

National Interstate CORP
Form 11-K
June 25, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
AND EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number

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A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

National Interstate Savings and Profit Sharing Plan

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

National Interstate Corporation

3250 Interstate Drive

Richfield, Ohio 44286-9000

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NATIONAL INTERSTATE
SAVINGS AND PROFIT SHARING PLAN
FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM
December 31, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Plan Administrator

National Interstate Savings and Profit Sharing Plan

Richfield, Ohio

We have audited the accompanying Statement of Net Assets Available for Benefits of the NATIONAL INTERSTATE SAVINGS AND PROFIT SHARING PLAN as of December 31, 2011 and 2010, and the related Statement of Changes in Net Assets Available for Benefits for the years ended December 31, 2011 and 2010. These financial statements and supplemental schedule are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of National Interstate Savings and Profit Sharing Plan as of December 31, 2011 and 2010, and the changes in its net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of assets held for investment purposes at year end, together referred to as supplemental information, is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ MEADEN & MOORE, LTD.

Certified Public Accountants

June 25, 2012

Cleveland, Ohio

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STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

National Interstate

Savings and Profit Sharing Plan

	December 31	
	2011	2010
ASSETS		
Receivable:		
Receivable Employer contributions	\$ 840,894	\$ 662,168
Notes receivable from participants	462,088	440,565
Total Receivables	1,302,982	1,102,733
Investments (at fair value):		
MFS Fixed Fund	1,730,523	1,321,216
American Funds Growth Fund of America	1,417,853	1,549,667
Thornburg International Value	1,366,151	1,446,421
Oppenheimer Main St Small Cap	1,296,618	1,157,604
MFS Lifetime 2030	1,268,564	983,522
MFS Lifetime 2020	1,209,591	887,881
Franklin Strategic Income	1,094,815	890,138
Eaton Vance Large Cap Value	1,091,359	1,199,365
Pimco Total Return Fund	758,720	503,392
American CNT Livestrong 2045	646,803	571,515
MFS Value	539,203	461,052
MFS Conservative Allocation	505,053	340,039
National Interstate Corp Stock Fund	475,214	274,627
MFS Lifetime 2010	407,244	350,543
Victory Special Value	362,674	310,212
MFS Lifetime Retirement Income	201,027	39,447
Total Investments	14,371,412	12,286,641
Total Assets	15,674,394	13,389,374
LIABILITIES		
Net Assets Reflecting all Investments at Fair Value	15,674,394	13,389,374
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	2,826	31,957
Net Assets Available for Benefits	\$ 15,677,220	\$ 13,421,331

See accompanying notes.

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STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

National Interstate

Savings and Profit Sharing Plan

	Year Ended December 31	
	2011	2010
Additions to Net Assets Attributed to:		
Contributions:		
Employer	\$ 840,894	\$ 662,168
Participants	1,551,600	1,175,525
Rollovers	1,490,045	2,052,184
Total contributions	3,882,539	3,889,877
Interest income	17,705	12,267
Net unrealized/realized (depreciation) appreciation	(390,735)	1,231,441
Total Additions	3,509,509	5,133,585
Deductions from Net Assets Attributed to:		
Benefits paid to participants	1,251,520	649,235
Administrative expenses	2,100	1,350
Total Deductions	1,253,620	650,585
Net Increase	2,255,889	4,483,000
Net Assets Available for Benefits:		
Beginning of Year	13,421,331	8,938,331
End of Year	\$ 15,677,220	\$ 13,421,331

See accompanying notes.

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NOTES TO FINANCIAL STATEMENTS

National Interstate

Savings and Profit Sharing Plan

1 Description of Plan

The following description of The National Interstate Savings and Profit Sharing Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a complete description of the Plan's provisions.

General:

The Plan, which began March 30, 1989, is a defined contribution plan covering all employees of National Interstate Corporation and its Subsidiaries (the "Company") who meet the hour and age requirements. During 2011, the Plan was amended for updates to the Heroes Earnings Assistance and Relief Tax Act of 2008 ("HEART Act") and the Worker, Retiree, and Employer Recovery Act of 2008 ("WRERA Act").

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Effective January 1, 2010, compensation shall include all bonuses as part of eligible wages for discretionary profit sharing purposes, but shall be excluded from participant deferrals.

As of July 1, 2010, Vanliner employees who were employees of UniGroup, Inc. or an affiliate of UniGroup, Inc. shall be permitted to make rollover contributions to the Plan including any outstanding plan loan notes.

Eligibility:

Effective January 1, 2011, an eligible employee shall become a participant in the Plan as of the first day of the first month coinciding with or next following the date on which the employee who has attained the age of 18 was hired, as opposed to previous eligibility requirements which was the first of the month following their 90-days of hire.

Contributions:

Cash or Deferred Option Participants may elect to contribute to the Plan 1% to 100% of their compensation by the Company, subject to the dollar limit which is set by law.

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NOTES TO FINANCIAL STATEMENTS

National Interstate

Savings and Profit Sharing Plan

1 Description of Plan, Continued

Contributions, Continued:

Employer Contributions The Company may make discretionary profit sharing contributions. These contributions are allocated to participants who meet the eligibility requirements to share in the contribution for the Plan year. Employees must complete a year of service during the Plan year and be actively employed on the last day of the Plan year to share in this discretionary profit sharing contribution. Employees will have completed a year of service for purposes of receiving a discretionary profit sharing contribution if they are credited with at least 1,000 hours of service during a Plan year. The contribution is an amount equal to a specified percentage of employees' compensation as determined by the Company. The Company made contributions of \$840,894 and \$662,168 for the years ended 2011 and 2010, respectively.

Rollover contributions from other plans are also accepted, provided certain specified conditions are met.

Contributions are subject to limitations on annual additions and other limitations imposed by the Internal Revenue Code as defined in the Plan agreement.

On July 1, 2010, our principal insurance subsidiary, National Interstate Insurance Company (NIIC), completed the acquisition of Vanliner from UniGroup, Inc. (UniGroup). On December 31, 2010, approximately \$2,000,000 of participant account balances were rolled over into the Plan from Vanliner employees and are included as contributions from rollovers within the statement of changes in net assets available for benefits.

Participants' Accounts:

401(k) Accounts Each participant's account is credited with the participant's elective contributions, employer discretionary contributions, earnings and losses thereon.

Vesting:

All participants are 100% vested in elective deferrals and rollover contributions made to the Plan. Participants become 100% vested in Company contributions made prior to December 31, 2006, after five years of service and contributions made subsequent to December 31, 2006, after three years of service.

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NOTES TO FINANCIAL STATEMENTS

National Interstate

Savings and Profit Sharing Plan

1 Description of Plan, Continued

Forfeitures:

Forfeited non-vested accounts totaled \$8,935 and \$15,781 as of December 31, 2011 and 2010, respectively. The Company utilizes forfeiture amounts to pay Plan administrative expenses and reduce employer contributions.

Notes Receivable from Participants:

Loans are permitted under certain circumstances and are subject to limitations. The minimum loan amount is \$1,000 and only two loans can be outstanding at any time. The maximum loan amount is equal to the lesser of 50% of their vested balance or \$50,000 in accordance with the Department of Labor's regulations. Loans are repaid over a period not to exceed five years with exceptions for the purchase of a primary residence.

The loans are secured by the balance in the participant's account and bear interest. The Administrator determines a reasonable rate of interest, which is currently prime plus 1%. Principal and interest are paid ratably through payroll deductions.

Other Plan Provisions:

Normal retirement age is 65; however, a participant may elect early retirement on or after age 55. The Plan also provides for early payment of benefits after reaching age 59-1/2.

Payment of Benefits:

Upon termination of service by reason of retirement, death or total and permanent disability, a participant receives a lump sum amount equal to the vested value of his or her account unless another form of payment is elected.

Hardship Withdrawals:

Hardship withdrawals are permitted in accordance with Internal Revenue Service guidelines.

Investment Options:

Upon enrollment in the Plan, a participant may direct his or her contributions in any of the investment options offered by the Plan.

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NOTES TO FINANCIAL STATEMENTS

National Interstate

Savings and Profit Sharing Plan

2 Summary of Significant Accounting Policies

Basis of Accounting:

The Plan's transactions are reported on the accrual basis of accounting. Registered investment companies and common collective trusts are reported at fair market value as of the balance sheet date. Fair market values represent quoted market prices or, if quoted market prices are not available, estimated fair values as determined by a registered broker or investment banker. The fair value of the common collective trust, or investment contracts, are calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations. Loans are valued at cost, which approximates fair value.

As described in Financial Accounting Standards Board Staff Position, ASC-962, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. As required by the FSP, the Statements of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net assets during the reporting period. Actual results could differ from those estimates.

Administrative Fees:

Substantially all administrative fees are paid by the Company.

Plan Termination:

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts. Upon full termination of the Plan, the Employer shall direct the distribution of the assets of the Trust Fund to Participants in a manner which is consistent with and satisfies the Distribution of Benefits provision of the Plan. Distributions to a participant shall be made in cash or through the purchase of irrevocable nontransferable deferred commitments from an insurer.

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NOTES TO FINANCIAL STATEMENTS

National Interstate

Savings and Profit Sharing Plan

Risks and Uncertainties:

The Plan's investments include investments in registered investment companies and a common collective trust that have varying degrees of risk, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statement of Net Assets Available for Plan Benefits.

Subsequent Events:

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Events or transactions occurring subsequent to December 31, 2011, and prior to the date of filing have been evaluated for potential recognition or disclosure herein.

3 Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This pronouncement is effective for reporting periods beginning on or after December 15, 2011, with early adoption prohibited. The new guidance will require prospective application. The adoption of this pronouncement is not expected to have a material impact on the Plan's financial statements.

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NOTES TO FINANCIAL STATEMENTS

National Interstate

Savings and Profit Sharing Plan

4 Tax Status

The Plan sponsor has obtained an opinion letter dated December 1, 2011, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. Though the Plan has been amended, the Plan Administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan Administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan Administrator believes it is no longer subject to income tax examinations prior to 2008.

5 Investments

The Plan's funds are invested in the various registered investment companies and a common collective trust through Hartford Retirement Services. Investments which constitute more than 5% of the Plan's net assets are:

	2011	2010
MFS Fixed Fund	\$ 1,730,523	\$ 1,321,216
American Funds Growth Fund of America	\$ 1,417,853	\$ 1,549,667
Thornburg International Value	\$ 1,366,151	\$ 1,446,421
Oppenheimer Main St Small Cap	\$ 1,296,618	\$ 1,157,604
MFS Lifetime 2030	\$ 1,268,564	\$ 983,522
MFS Lifetime 2020	\$ 1,209,591	\$ 887,881
Franklin Strategic Income	\$ 1,094,815	\$ 890,138
Eaton Vance Large Cap Value	\$ 1,091,359	\$ 1,199,365

6 Party-in-Interest Transactions

Certain Plan investments in 2011 and 2010 are registered investment companies managed by Reliance Trust Company and common stock of the plan sponsor. Therefore, these transactions qualify as party-in-interest. Usual and customary fees were paid by the mutual fund for the investment management and administrative services.

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NOTES TO FINANCIAL STATEMENTS

National Interstate

Savings and Profit Sharing Plan

7 Investment Contract with Insurance Company

The Plan entered into benefit-responsive contracts with Hartford Retirement Services. Hartford Retirement Services maintain the contributions in a general account. The account represents contributions and reinvested income, less any withdrawals plus accrued interest because the investments have fully benefit-responsive features. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investments at contract value. However, withdrawals influenced by Company-initiated events, such as in connection with the sale of a business, may result in a distribution other than at contract value.

As described in Note 2, because the contract is fully benefit-responsive, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the MFS Fixed Fund. Contract value, as reported by Hartford Retirement Services, represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rate is based on a formula agreed upon with the issuer. In 2011 and 2010, the crediting interest rate with Hartford Retirement for the common collective trust was a rate not less than 0%, respectively. The interest rate is reviewed periodically for resetting.

Certain events limit the ability of the Plan to transact at contract value with the issuer. The Plan Administrator does not believe that the occurrence of any such value event that would limit the Plan's ability to transact at contract value with participants is probable.

The average yield and crediting interest rate of the contract with Hartford Retirement Services was 1.66% and 1.17% during the year ended December 31, 2011 and 2.33% and 1.49% during the year ended December 31, 2010.

	Investments at Fair Value	MFS Fixed Fund Adjustment to Contract Value	Investments at Contract Value
2011	\$ 1,730,523	\$ 2,826	\$ 1,733,349
2010	\$ 1,321,216	\$ 31,957	\$ 1,353,173

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NOTES TO FINANCIAL STATEMENTS

National Interstate

Savings and Profit Sharing Plan

8 Fair Value Measurements

The Company must determine the appropriate level in the fair value hierarchy for each applicable measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical securities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the security, either directly or indirectly. Level 2 inputs include quoted prices for similar securities in active markets, quoted prices for identical or similar securities that are not active and observable inputs other than quoted prices, such as interest rate and yield curves. Level 3 inputs are unobservable inputs for the asset or liability. The Company uses the market approach valuation technique for all investments.

Level 1 consists of mutual funds that are registered investment companies and whose fair values are based on net asset values (NAV's) that are readily and regularly available in an active market and a company common stock fund whose fair value is based on quoted prices of the Company's common stock which is readily and regularly available in an active market. Level 2 consists of a Common collective trust whose fair value is based on quoted prices in both markets that are active and not active. There are no Level 3 investments at December 31, 2011 and 2010.

The following tables present the Plan's investments categorized by the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2011 and 2010:

	December 31, 2011		
	Level 1	Level 2	Total
Investments:			
Mutual funds:			
Balanced funds	\$ 4,238,282	\$	\$ 4,238,282
Growth funds	6,073,858		6,073,858
Fixed income funds	1,853,535		1,853,535
Total mutual funds	12,165,675		12,165,675
Company stock fund	475,214		475,214
Common collective trust		1,730,523	1,730,523
Total investments	\$ 12,640,889	\$ 1,730,523	\$ 14,371,412

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NOTES TO FINANCIAL STATEMENTS

National Interstate

Savings and Profit Sharing Plan

8 Fair Value Measurements, Continued

	Level 1	December 31, 2010 Level 2	Total
Investments:			
Mutual funds:			
Balanced funds	\$ 3,172,947	\$	\$ 3,172,947
Growth funds	6,124,321		6,124,321
Fixed income funds	1,393,530		1,393,530
Total mutual funds	10,690,798		10,690,798
Company stock fund	274,627		274,627
Common collective trust		1,321,216	1,321,216
Total investments	\$ 10,965,425	\$ 1,321,216	\$ 12,286,641

The Company uses the end of the reporting period as its policy for determining transfers into and out of each level. There were no significant transfers between Level 1 and Level 2 during the years ended December 31, 2011 and 2010.

9 Subsequent Events

As of January 1, 2012, the Plan added a Roth option which allows participants to make after-tax contributions to their accounts.

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SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES AT END OF YEAR

Form 5500, Schedule H, Part IV, Line 4i

National Interstate

Savings and Profit Sharing Plan

34-1607396

Plan Number 001

December 31, 2011

(a)	(b)	(c)	(d)	(e)
or Similar Party	Identity of Issue, Borrower, Lessor,	Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	Cost	Current Value
*	MFS Lifetime Retirement Income	Registered Investment Company	N/A	\$ 201,027
*	MFS Conservative Allocation	Registered Investment Company	N/A	505,053
*	National Interstate Corp Stock Fund	Common Stock	N/A	475,214
*	Victory Special Value	Registered Investment Company	N/A	362,674
*	PIMCO Total Return Fund	Registered Investment Company	N/A	758,720
*	MFS Lifetime 2010	Registered Investment Company	N/A	407,244
*	MFS Value	Registered Investment Company	N/A	539,203
*	American CNT Livestrong 2045	Registered Investment Company	N/A	646,803
*	MFS Lifetime 2020	Registered Investment Company	N/A	1,209,591
*	MFS Lifetime 2030	Registered Investment Company	N/A	1,268,564
*	Franklin Strategic Income	Registered Investment Company	N/A	1,094,815
*	Oppenheimer Main St Small Cap	Registered Investment Company	N/A	1,296,618
*	Eaton Vance Large Cap Value	Registered Investment Company	N/A	1,091,359
*	American Funds Growth Fund of America -R3	Registered Investment Company	N/A	1,417,853
*	Thornburg International Value	Registered Investment Company	N/A	1,366,151
*,^^	MFS Fixed Fund	Common Collective Trust	N/A	1,733,349
		Subtotal investments		14,374,238
*	Participant Loans	(interest at 3.25% to 10.25% at various maturity dates)	N/A	462,088
				\$ 14,836,326

* Party-in-interest to the Plan.

^^ Amount reported at contract value.

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SIGNATURES

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

National Interstate Savings and Profit Sharing Plan

By: /s/ Julie A. McGraw
Julie A. McGraw
Vice President and Chief Financial Officer

Date: June 25, 2012