino	4,276	*	*
Theodore H. Elliott, Jr.	145,200	*	*
Gary J. Gruber	1,000	*	*
Keith A. Jensen	500	*	*
James C. Kennedy	1,000	*	*
Donald D. Larson	1,000	*	*
Joel Schiavone	97,675	*	*
Directors and executive officers as a group (13 people)	2,658,772	12.0%	13.6%

\* Less than 1%.

- (1) Beneficial ownership is determined in accordance with Rule 13d-3 of the Securities Exchange Act 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 1, 2010 (Michelson 60,000; McGraw 31,800; Phillips 58,000; Monda 35,000; Gonzales 8,000). Mr. Schiavone and Mr. Elliott have 97,675 and 145,200 shares pledged as security, respectively.
- (2) Does not include 2,510,000 common shares held by our subsidiary, National Interstate Insurance Company. Under Ohio law, shares held by an issuer's wholly-owned subsidiary do not have voting rights and are not counted for quorum purposes.
- (3) Mr. Michelson's number of shares includes 84,000 shares of service based restricted stock, in which he has sole voting power.



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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 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 four directors, Joseph E. (Jeff) Consolino, Theodore H. Elliott, Jr., Keith A. Jensen and Donald D. Larson, none of whom is an employee of ours or any of our subsidiaries. Mr. Jensen and Mr. Larson are officers of Great American Insurance Company, our majority shareholder. For this reason, certain performance-based compensation, such as stock option awards, must be approved by a sub-committee of the Compensation Committee consisting solely of outside directors in order to comply with Section 162(m) of the Internal Revenue Code. 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 32. The Committee has the exclusive authority to approve bonuses, award salary adjustments and grant awards to our executive officers under our Long Term Incentive Plan. 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 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 (the "Named Executive Officers"):

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

**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.

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

annual base salary,

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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 for 2009 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 bonuses 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. We maintain two primary annual incentive plans: (1) our Management Bonus Plan and its predecessor program, historically reserved for our key managers representing approximately 10% 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 and the individual must be actively employed on the date of payment to receive the bonus.

We reserve awards under our Long Term Incentive Plan for our officers, including officers of our subsidiaries. With the exception of awards made in connection with our initial public offering completed in February 2005, we have historical