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ERIE INDEMNITY CO  
Form DEF 14A  
March 31, 2003

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant [X]  
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 ss.240.14a-12

Erie Indemnity Company

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- 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:  
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- 5) Total fee paid:  
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- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by the 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:  
.....
- 2) Form, Schedule or Registration Statement No.:  
.....
- 3) Filing Party:  
.....
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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD APRIL 29, 2003

To the Holders of Class A Common Stock and Class B Common Stock of ERIE INDEMNITY COMPANY:

The Annual Meeting of Shareholders of Erie Indemnity Company (the "Company") will be held at 3:00 p.m., local time, on Tuesday, April 29, 2003, at the Auditorium of the F. W. Hirt-Perry Square Building, 100 Erie Insurance Place (Sixth and French Streets), Erie, Pennsylvania 16530 for the following purposes:

1. To elect 15 Directors of the Company to serve until the Company's 2004 Annual Meeting of Shareholders and until their successors are elected;
2. To consider and act upon a proposal to approve a change to the Company's Long-Term Incentive Plan; and
3. To transact such other business as may properly come before the Annual Meeting and any adjournment, postponement or continuation thereof.

The Board of Directors has fixed the close of business on Friday, March 7, 2003 as the record date for the determination of the holders of Class B Common Stock entitled to notice of and to vote at the Annual Meeting. Holders of Class A Common Stock do not have the right to vote on any of the matters to be acted upon at the Annual Meeting.

In the event that the Annual Meeting is adjourned, pursuant to Section 1756(b)(1) of the Pennsylvania Business Corporation Law of 1988 (the "BCL"), those shareholders entitled to vote who attend a meeting of shareholders that was previously adjourned for lack of a quorum shall constitute a quorum for the purpose of electing directors even though the number of shareholders present at such adjourned meeting constitutes less than a quorum as fixed in the Company's Bylaws.

For purposes other than the election of directors, pursuant to Section 1756(b)(2) of the BCL, those shareholders entitled to vote who attend a meeting of shareholders that was previously adjourned for one or more periods aggregating at least 15 days because of an absence of a quorum, shall constitute a quorum for acting upon any matter set forth in this notice even though the number of shareholders present at such adjourned meeting constitute less than a quorum as fixed in the Company's Bylaws.

This Notice and Proxy Statement, together with a copy of the Company's Annual Report for the year ended December 31, 2002, are being sent to all holders of Class A Common Stock and Class B Common Stock. Holders of Class B Common Stock will also receive a form of proxy in accordance with Securities and Exchange Commission rules.

Holders of Class B Common Stock are requested to complete, sign and return the enclosed form of proxy in the envelope provided, whether or not they expect to attend the Annual Meeting in person.

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By Order of the Board of Directors,

/s/ Jan R. Van Gorder

Jan R. Van Gorder,  
Senior Executive Vice President,  
Secretary and General Counsel

April 1, 2003  
Erie, Pennsylvania

ERIE INDEMNITY COMPANY  
100 Erie Insurance Place  
Erie, Pennsylvania 16530

PROXY STATEMENT

This Proxy Statement, which is first being mailed to the holders of Class A Common Stock and Class B Common Stock of Erie Indemnity Company (the "Company") on or about April 1, 2003, is furnished in connection with the solicitation of proxies by the Board of Directors of the Company from holders of Class B Common Stock to be voted at the Annual Meeting of Shareholders to be held at 3:00 p.m., local time, on Tuesday, April 29, 2003 and at any adjournment, postponement or continuation thereof (the "Annual Meeting") at the Auditorium of the F.W. Hirt-Perry Square Building, 100 Erie Insurance Place (Sixth and French Streets), Erie, Pennsylvania 16530. Holders of Class B Common Stock will also receive a form of proxy in accordance with Securities and Exchange Commission ("SEC") rules.

Shares of Class B Common Stock represented by proxies in the accompanying form, if properly signed and returned, will be voted in accordance with the specifications made thereon by the holders of Class B Common Stock. Any proxy representing shares of Class B Common Stock not specifying to the contrary will be voted for the election of the candidates for director named below who were nominated by the Nominating Committee of the Company's Board of Directors and for the approval of a change to the Company's Long-Term Incentive Plan (the "LTIP"). See "Other Matters" for a discussion of additional limited discretionary voting authority. A holder of Class B Common Stock who signs and returns a proxy in the accompanying form may revoke it at any time before it is voted by giving written notice of revocation to the Secretary of the Company, by furnishing a duly executed proxy bearing a later date to the Secretary of the Company or by attending the Annual Meeting and voting in person.

The cost of solicitation of proxies in the accompanying form will be borne by the Company, including expenses in connection with preparing and mailing this Proxy Statement. Such solicitation will be made by mail and may also be made on behalf of the Company in person or by telephone by the Company's regular officers and employees, none of whom will receive special compensation for such services. The Company, upon request therefor, will also reimburse brokers, nominees, fiduciaries and custodians or persons holding shares of Class B Common Stock in their names or in the names of nominees for their reasonable

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expenses in forwarding the Company's proxy material to beneficial owners.

Only holders of Class B Common Stock of record at the close of business on March 7, 2003 are entitled to vote at the Annual Meeting. Each share of Class B Common Stock is entitled to one vote on each matter considered at the Annual Meeting. Except as may be otherwise provided in Sections 1756(b)(1) and (2) of the Pennsylvania Business Corporation Law of 1988 (the "BCL") in the case of adjourned meetings, a majority of the outstanding shares of Class B Common Stock will constitute a quorum at the Annual Meeting for the election of directors, and for approval of the change to the LTIP. Cumulative voting rights do not exist with respect to the election of directors. The 15 candidates for election as a director who receive the largest number of votes cast by the holders of

Class B Common Stock in person or by proxy at the Annual Meeting will be elected as directors. The approval of the change to the LTIP will require the affirmative vote of a majority of the votes cast at the Annual Meeting by the holders of Class B Common Stock. Shares of Class B Common Stock held by brokers or nominees as to which voting instructions have not been received from the beneficial owner or person otherwise entitled to vote and as to which the broker or nominee does not have discretionary voting power, i.e., broker nonvotes, will be treated as not present and not entitled to vote for nominees for election as directors or for approval of the change to the LTIP. Abstentions will be treated as the withholding of authority to vote for nominees for election as directors or for approval of the change to the LTIP. Abstentions from voting and broker nonvotes will have no effect on the election of directors or the approval of the change to the LTIP because they will not represent votes cast at the Annual Meeting.

As of the close of business on March 7, 2003, the Company had 64,061,106 outstanding shares of Class A Common Stock, which are not entitled to vote on the matters to be acted upon at the Annual Meeting, and 2,890 shares of Class B Common Stock, which have the exclusive right to vote on all matters to be acted upon at the Annual Meeting.

The H.O. Hirt Trusts collectively own 2,340 shares of Class B Common Stock, which, because such shares represent 80.97% of the outstanding shares of Class B Common Stock, is sufficient to determine the outcome of any matter submitted to a vote of the holders of the Class B Common Stock, assuming all of the shares held by the H.O. Hirt Trusts are voted in the same manner. The trustees of the H.O. Hirt Trusts as of the record date for the Annual Meeting are F. William Hirt ("Mr. Hirt"), Susan Hirt Hagen ("Mrs. Hagen") and Bankers Trust Company of New York, which is also known as Deutsche Bank ("Bankers Trust").

On March 3, 1999, Bankers Trust filed a petition with the Orphans' Court Division of the Court of Common Pleas of Erie County, Pennsylvania (the "Court") requesting that the Court accept the resignation of Bankers Trust as corporate trustee of the H.O. Hirt Trusts as a result of conflicts of interest that Bankers Trust believed existed as a result of certain insurance operations conducted by Bankers Trust's parent company and affiliates. Also, an affiliate of Bankers Trust, Deutsche Bank, is one of the largest market makers in the Company's Class A Common Stock. On May 7, 1999, the Court issued an Order accepting the resignation of Bankers Trust at such time as the Court appoints a successor corporate trustee. As of the date of this Proxy Statement, two successor corporate trustee candidates: First Union National Bank, which is supported by Mr. Hirt, and Sentinel Trust Company, which is supported by Mrs. Hagen, have presented testimony to the Court in this matter. Subsequent to that testimony, Laurel Hirt, a daughter of Mr. Hirt and a beneficiary of the H.O. Hirt Trusts, filed a petition requesting that the Court also consider a third

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successor corporate trustee candidate that is not supported by Mr. Hirt. Mr. Hirt has filed a petition objecting to Laurel Hirt's petition. Both Laurel Hirt's and Mr. Hirt's petitions are currently pending.

The Company does not know whom the Court will appoint as successor corporate trustee, but it is unlikely such appointment will be effective before the Annual Meeting.

Under the provisions of the H.O. Hirt Trusts, the shares of Class B Common Stock held by the H.O. Hirt Trusts are to be voted as directed by a majority of trustees then in office. If at least a majority of the trustees then in office of both of the H.O. Hirt Trusts vote for the election of the 15

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candidates for director named below, who have been nominated by the Nominating Committee of the Company's Board of Directors, and for approval of the change to the LTIP, such candidates will be elected as directors of the Company and the change to the LTIP will be approved, even if all shares of Class B Common Stock other than those held by the H.O. Hirt Trusts are not voted for such candidates or for such approval. The Company has not been advised as of the date of this Proxy Statement, however, how the trustees of the H.O. Hirt Trusts intend to vote at the Annual Meeting.

Reference is made to "Legal Proceedings" in this Proxy Statement for further information regarding litigation involving the H.O. Hirt Trusts.

The Company operates predominantly as a provider of management services to Erie Insurance Exchange (the "Exchange"). The Company also operates as a property and casualty insurer through its subsidiaries. Since 1925, the Company has served as the attorney-in-fact for the policyholders of the Exchange. The Exchange is a reciprocal insurance exchange, which is an unincorporated association of individuals, partnerships and corporations that agree to insure one another. Each applicant for insurance from the Exchange signs a subscriber's agreement, which contains an appointment of an attorney-in-fact. As attorney-in-fact, the Company is required to perform certain services relating to the sales, underwriting and issuance of policies on behalf of the Exchange.

The Exchange and its property and casualty insurance subsidiaries and the Company's three property and casualty insurance subsidiaries (the "Property and Casualty Group") write personal and commercial lines property and casualty coverages exclusively through approximately 8,000 independent agents and pool their underwriting results. The financial results of the Company and the Exchange are not consolidated. As a result of the Exchange's 94.5% participation in the underwriting results of the Property and Casualty Group, the underwriting risk of the Property and Casualty Group's business is largely borne by the Exchange.

The Company charges the Exchange a management fee calculated as a percentage, limited to 25%, of the direct written premiums of the Property and Casualty Group. Management fees accounted for 77%, 78% and 74%, respectively, of the Company's revenues for the three years ended December 31, 2002, 2001 and 2000. The management fee rate was 25% in each of those years, and is currently 24%.

The Company's property and casualty insurance subsidiaries are Erie Insurance Company ("Erie Insurance Co."), Erie Insurance Company of New York ("Erie NY") and Erie Insurance Property & Casualty Company ("EI P&C"). In addition, the Company holds investments in both affiliated and unaffiliated

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entities, including a 21.6% interest in the common stock ("EFL Common Stock") of Erie Family Life Insurance Company ("EFL"), a life insurance company. The Exchange has a 53.5% interest in the EFL Common Stock.

### BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth as of February 28, 2003 the amount of the outstanding Class A Common Stock and Class B Common Stock of the Company and shares of EFL Common Stock beneficially owned by (i) each person who is known by the Company to own beneficially more than

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5% of the Company's Class A Common Stock or Class B Common Stock or EFL Common Stock, (ii) each director and candidate for director nominated by the Nominating Committee, (iii) each executive officer named in the Summary Compensation Table and (iv) all executive officers and directors of the Company as a group.

Name of Individual or Identity of Group -----	Shares of Class A Common Stock Beneficially Owned(1) (2) -----	Percent of Outstanding Class A Common Stock(3) -----	Shares of Class B Common Stock Beneficially Owned(1) (2) -----	Percent of Outstanding Class B Common Stock -----
5% or Greater Holders:				
Black Interests				
Limited Partnership(4) Erie, Pennsylvania	5,726,250	8.94%	390	13.49%
Samuel P. Black, III(4) (5) * Erie, Pennsylvania	5,880,430	9.18%	410	14.19%
Hagen Family				
Limited Partnership(6) Erie, Pennsylvania	10,092,900	15.76%	1	---
H.O. Hirt Trusts(7) Erie, Pennsylvania	---	---	2,340	80.97%
Susan Hirt Hagen(6) (7) (8) * Erie, Pennsylvania	16,752,130	26.15%	2,353	81.42%
Hirt Family Limited Partnership(9) Erie, Pennsylvania				
	11,830,000	18.47%	---	---
F. William Hirt(7) (9) (10) * Erie, Pennsylvania	12,718,690	19.85%	2,360	81.66%
Erie Insurance Exchange				

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Erie, Pennsylvania	---	---	---	---
Erie Indemnity Company Erie, Pennsylvania	---	---	---	---
Directors and Nominees for Director(11):				
Kaj Ahlman	---	---	---	---
John T. Baily	---	---	---	---
J. Ralph Borneman, Jr.*	50,430	---	---	---
Wilson C. Cooney	---	---	---	---
Patricia Garrison-Corbin*	530	---	---	---
John R. Graham	---	---	---	---
C. Scott Hartz	---	---	---	---
Samuel P. Katz*	930	---	---	---
Claude C. Lilly, III*	930	---	---	---
Jeffrey A. Ludrof*	5,223	---	---	---
Henry N. Nassau*	1,030	---	---	---
John M. Petersen(12)*	2,260,467	3.53%	1	---
Jan R. Van Gorder*	124,911	---	1	---
Robert C. Wilburn*	2,430	---	---	---

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Name of Individual or Identity of Group -----	Shares of Class A Common Stock Beneficially Owned(1) (2) -----	Percent of Outstanding Class A Common Stock(3) -----	Shares of Class B Common Stock Beneficially Owned(1) (2) -----	Percent of Outstanding Class B Common Stock -----
Executive Officers(13):				
John J. Brinling, Jr.	17,332	---	---	---
Philip A. Garcia	92,489	---	---	---
Douglas F. Ziegler	107,000	---	---	---
All Directors, Nominees for Director and Executive Officers as a Group (22 persons)	38,017,206	59.35%	2,785	96.37%

\* Represents incumbent director.

(1) Information furnished by the named persons.

(2) Under the rules of the SEC, a person is deemed to be the beneficial owner of securities if the person has, or shares, "voting power" (which includes the power to vote, or to direct the voting of, such securities) or "investment power" (which includes the power to dispose, or to direct the disposition, of such securities). Under these rules, more than one person may be deemed to be the beneficial owner of the same securities. Securities beneficially owned also include securities owned jointly, in whole or in part,

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or individually by the person's spouse, minor children or other relatives who share the same home. The information set forth in the above table includes all shares of Class A Common Stock and Class B Common Stock and all shares of EFL Common Stock over which the named individuals, individually or together, share voting power or investment power. The table does not reflect shares of Class A Common Stock issuable upon conversion of shares of Class B Common Stock, each of which is currently convertible into 2,400 shares of Class A Common Stock.

- (3) Less than 1% unless otherwise indicated.
- (4) Mr. Black is the managing general partner and a limited partner of the Black Interests Limited Partnership. Mr. Black has the right to vote the shares held by the Black Interests Limited Partnership. If all of the 390 shares of Class B Common Stock beneficially owned by the Black Interests Limited Partnership were converted into Class A Common Stock, the maximum number of shares of Class A Common Stock that the Black Interests Limited Partnership could be deemed to own beneficially would be 6,662,250 shares of Class A Common Stock, or 10.25% of the then outstanding shares of Class A Common Stock.
- (5) Mr. Black owns 130,180 shares of Class A Common Stock directly and 24,000 shares of Class A Common Stock indirectly through Samuel P. Black & Associates, Inc., of which Mr. Black is President and for which Mr. Black has the right to vote the shares. Mr. Black also owns 10 shares of Class B Common Stock directly and 10 shares of Class B Common Stock indirectly as executor of his father's estate. Mr. Black's beneficial ownership of Class A Common Stock and Class B Common Stock also includes the 5,726,250 shares of Class A Common Stock and

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the 390 shares of Class B Common Stock owned by the Black Interests Limited Partnership as described in footnote (4). The maximum number of shares of Class A Common Stock that Mr. Black could be deemed to own beneficially, including shares of Class A Common Stock issuable upon conversion of Class B Common Stock, would be 6,864,430 shares of Class A Common Stock, or 10.55% of the then outstanding shares of Class A Common Stock.

- (6) Mrs. Hagen and her husband, Thomas B. Hagen, are limited partners of the Hagen Family Limited Partnership and Mr. Hagen is the general partner. As the general partner of the Hagen Family Limited Partnership, Mr. Hagen has sole voting power and investment power over the shares owned by the partnership. If the shares of Class B Common Stock beneficially owned by the Hagen Family Limited Partnership were converted into Class A Common Stock, the maximum number of shares of Class A Common Stock that the Hagen Family Limited Partnership could be deemed to own beneficially would be 10,095,300 shares of Class A Common Stock, or 15.76% of the then outstanding shares of Class A Common Stock.
- (7) There are two H.O. Hirt Trusts, one for the benefit of Mr. Hirt and one for the benefit of Mrs. Hagen. Each of the H.O. Hirt Trusts is the record owner of 1,170 shares of Class B Common Stock, or 40.48% of the outstanding shares of Class B Common Stock. The trustees of the H.O. Hirt Trusts as of the date of this Proxy Statement are Mr.



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Hirt, Mrs. Hagen and Bankers Trust. Mr. Hirt and Mrs. Hagen, who are brother and sister, are each deemed the beneficial owner of the 2,340 shares of Class B Common Stock held by the H.O. Hirt Trusts and, as Co-Trustees, along with Bankers Trust, have shared voting power over the 2,340 shares of Class B Common Stock held by the H.O. Hirt Trusts. If all 2,340 shares of Class B Common Stock the H.O. Hirt Trusts own were converted into Class A Common Stock, the maximum number of shares of Class A Common Stock that could be deemed beneficially owned by the H.O. Hirt Trusts would be 5,616,000 shares of Class A Common Stock, or 8.06% of the then outstanding shares of Class A Common Stock.

- (8) Mrs. Hagen owns 730 shares of Class A Common Stock directly and 6,658,500 shares of Class A Common Stock indirectly through a revocable trust of which Mrs. Hagen was the grantor and is the sole trustee and beneficiary. Mrs. Hagen owns 12 shares of Class B Common Stock directly. Also included are the 10,092,900 shares of Class A Common Stock and one share of Class B Common Stock owned by the Hagen Family Limited Partnership as described in footnote (6) and the 2,340 shares of Class B Common Stock owned by the H.O. Hirt Trusts as described in footnote (7). Thomas B. Hagen, Mrs. Hagen's husband, disclaims beneficial ownership of the shares of Class A Common Stock and Class B Common Stock owned by Mrs. Hagen. Mrs. Hagen disclaims beneficial ownership of the 5,100 shares of Class A Common Stock and three shares of Class B Common Stock owned by Mr. Hagen and such shares are not reported in the table. The maximum number of shares of Class A Common Stock that could be deemed beneficially owned by Mrs. Hagen, Mr. Hagen and the Hagen Family Limited Partnership, including shares of Class A Common Stock issuable upon conversion of Class B Common Stock, would be 22,411,630 shares of Class A Common Stock, or 32.15% of the then outstanding shares of Class A Common Stock.

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- (9) Mr. Hirt is the general and a limited partner of the Hirt Family Limited Partnership. As the general partner of the Hirt Family Limited Partnership, Mr. Hirt has the sole right to vote such shares.
- (10) Mr. Hirt owns 888,690 shares of Class A Common Stock directly. Mr. Hirt also owns 20 shares of Class B Common Stock directly. Mr. Hirt's beneficial ownership of Class A Common Stock and Class B Common Stock also includes the 11,830,000 shares of Class A Common Stock owned by the Hirt Family Limited Partnership as described in footnote (9) and the 2,340 shares of Class B Common Stock owned by the H.O. Hirt Trusts as described in footnote (7). Mr. Hirt disclaims beneficial ownership of the 888,260 shares of Class A Common Stock owned by his wife, Audrey Hirt, and such shares are not reported in the table. The maximum number of shares of Class A Common Stock that could be deemed beneficially owned by Mr. Hirt, Mrs. Hirt and the Hirt Family Limited Partnership, including shares of Class A Common Stock issuable upon conversion of Class B Common Stock, would be 19,270,950 shares of Class A Common Stock, or 27.65% of the then outstanding shares of Class A Common Stock.

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- (11) Excludes directors listed under "5% or Greater Owners."
- (12) Mr. Petersen disclaims beneficial ownership of 120,000 shares of Class A Common Stock owned by his wife, Gertrude E. Petersen, which have been included in the total listed herein. The total also includes 200,000 shares held by the Petersen Family Limited Partnership. Mr. Petersen is the general partner of the Petersen Family Limited Partnership and has the sole right to vote such shares.
- (13) Excludes executive officers listed under "Directors." Also excludes 28,432 shares owned by the estate of Stephen A. Milne, who served as Chief Executive Officer of the Company until January 2002 and as a director until July 2002, and 4,588 shares owned by Mr. Milne's wife. Mr. Milne died in September 2002.
- (14) Mr. Black owns 2,730 shares indirectly through Samuel P. Black & Associates, Inc., of which Mr. Black is President. The 110,012 shares also include 1,000 shares owned indirectly by Mr. Black as executor of his father's estate; 41,803 shares owned indirectly by Mr. Black through the Samuel P. Black, Jr. 1996 Charitable Remainder Unitrust of which Mr. Black is a beneficiary and 60,000 shares owned indirectly by Mr. Black through the Black Family Foundation of which Mr. Black is an officer. Mr. Black directly owns 4,479 shares.
- (15) Includes 300 shares owned directly by Mrs. Hagen and 154,182 shares owned indirectly by Mrs. Hagen through the Hagen Family Limited Partnership as described in footnote (6). Mrs. Hagen disclaims beneficial ownership of 300 shares held by Thomas B. Hagen, Mrs. Hagen's husband, and these shares are not included in the table.
- (16) Mr. Hirt owns 100 shares directly and 166,934 shares indirectly through the Hirt Family Limited Partnership as described in footnote (9).
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- (17) Of this total, 30,000 shares are held by Mr. Petersen's wife, Gertrude E. Petersen, as to which Mr. Petersen disclaims beneficial ownership.
- (18) Of this total, 30 shares are held directly by Mr. Van Gorder and each of his three sons owns 15 shares.
- (19) Includes 630 shares held directly by Mr. Brinling, 315 shares held in an IRA for Mr. Brinling and 315 shares held in an IRA for his wife.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires that the officers and directors of a corporation that has a class of equity securities registered under Section 12 of the Exchange Act, as well as persons who own 10% or more of a class of equity securities of such a corporation, file reports of ownership of such securities, as well as statements of changes in such ownership, with the corporation and the SEC. Except as provided below, based upon written representations received by the Company from its officers and directors and 10% or greater shareholders, and the Company's review of filings made with the Company by its officers and directors

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and 10% or greater shareholders during 2002, the Company believes that all such filings required during 2002 were made on a timely basis. A Form 5 Report was required to be filed in February 2003 by Stephen A. Milne, the Company's Chief Executive Officer until January 2002 and a director until July 2002, with respect to his receipt of shares under the LTIP in 2002. Mr. Milne died in September 2002. The Company filed the report on behalf of Mr. Milne in March 2003 to correct the deficiency. Eric D. Root, Senior Vice President of the Company, untimely filed a Form 4 Report on January 9, 2003 for one sale of Class A Common Stock sold on December 23, 2002. Mr. Hirt, the Chairman of the Company's Board of Directors, untimely filed a Form 4 Report on January 2, 2003 for 16 separate gifts of Class A Common Stock, all of which were made on December 23, 2002.

### PROPOSAL 1 ELECTION OF DIRECTORS

#### Introduction

The election of directors of the Company by the holders of its Class B Common Stock is governed by provisions of the Pennsylvania Insurance Holding Companies Act in addition to provisions of the BCL, the Pennsylvania Associations Code and the Company's Bylaws. The following discussion summarizes these statutory provisions and describes the process undertaken by the Nominating Committee in connection with the nomination of candidates for election as directors by the holders of Class B Common Stock at the Annual Meeting.

#### Background of the Company's Nominating Committee

Section 1405(c)(4) of the Pennsylvania Insurance Holding Companies Act, which is applicable to the Company, provides that the board of directors of a domestic insurer shall establish one or more

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committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity, and that such committee or committees shall have responsibility for recommending the selection of the insurer's independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the insurer's independent audit and any internal audit, nominating candidates for director for election by the shareholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers.

Section 3.09 of the Company's Bylaws is consistent with this statutory provision and provides that (i) the Company's Board of Directors shall appoint annually a Nominating Committee that shall consist of not less than three directors who are not officers or employees of the Company or of any entity controlling, controlled by or under common control with the Company and who are not beneficial owners of a controlling interest in the voting securities of the Company and (ii) the Nominating Committee shall, prior to each annual meeting of shareholders, determine and nominate candidates for the office of director of the Company to be elected by the shareholders to serve terms as established by the Bylaws and until their successors are elected.

In accordance with this Bylaw provision, on April 30, 2002, the Company's Board of Directors designated a Nominating Committee consisting of

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John M. Petersen, Chair, Samuel P. Black, III, J. Ralph Borneman, Jr., Patricia Garrison-Corbin and Robert C. Wilburn. None of these persons is an officer or employee of the Company or of any entity controlling, controlled by or under common control with the Company or a beneficial owner of a controlling interest in the voting stock of the Company or any such entity.

### Establishment of Shareholder Nominating Procedures

On August 16, 1999, the Company's Board of Directors voted to amend the Company's Bylaws by adding Section 2.07(a) to the Company's Bylaws for the purpose of establishing a fair and reasonable procedure by which any holder of Class A Common Stock or Class B Common Stock could propose to the Nominating Committee one or more persons whom the shareholder believes would be an appropriate candidate for nomination by the Nominating Committee for election as a director by the holders of Class B Common Stock at a forthcoming meeting of shareholders at which directors are to be elected. The Company believes such a procedure is an important shareholder right, and that proposals from shareholders assist the Nominating Committee in the exercise of its responsibility to nominate candidates for election as directors by the holders of Class B Common Stock. Section 2.07(a) of the Company's Bylaws establishes a time period in which any such proposal must be submitted, and specifies the information required to be submitted about any person so proposed in order that the Nominating Committee has adequate time and information to review the information submitted, interview the proposed candidate if the Nominating Committee so desires and determine whether to nominate the person proposed as a candidate for election as a director by the holders of Class B Common Stock.

Under Section 2.07(a) of the Company's Bylaws, the names of persons proposed to the Nominating Committee and the requisite supporting information in respect of directors to be elected

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by shareholders at the Annual Meeting were required to be submitted not before December 2, 2002 and not later than January 1, 2003.

Mrs. Hagen, by a letter to the Company dated December 30, 2002, proposed the following 12 persons: Kenneth B. Frank, Susan Hirt Hagen, Michael H. Herschok, Louis V. Imundo, Jr., Claude C. Lilly, III, Henry N. Nassau, Ajay Patel, Richard J. Pinola, William Schwartz, William H. Starbuck, Richard L. Stover and Daniel J. Whelan (collectively, the "Hagen Nominees"), for consideration by the Nominating Committee for nomination as candidates for election as directors by holders of Class B Common Stock at the Annual Meeting. Of the Hagen Nominees, Mrs. Hagen and Messrs. Lilly and Nassau are currently directors of the Company and Mrs. Hagen and Mr. Lilly have been nominated for re-election by the Nominating Committee. Mrs. Hagen's letter stated, however, that if any of the incumbent independent directors are not nominated by the Nominating Committee when it announces its slate, Mrs. Hagen reserves the right to renominate any or all of them at the Annual Meeting. Mrs. Hagen also stated that, in the event that the size of the Board is increased beyond 13, Mrs. Hagen reserves the right to propose additional candidates for the consideration of the Nominating Committee and the shareholders. See "Mrs. Hagen's Shareholder Proposals".

Mr. Hirt, by a letter to the Company dated December 10, 2002, proposed Cyrus R. Wellman for consideration by the Nominating Committee for nomination as a candidate for election as director by shareholders at the Annual Meeting. Jeffrey A. Ludrof, by a letter to the Company dated December 30, 2002, proposed John R. Graham for consideration by the Nominating Committee for nomination as a candidate for election as director by shareholders at the Annual Meeting.

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Actions Taken by the Nominating Committee

The Nominating Committee met on March 7, 2003 for the purpose of nominating candidates for election as directors by the holders of Class B Common Stock at the Annual Meeting. The Nominating Committee recommended to the Board of Directors that the size of the Company's Board of Directors be increased to 15 persons and the Nominating Committee nominated persons for election as directors by the holders of Class B Common Stock at the Annual Meeting of whom ten are currently directors of the Company (Samuel P. Black, III, J. Ralph Borneman, Jr., Patricia Garrison-Corbin, Mrs. Hagen, Mr. Hirt, Samuel P. Katz, Claude C. Lilly, III, Jeffrey A. Ludrof, Jan R. Van Gorder and Robert C. Wilburn) and of whom five are not currently directors of the Company (Kaj Ahlman, John T. Baily, Wilson C. Cooney, John R. Graham and C. Scott Hartz).

On March 11, 2003, the Board of Directors accepted the Report of the Nominating Committee and approved the nomination by the Nominating Committee of the 15 candidates for election as directors by the holders of Class B Common Stock at the Annual Meeting set forth under "Candidates for Election."

Candidates for Election

The Company's Bylaws provide that the Board of Directors shall consist of not less than 7, nor more than 16, directors, with the exact number to be fixed from time to time by resolution of the Board of Directors. The Board of Directors has, by resolution, set the number of directors to be elected at the Annual Meeting at 15.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the election of the nominees named below, all of whom are currently Directors of the Company with the exception of Kaj Ahlman, John T. Baily, Wilson C. Cooney, John R. Graham and C. Scott Hartz, each of whom was nominated for election as a director by the Nominating Committee of the Board of Directors. If a nominee becomes unavailable for any reason, it is intended that the proxies will be voted for a substitute nominee selected by the Nominating Committee of the Board of Directors. The Board of Directors has no reason to believe the nominees named will be unable to serve if elected. Any vacancy occurring on the Board of Directors for any reason may be filled by a majority vote of the directors then remaining in office until the next succeeding annual meeting of the Company's shareholders.

The names of the candidates for director nominated by the Nominating Committee, together with certain information regarding them, are as follows:

Name	Age as of 4/1/03	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
Kaj Ahlman	52	Chairman and Chief Executive Officer,

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Inreon, internet reinsurance venture, 2001 to present; Vice Chairman, E.W. Blanch Holdings, Inc., 1999 to 2001; Chief Executive Officer, Employers Reinsurance Company, 1993 to 1999.

John T. Baily	59	Retired since December 31, 2002; President, Swiss Re Capital Partners, 1999 to 2002; Partner, PricewaterhouseCoopers LLP, Chicago, IL, 1976 to 1999.
Samuel P. Black, III (1) (3) (4) (5)	61	President, Treasurer and Secretary, Samuel P. Black & Associates, Inc., insurance agency, with which he has been associated since 1973; Director, the Company, Erie Insurance Co., EFL, Flagship City Insurance Company ("Flagship") and EI P&C.
J. Ralph Borneman, Jr. CIC (3) (4)	64	President and Chief Executive Officer, Body-Borneman Associates, Inc., insurance agency; President, Body-Borneman, Ltd. and Body-Borneman, Inc., insurance agencies since 1967; Director, the Company, EFL, Erie Insurance Co., Erie NY and National Penn Bancshares.

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Name -----	Age as of 4/1/03 -----	Principal Occupation for Past Five Years and Positions with Erie Insurance Group -----
Wilson C. Cooney	68	Chairman, ForcesGroup, Ltd., insurance and financial services group, 1999 to present; Chairman, Cooney Group, LLC, leadership and business consulting, 1999 to present; Deputy Chief Executive Officer, United Services Automobile Association, 1998 to 1999; President - Property/Casualty Group, United Services Automobile Association, 1995 to 1998.
Patricia Garrison-Corbin (2) (4) (6C)	55	Founder, President and Chief Executive Officer of P.G. Corbin & Company, Inc., financial advisory and investment management

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services for municipalities, since 1986; Director, the Company, Erie Insurance Co., EFL and P.G. Corbin Asset Management, Inc.

John R. Graham

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Executive-in-Residence and Professor of Finance, College of Business Administration, Kansas State University, 2000 to present; Chairman of the Board of Directors, President and Chief Executive Officer, Graham Capital Management, Inc., 1997 to present; Owner, Graham Ventures, business consulting and education services, 1970 to present; Chief Executive Officer, Kansas Farm Bureau Financial Services, KFB Life Insurance Company, Farm Bureau Mutual Insurance Company, KFB Insurance Company and FB Services Insurance Agency, 1979 to 1999; Chairman of the Board and Chief Executive Officer, FB Capital Management of Kansas, a registered investment advisor, 1994 to 1999.

Susan Hirt Hagen  
(1) (5C)

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Managing Partner, Hagen, Herr & Peppin, Group Relations Consultants, from 1990 until it discontinued operations in 1999; Co-Trustee of the H.O. Hirt Trusts; Director, the Company, EFL and Erie Insurance Co.; Mrs. Hagen has focused more of her time and

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Name	Age as of 4/1/03	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
C. Scott Hartz	57	efforts since 1999 fulfilling her responsibilities as Co-Trustee of the H.O. Hirt Trusts, a position held since 1967 and as Director of the Company and its subsidiaries; Mrs. Hagen also engages in private investment, community leadership and philanthropic activities.
F. William Hirt, CPCU (1C) (5)	77	Chairman of the Board of the Company, EFL, Erie Insurance Co., EI P&C and Flagship since September 1993; Chairman of the Board of Erie NY since April 1994;

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Chairman of the Executive Committee of the Company and EFL since November 1990; Interim President and Chief Executive Officer of the Company, EFL, Erie Insurance Co., EI P&C, Flagship and Erie NY from January 1, 1996 to February 12, 1996; Chairman of the Board, Chief Executive Officer and Chairman of the Executive Committee of the Company, EFL and Erie Insurance Co. for more than five years prior thereto; Co-Trustee of the H.O. Hirt Trusts; Director, the Company, EFL, Erie Insurance Co., Erie NY, EI P&C and Flagship.

Samuel P. Katz  
(2) (3)

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Former CEO, Greater Philadelphia First, a business leadership and civic organization, July 2000 to January 2003; President, EnterSport Capital Advisors, Inc., a private investment and consulting firm, September 1997 to present; President, Wynnefield Capital Advisors, Inc., a fund manager of a private equity venture fund, September 1997 to present; Partner, Stafford Capital Partners, L.P., investment partnership and developer, 1994 to 1997; Co-Chief Executive Officer,

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Name	Age as of 4/1/03	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
Claude C. Lilly, III, Ph.D., CPCU, CLU (2)	56	Public Financial Management, Inc., a municipal finance and investment advisor, 1976 to 1994; Director, the Company, Erie Insurance Co., EFL and Hershey Entertainment and Resorts Co.
Claude C. Lilly, III, Ph.D., CPCU, CLU (2)	56	Dean, Belk College of Business Administration, University of North Carolina Charlotte, July 1998 to present; James H. Harris Chair of



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Risk Management and Insurance, Belk College of Business Administration, University of North Carolina Charlotte, August 1997 to present; Chief Executive Officer, Quinstone, Inc., manufacturing, August 1995 to January 1996; Professor of Risk Management, Florida State University 1981 to August 1997; Director, the Company, Erie Insurance Co. and EFL.

Jeffrey A. Ludrof  
(1) (6)

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President and Chief Executive Officer of the Company, EFL, Erie Insurance Co., Erie NY, EI P&C and Flagship since May 8, 2002; Executive Vice President - Insurance Operations of the Company, Erie Insurance Co., Erie NY, EI P&C and Flagship from 1999 to May 7, 2002; Senior Vice President of the Company, Erie Insurance Co., Erie NY, EI P&C and Flagship from 1994 to 1999; an officer in various capacities from 1989 to 1994; Director of the Company, Erie Insurance Co., EFL, Erie NY, EI P&C and Flagship.

Jan R. Van Gorder, Esq.  
(6)

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Senior Executive Vice President, Secretary and General Counsel of the Company, EFL and Erie Insurance Co. since 1990, and of Flagship and EI P&C since 1992 and 1993, respectively and of Erie NY since April 1994; Acting President and Chief Executive Officer of the Company, EFL, Erie Insurance Co., Flagship, Erie NY and EI P&C from January 2002 to May

Name	Age as of 4/1/03	Principal Occupation for Past Five Years and Positions with Erie Insurance Group
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		2002; Senior Vice President, Secretary and General Counsel of the Company, EFL and Erie Insurance Co. for more than five years prior thereto; Director, the Company, EFL, Erie Insurance Co., Flagship, EI P&C and Erie NY.
Robert C. Wilburn (2C) (3C) (4) (6)	59	President and Chief Executive Officer, Gettysburg National Battlefield Museum Foundation since 2000; Distinguished Service Professor, Carnegie Mellon University since 1999; President and Chief Executive Officer, Colonial Williamsburg Foundation from 1992 to 1999; President, Carnegie Institute Library of Pittsburgh from 1984 to 1992; Director, the Company, Erie Insurance Co. and EFL.

- (1) Member of the Executive Committee.
  - (2) Member of the Audit Committee.
  - (3) Member of the Executive Compensation and Development Committee.
  - (4) Member of the Nominating Committee.
  - (5) Member of the Charitable Giving Committee.
  - (6) Member of the Investment Committee.
- C Designates Committee Chairperson.

The Board of Directors met nine times in 2002. The standing committees of the Company's Board of Directors are the Executive Committee, the Audit Committee, the Executive Compensation and Development Committee, the Nominating Committee, the Charitable Giving Committee and the Investment Committee.

The Executive Committee, which met twice during 2002, has the authority, subject to certain limitations, to exercise the power of the Board of Directors between regular meetings.

The Audit Committee, which met seven times in 2002, has the responsibility, consistent with the Pennsylvania Insurance Company Law and the Sarbanes-Oxley Act of 2002, for the selection of independent public accountants, reviewing the scope and results of the audit and reviewing the adequacy of the Company's accounting, financial, internal and operating controls.

The Executive Compensation and Development Committee, which met twice in 2002, has responsibility, consistent with Section 1405(c)(4) of the Pennsylvania Insurance Holding Companies Act and the Company's Bylaws, for recommending to the Board of Directors, at least annually, the compensation of the three highest paid officers of the Company and such other officers as the Board

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of Directors may designate, recommending all forms of direct compensation, including any incentive programs, that would be appropriate for management and employees of the Company and such other responsibilities as the Board of Directors may designate. See "Executive Compensation -- Compensation Committee Interlocks and Insider Participation."

The Nominating Committee, which met twice in 2002, has responsibility, consistent with Section 1405(c)(4) of the Pennsylvania Insurance Holding Companies Act and the Company's Bylaws, for conducting searches for and the nomination of a slate of candidates to stand for election to the Board of Directors at the Company's annual meetings of shareholders and to nominate candidates to fill vacancies on the Board of Directors between annual meetings of shareholders.

The Charitable Giving Committee, which met twice in 2002, has responsibility for recommending to the Chief Executive Officer charitable gifts by the Company within a budgetary limit established by the Board of Directors.

The Investment Committee, which met six times in 2002, has responsibility to assist the Company's Board of Directors in its general oversight of the investments of the Company.

All directors hold office until their respective successors are elected or until their earlier death, resignation or removal. Officers serve at the discretion of the Board of Directors. There are no family relationships between any directors or executive officers of the Company, except that Mr. Hirt, Chairman of the Board, Chairman of the Executive Committee and a director, is the brother of Mrs. Hagen, a director.

During 2002, each director attended more than 75% of the number of meetings of the Board of Directors and the standing committees of the Board of Directors of which such director was a member.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE 15 CANDIDATES FOR DIRECTOR NOMINATED BY THE NOMINATING COMMITTEE.

### EXECUTIVE COMPENSATION

The following table sets forth the compensation paid by the Company during the fiscal years ended December 31, 2002, 2001 and 2000 to each person who served as the Chief Executive Officer of the Company and the four other most highly compensated executive officers of the Company during 2002 for services rendered in all capacities to the Company, EFL, the Exchange and their subsidiaries and affiliates who allocate total compensation costs among themselves according to various formulas. The Company's share of total compensation expense in 2002 was 65.32%. Dollar amounts indicated are pre-individual income taxes.

### SUMMARY COMPENSATION TABLE

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Name and Principal Position -----	Year ----	Annual Compensation -----			Other Annual Compensation (\$) (2)	Long-Term Comp ----- Awards Pay ----- Restricted Stock Awards (\$) (3)	L Pay (\$)
		Salary (\$)	Bonus (\$) (1)				
Milne, Stephen A. (6) President and Chief Executive Officer	2002	78,470	154,391		5,733	0	
	2001	741,103	592,204		14,247	411,881	
	2000	677,606	627,417		5,913	162,971	
Ludrof, Jeffrey A. (7) President and Chief Executive Officer	2002	521,544	560,106		4,380	85,284	
	2001	309,463	202,971		2,534	65,125	
	2000	273,985	203,145		1,362	48,173	
Van Gorder, Jan R. Senior Executive Vice President, Secretary and General Counsel	2002	476,675	311,255		9,587	120,927	
	2001	384,211	250,193		6,020	122,591	
	2000	359,167	268,681		4,120	97,002	
Garcia, Philip A. Executive Vice President and Chief Financial Officer	2002	314,057	231,741		5,350	86,625	
	2001	280,457	184,102		3,397	76,441	
	2000	262,177	198,593		1,813	45,222	
Brinling, Jr., John J. Executive Vice President	2002	281,836	180,928		5,983	85,610	
	2001	260,408	147,452		2,688	81,830	
	2000	248,530	160,129		2,246	64,807	
Ziegler, Douglas F. Senior Vice President, Treasurer and Chief Investment Officer	2002	258,848	170,621		4,386	45,833	
	2001	229,471	95,767		3,658	69,474	
	2000	214,081	107,430		2,244	47,785	

(1) The amounts indicated in the "Bonus" column above represent amounts earned by the named executives during 2002 under the Company's Annual Incentive Plan. The purpose of the Annual Incentive Plan is to promote the best interests of the Exchange while enhancing shareholder value of the Company by basing a portion of selected employees' compensation on the performance of such employee and the Company. Performance measures are established by the Executive Compensation Committee based on the attainment of individual performance goals and the Company's financial goals compared to a selected peer group. The amounts indicated include reimbursement for minor perquisites in the amounts of \$4,598, \$10,634, \$11,365, \$8,739, \$7,069 and \$0 in 2002, \$13,403, \$8,693, \$11,339, \$9,749, \$8,594 and \$0 in 2001 and \$16,708, \$9,253, \$10,696, \$10,274, \$14,771 and \$0 in 2000 for Messrs. Milne, Ludrof, Van Gorder, Garcia, Brinling and Ziegler, respectively. The 2002 amount for Mr. Milne also includes compensation for unused vacation paid upon retirement in the amount of \$143,621.

(2) Amounts indicated in the "Other Annual Compensation" column include the taxable value of group life insurance policies in excess of \$50,000 and the associated tax reimbursement for the named executive officers. Amounts also include dividends paid on shares

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under the LTIP.

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- (3) The "Restricted Stock Awards" column represents LTIP benefits expressed in dollar amounts using the closing price of the Class A Common Stock as of the end of the respective year (\$36.26 at December 31, 2002, \$38.49 at December 31, 2001 and \$29.81 at December 31, 2000) that remain restricted at the end of the year. The number of shares awarded for Messrs. Milne, Ludrof, Van Gorder, Garcia, Brinling and Ziegler, respectively, were: 0, 2,352, 3,335, 2,389, 2,361 and 1,264 for 2002, 10,701, 1,692, 3,185, 1,986, 2,126 and 1,805 for 2001 and 5,467, 1,616, 3,254, 1,517, 2,174 and 1,603 for 2000. See "Long-Term Incentive Plan" for a detailed description of the LTIP. LTIP dividends earned in the current year are reported in "Other Annual Compensation" when paid or in "All Other Compensation" when deferred.
- (4) The "LTIP Payments" column represents LTIP benefits that became unrestricted at the end of the year. The shares for 2000 were distributed in January 2001, the shares for 2001 were distributed in January 2002 and the shares for 2002 were distributed in January 2003. All of such shares were valued using the actual share price at the time of distribution. The number of shares distributed after withholding for income taxes for 2002 for Messrs. Ludrof, Van Gorder, Garcia, Brinling and Ziegler were 2,830, 2,744, 1,654, 2,257 and 1,311, respectively. The number of shares distributed after withholding for income taxes for Messrs. Milne, Ludrof, Van Gorder, Garcia, Brinling and Ziegler were 4,539, 928, 2,180, 1,186, 685 and 1,103 for 2001, respectively, and 1,507, 445, 897, 506, 346 and 535 for 2000, respectively. Mr. Brinling deferred the distribution of 1,076 shares in 2002 (valued using the share price as of December 31, 2002), 1,075 shares in 2001 (valued using the share price as of December 31, 2001) and 543 shares in 2000 (valued using the share price as of December 31, 2000). In accordance with the terms of his Retirement Performance Award described in footnote (6), Mr. Milne's benefits under the LTIP were calculated as though his termination of employment was due to a disability. As a result, all vesting periods ended on the date of Mr. Milne's retirement, all open performance periods ended on December 31, 2002 and all phantom share units were valued based on the shortened performance period. On February 7, 2002, Mr. Milne received a distribution of 14,225 shares under the LTIP after withholding for income taxes. The shares were valued using the actual share price at the time of distribution. The "LTIP Payments" column for Mr. Milne does not include 30,802 shares that were distributed to Mr. Milne's surviving spouse on March 20, 2003. These shares represent the closing of all open performance periods applicable to Mr. Milne under the LTIP. The value of this distribution was \$1,112,876, based upon the average of the high and low price of the Class A Common Stock of \$36.13 on March 20, 2003.
- (5) Amounts shown in the "All Other Compensation" column include matching contributions made by the Company pursuant to the Company's Employee Savings Plan, premiums paid by the Company on behalf of the named individuals on split dollar life insurance

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policies, expenses for spousal travel and deferred dividends and related earnings. For the year 2002, contributions made to the Employee Savings Plan amounted to \$3,139, \$20,862, \$19,067, \$12,563, \$11,274 and \$10,354 on behalf of Messrs. Milne, Ludrof, Van Gorder, Garcia, Brinling and Ziegler, respectively. For the year 2001, contributions made to the Employee Savings Plan amounted to \$29,644, \$12,378, \$15,368, \$11,218, \$10,416 and \$9,179 on behalf of Messrs. Milne, Ludrof, Van Gorder, Garcia, Brinling and Ziegler, respectively. For the year 2000, contributions made to the Employee Savings Plan amounted to \$20,143, \$8,214, \$10,736,

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7,831, \$7,456 and \$6,403 on behalf of Messrs. Milne, Ludrof, Van Gorder, Garcia, Brinling and Ziegler, respectively. Premiums paid during 2002 for split dollar life insurance policies for Messrs. Milne, Ludrof, Van Gorder, Garcia, Brinling and Ziegler, respectively, were as follows: \$36,708, \$17,726, \$17,068, \$0, \$17,436 and \$0. Premiums paid during 2001 for split dollar life insurance policies for Messrs. Milne, Ludrof, Van Gorder, Garcia, Brinling and Ziegler, respectively, were as follows: \$49,911, \$6,645, \$17,196, \$6,930, \$17,538 and \$0. Premiums paid during 2000 for split dollar life insurance policies for Messrs. Milne, Ludrof, Van Gorder, Garcia, Brinling and Ziegler, respectively, were as follows: \$50,132, \$6,674, \$17,310, \$6,978, \$17,634 and \$0. The Company is entitled to recover the premiums from any proceeds paid on such split dollar life insurance policies and has retained a collateral interest in each policy to the extent of the premiums paid with respect to such policies. Expenses for spousal travel were \$3,870, \$3,337 and \$3,377 for Messrs. Milne, Ludrof and Brinling, respectively, in 2000. Mr. Brinling also had deferred dividends of \$2,192, \$1,967 and \$881 and interest on deferred dividends of \$350, \$119 and \$27 in 2002, 2001 and 2000, respectively.

(6) Mr. Milne served as President and Chief Executive Officer from February 1996 until his retirement on January 18, 2002. Mr. Milne died in September 2002. Upon his retirement, Mr. Milne received the benefits specified in his employment agreement and a Retirement Performance Award totaling \$17,225,902 that included:

(a) Payment in cash of an amount equal to two times the sum of (i) Mr. Milne's 2002 base salary and (ii) the amount payable to him under the Company's Annual Incentive Plan for 2001, in addition to three times such sum provided under his employment agreement.

(b) Continuation of the Company's life insurance programs regarding the life of Mr. Milne until his death.

(c) Credit for 30 years of service for purposes of the Company's Supplemental Retirement Plan for Certain Members of the Erie Insurance Group Retirement Plan for Employees (the "SERP") benefit formula, and changes of the normal form of payment from 10-year Certain and Continuous to 100% Joint and Survivor and with Mr. Milne's surviving spouse to receive a monthly SERP benefit under such 100% Joint and Survivor option for the remainder of her life.

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- (7) Mr. Ludrof has served as President and Chief Executive Officer since May 8, 2002.
- (8) Amounts shown in the Restricted Stock Awards column are paid in three annual installments beginning with the year in which the award is made. The amounts shown are for stock that will become unrestricted at December 31, 2003 and 2004. Accordingly, amounts shown in the LTIP Payments column include payments of stock from the awards made in 2002, 2001 and 2000.

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### Agreements with Executive Officers

The Company has employment agreements with the following of its senior executive officers: Jeffrey A. Ludrof, President and Chief Executive Officer, Jan R. Van Gorder, Senior Executive Vice President, Secretary and General Counsel; Philip A. Garcia, Executive Vice President and Chief Financial Officer, John J. Brinling, Jr., Executive Vice President of EFL, Douglas F. Ziegler, Senior Vice President, Treasurer and Chief Investment Officer; Michael J. Krahe, Executive Vice President of Human Development and Leadership, and Thomas B. Morgan, Executive Vice President of Insurance Operations. The employment agreements have the following principal terms:

(a) A four-year term for Mr. Ludrof expiring May 8, 2006 and a two-year term for Messrs. Van Gorder, Garcia, Brinling, Ziegler, Krahe and Morgan expiring December 15, 2004, unless the agreement is theretofore terminated in accordance with its terms, with or without cause, or due to the disability or death of the officer or notice of nonrenewal is given by the Company or the executive 30 days before any anniversary date;

(b) A minimum annual base salary at least equal to the executive's annual base salary at the time the agreement was executed, subject to periodic review to reflect the executive's performance and responsibilities, competitive compensation levels and the impact of inflation;

(c) The eligibility of the executive under the Company's incentive compensation programs and employee benefit plans;

(d) The establishment of the terms and conditions upon which the executive's employment may be terminated by the Company and the compensation of the executive in such circumstances. The agreements provide generally, among other things, that if the employment of an executive is terminated without Cause (as defined in the agreement) by the Company or by the executive for Good Reason (as defined in the agreement) then the executive shall be entitled to receive: (i) an amount equal to the sum of three times the executive's highest annual base salary during the preceding three years plus an amount equal to three times the total of the executive's highest award during the preceding three years under the Company's Annual Incentive Plan; (ii) any award or other compensation to which the executive is entitled under the LTIP; (iii) continuing participation in any employee benefit plans for a period of three years following termination to the extent the executive and his or her dependents were eligible to participate in such programs immediately prior to the executive's termination and (iv) immediate vesting and nonforfeitability of accrued benefits under the Company's SERP;

(e) Provisions relating to confidentiality and nondisclosure following an executive's termination; and

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(f) An agreement by the executive not to compete with the Company for a period of one year following his or her termination, unless such termination was without Cause.

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### Stock Options and Stock Appreciation Rights

The Company does not have a stock option plan, nor has it ever granted any stock option or stock appreciation right to any of the persons named in the Summary Compensation Table.

### Long-Term Incentive Plan

The LTIP is designed to enhance the growth and profitability of the Company by providing the incentive of long-term rewards to key employees who are capable of having a significant impact on the performance of the Company, to attract and retain employees of outstanding competence and ability and to further align the interests of such employees with those of the shareholders of the Company. The LTIP was approved by the Company's shareholders in 1997 as a performance-based plan under the Internal Revenue Code of 1986, as amended (the "Code"), and its continuation was approved by the Company's shareholders at the 2002 Annual Meeting in satisfaction of requirements of the Code. Each of the named executives has been granted awards of phantom share units under the LTIP based upon a target award calculated as a percentage of the executive's base salary. The total value of any phantom share units is determined at the end of the performance period based upon the growth in the Company's retained earnings. Each executive is then entitled to receive restricted shares of Class A Common Stock equal to the dollar value of the phantom share units at the end of the performance period. The vesting period for the restricted shares of Class A Common Stock issued to each executive is three years after the end of the performance period. If an executive ceases to be an employee prior to the end of the performance period for reasons other than retirement, death or disability, the executive forfeits all phantom share units awarded. If an executive ceases to be an employee prior to the end of the vesting period for reasons other than retirement, death or disability, the executive forfeits all unvested restricted shares previously granted. The following table sets forth target awards granted to each person who served as the Company's Chief Executive Officer and the Company's four other highest paid executive officers during 2002, all current executive officers as a group and all employees other than the executive officers as a group (i) for the three-year performance period of 2002 to 2004, (ii) for the three-year performance period of 2001 to 2003 and (iii) for the three-year performance period of 2000 through 2002. See "Proposal 2 -- Approval of a Change to the Long-Term Incentive Plan" for information regarding the proposed change to the LTIP.

#### LONG-TERM INCENTIVE PLAN AWARDS IN LAST FISCAL YEAR

Number of	Performance or Other Period Until
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Name	Shares, Units or Other Rights (#)	Maturation or Payout	Estimate Non-Sto
	Phantom Share Units		Threshold
Milne, Stephen A. (2)	96,380	2000-2002	0
	88,406	2001-2003	0
	99,936	2002-2004	0

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Name	Number of Shares, Units or Other Rights (#)	Performance or Other Period Until Maturation or Payout	Estimate Non-Sto
	Phantom Share Units		Threshold
Ludrof, Jeffrey A.	25,638	2000-2002	0
	24,835	2001-2003	0
	74,185	2002-2004	0
Van Gorder, Jan R.	35,122	2000-2002	0
	32,216	2001-2003	0
	30,916	2002-2004	0
Garcia, Philip A.	25,638	2000-2002	0
	23,517	2001-2003	0
	24,448	2002-2004	0
Brinling, John J., Jr.	24,863	2000-2002	0
	22,167	2001-2003	0
	20,874	2002-2004	0
Ziegler, Douglas F.	14,121	2000-2002	0
	12,953	2001-2003	0
	16,532	2002-2004	0
Executive Officer Group	207,641	2000-2002	0
	191,141	2001-2003	0
	250,356	2002-2004	0
Non-Executive Officer Employee Group	104,019	2000-2002	0
	104,355	2001-2003	0
	117,129	2002-2004	0

(1) An executive's target award is established by the LTIP Administrator. The actual value of an executive's phantom share

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units at the end of a performance period may be more or less than the executive's target amount. However, the maximum value of phantom share units earned by an executive for any performance period may not exceed \$500,000. See "Proposal 2 -- Approval of a Change to the Long-Term Incentive Plan".

- (2) See Note (4) to the Summary Compensation Table for information regarding Mr. Milne's LTIP awards.

Pension Plan

The following table sets forth the estimated total annual benefits payable upon retirement at age 65 under the Erie Insurance Group Retirement Plan for Employees and the SERP (collectively, the "Retirement Plans").

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PENSION PLAN TABLE

Remuneration	Years of Service		
	15	20	25
\$150,000	\$45,000	\$60,000	\$75,000
200,000	60,000	80,000	100,000
250,000	75,000	100,000	125,000
300,000	90,000	120,000	150,000
350,000	105,000	140,000	175,000
400,000	120,000	160,000	200,000
450,000	135,000	180,000	225,000
500,000	150,000	200,000	250,000
550,000	165,000	220,000	275,000
600,000	180,000	240,000	300,000
650,000	195,000	260,000	325,000
700,000	210,000	280,000	350,000
750,000	225,000	300,000	375,000
800,000	240,000	320,000	400,000

The compensation covered by the Retirement Plans is the base salary reported in the Summary Compensation Table.

Under the Retirement Plans, credited years of service is capped at 30 years. Credited years of service for each of the individuals named in the Summary Compensation Table other than Mr. Milne, is as follows: Jeffrey A. Ludrof -- 22 years, Jan R. Van Gorder -- 22 years, Philip A. Garcia -- 22 years, John J. Brinling, Jr. -- 30 years and Douglas F. Ziegler -- 15 years. See Note (6) to the Summary Compensation Table for information regarding the treatment of Mr. Milne's pension benefits.

The benefits under the Retirement Plans are computed on the basis of straight-life annuity amounts and a life annuity with a ten-year certain

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benefit. The benefits listed in the Pension Plan Table are not subject to deduction for Social Security or other offset amounts. The information in the foregoing table does not reflect certain limitations imposed by the Code. The Code prohibits the inclusion of earnings in excess of \$200,000 per year (adjusted periodically for cost of living increases) in the average earnings used to calculate benefits. The Code also limits the maximum annual pension (currently \$160,000, but adjusted periodically for cost of living increases) that can be paid to each eligible employee. A SERP for senior management is in effect that provides benefits in excess of the earnings limitations imposed by the Code similar to those provided to all other full-time employees as if the Code limitations were not in effect. Those benefits are incorporated into the Pension Plan Table.

### Director Compensation

The annual retainer for the Company's directors is \$25,000, plus \$1,500 for each meeting attended and \$1,500 for each committee meeting attended plus an additional \$2,000 per year for each committee chairperson. In addition, all directors are reimbursed for their expenses incurred in attending meetings. Officers of the Company who serve as directors are not compensated for

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attendance at meetings of the Board of Directors and its committees. See also "Certain Transactions." A director may elect prior to the end of a calendar year to defer receipt of up to 100% of the director's board compensation, including retainers, meeting fees and chairperson fees. A deferred compensation account is maintained for each outside director who elects to defer board compensation. A director who defers board compensation may select hypothetical investment options for amounts in the director's deferred compensation account and such account is credited, including with hypothetical interest, based on the investment results of the hypothetical investment options selected.

In 2002, the Company's Board of Directors, at the recommendation of the Executive Compensation and Development Committee, approved a deferred stock compensation plan for its outside directors. The purpose of this plan is to further align the interests of outside directors with shareholders by providing for a portion of annual compensation for the directors' services in shares of the Company's Class A Common Stock. A deferred stock account is maintained for each outside director under the plan. The account is credited annually with a grant of shares of Class A Common Stock determined by dividing \$25,000 by the closing price of the Class A Common Stock on the first business day after the Company's annual meeting. Each director vests in the grant 25% every three full calendar months over the course of a year, with the final 25% vesting on the date of the next annual meeting if the next annual meeting is held before the final three full calendar months have elapsed. Dividends paid by the Company are reinvested into each director's account with additional shares of the Company's Class A Common Stock and such credited shares vest immediately. The Company accounts for the fair value of its grants under the plan in accordance with FAS 148, "Accounting for Stock-Based Compensation." The annual charge related to this plan to the Company and its affiliates totaled approximately \$277,000 for 2002; the Company's share of this charge was approximately \$167,000.

### Compensation Committee Interlocks and Insider Participation

The Executive Compensation and Development Committee (the "Compensation Committee") of the Company presently consists of Robert C. Wilburn, Chair, Samuel P. Black, III, J. Ralph Borneman, Jr. and Samuel P. Katz. No member of the Compensation Committee is a former or current officer or employee of the Company, the Exchange, EFL or any of their respective subsidiaries or affiliates.(1) Furthermore, no executive officer of the Company serves as a

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member of a

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(1) J. Ralph Borneman, Jr. is the President and a principal shareholder of Body-Borneman Associates, Inc., Body-Borneman, Inc. and Body-Borneman, Ltd. and Samuel P. Black, III is the President and a principal shareholder of Samuel P. Black & Associates, Inc., each of which is an independent insurance agency representing a number of insurers, including the insurance subsidiaries of the Company, EFL and the Exchange and its insurance subsidiary and which receive commissions in the ordinary course of business from such insurance companies. Under the provisions of Section 162(m) of the Code relating to qualified plans, Messrs. Black and Borneman are not deemed independent for purposes of approving performance-based incentive plans. Messrs. Black and Borneman have recused themselves from voting on such plans as members of the Compensation Committee.

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compensation committee of another entity, one of whose executive officers serves on the Compensation Committee, or as a director of the Company, nor does any executive officer of the Company serve as a director of another entity, one of whose executive officers serves on the Compensation Committee.

Report of the Executive Compensation and Development Committee of the Company

Consistent with Section 1405(c)(4) of the Pennsylvania Insurance Holding Companies Act and the Company's Bylaws, the Compensation Committee is charged with the duty of recommending to the Board of Directors the compensation of the three highest paid officers of the Company and such other officers as are determined by the Board of Directors; recommending to the Board of Directors all forms of bonus compensation, including incentive programs, that would be appropriate for the Company and to undertake such other responsibilities as may be delegated to the Compensation Committee by the Board of Directors. The Board of Directors has authorized the Compensation Committee to consider the compensation of the four highest paid officers, including the Chief Executive Officer. The purpose of the Compensation Committee is to determine the level and composition of compensation that is sufficient to attract and retain top quality executives for the Company.

The objectives of the Company's executive compensation practices are to: (1) attract, reward and retain key executive talent and (2) to motivate executive officers to perform to the best of their abilities and to achieve short-term and long-term corporate objectives that will contribute to the overall goal of enhancing shareholder value and policyholder security. To that end, compensation comparisons are made to benchmark positions at other insurers in terms of compensation levels and composition of the total compensation mix.

Under Section 162(m) of the Code, the Company is not allowed a federal income tax deduction for compensation, under certain circumstances, paid to certain executive officers to the extent that such compensation exceeds \$1,000,000 per officer in any fiscal year. No officer of the Company has received compensation in excess of \$1,000,000 in any fiscal year to date with the exception of Stephen A. Milne, President and Chief Executive Officer of the Company in 1999, 2000 and 2001, and Messrs. Milne and Jeffrey A. Ludrof, who succeeded Mr. Milne, in 2002. The Compensation Committee may consider adopting policies with respect to this limitation on deductibility when appropriate.

The Compensation Committee reviewed the salary ranges and base salaries of the four highest paid executives, including each person who served as the Chief Executive Officer of the Company, in 2002. The Compensation Committee has

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position descriptions for the four highest paid executives of the Company, including the Chief Executive Officer, that define the responsibilities and duties of each position. The position descriptions also delineate the functional areas of accountability and the qualifications and skills required to perform such responsibilities and duties. The Compensation Committee then reviewed the salary ranges for the Chief Executive Officer and the other three highest paid executives, comparing the ranges to third party data compiled for similar positions with other property and casualty insurers. In reviewing the salary ranges for the four highest paid executives, including the Chief Executive Officer, the Compensation Committee referenced Sibson's Management Compensation Survey published annually by Sibson & Company, Inc., which summarized compensation data for more than 100 insurance companies along with other industry survey data.

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The Compensation Committee also reviewed data obtained from Towers Perrin, a nationally recognized consulting firm with specific expertise in the insurance industry regarding executive compensation. The data is reported by position, company asset size and premium volume. The unique aspects of each position, its duties and responsibilities, the effect on the performance of the Company, the number of employees supervised directly and other criteria are also considered in establishing the base salaries.

The level of compensation for each executive reflects his or her skills, experience and job performance. Normally, base salary will not be less than the minimum for the salary range established for each position. Executives with a broader range of skills, experience and consistently high performance with the Company may receive compensation above the midpoint for the established salary range.

Compensation for the Chief Executive Officer consists primarily of salary, annual incentive and long-term incentive payments and minor perquisites that amount to less than 10% of the Chief Executive Officer's salary and bonus. The Board of Directors approved adoption of an annual incentive plan and a long-term incentive plan for senior executives of the Company as recommended by the Executive Committee at its meeting of March 11, 1997 (the "Annual Incentive Plan" and the "LTIP", respectively).

The purpose of the Annual Incentive Plan is to promote the best interests of the Exchange while enhancing shareholder value of the Company and to promote the attainment of significant business objectives for the Company, its subsidiaries and affiliates by basing a portion of the executives' compensation on the attainment of both premium growth and underwriting profitability goals. The annual incentive awards are paid in cash. Annual Incentive Plan target award levels, expressed as a percentage of base salary, are established annually by the Compensation Committee. Payments under the Annual Incentive Plan are based on a combination of individual executive performance and the Company's performance.

The LTIP was approved by shareholders on April 29, 1997 and its continuation was approved by shareholders in 2002 for purposes of qualifying the plan as a performance-based plan under Section 162(m) of the Code. The LTIP is designed to maximize returns to shareholders by linking executive compensation to the overall profitability of the Company. Target award amounts, expressed as a percentage of base salary, are determined by comparisons to peer companies and approved by the Compensation Committee. The Compensation Committee believes that the Company has been competitive with compensation levels necessary to attract, reward and retain key executive talent, and to motivate executive officers to

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perform to the best of their abilities in line with the best interests of the Company, its employees and its culture. However, current awards to executives under the LTIP are approaching, and in some cases have reached, the maximum annual limit under the terms of the LTIP. The Compensation Committee has determined that, in order to remain competitive with market data for executive compensation, and to continue to align the goals of management and the shareholders to achieve the short-term and long-term corporate objectives of enhancing shareholder value and policyholder security, the maximum value of phantom share units earned by a participant in any performance period should be increased to \$1,000,000. The change of the maximum value limitation to \$1,000,000 is being submitted for shareholder approval at the Annual Meeting.

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Performance factors applicable to the Company, such as property and casualty insurance loss ratios, investment portfolio returns and overall Company profitability, as well as other factors are considered in evaluating the Chief Executive Officer's performance. Such performance factors were considered in approving Mr. Ludrof's compensation. Compensation of the next three most highly compensated individuals is determined by the Compensation Committee and is based upon the factors and processes enumerated, i.e., a determination of a salary range based upon market data and evaluation of the executive with respect to the executive's job description and his or her position within the salary range.

Compensation of the next highest paid executives (other than the Chief Executive Officer and the next three highest paid executives) was based upon the Company's established standard compensation policies and was not determined by the Compensation Committee.

Erie Indemnity Company Executive Compensation and Development Committee:

Robert C. Wilburn, Chair  
Samuel P. Black, III  
J. Ralph Borneman, Jr.  
Samuel P. Katz

March 11, 2003

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Comparison of Cumulative Total Shareholder Return on the Class A Common Stock with Certain Averages

The following graph depicts the cumulative total shareholder return for the periods indicated for the Class A Common Stock compared to the Standard & Poor's 500 Stock Index and the Standard & Poor's Property-Casualty Insurance Index.

CUMULATIVE TOTAL SHAREHOLDER RETURN COMPARISON(1) CHART

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[CHART OMITTED]

	1997	1998	1999	2000
	----	----	----	----
Erie Indemnity Company	\$100	\$108	\$113	\$106
Standard & Poor's 500 Stock Index	100	129	156	141
Standard & Poor's Property-Casualty Insurance Index	100	93	70	108
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- (1) Assumes \$100.00 invested at the close of trading on the last trading day preceding the preceding fiscal year in the Class A Common Stock, Standard & Poor's Property-Casualty Insurance Index, Standard & Poor's 500 Stock Index. Cumulative total shareholder return assumes the

### CERTAIN TRANSACTIONS

Directors Borneman and Black are officers and principal shareholders of insurance agencies that receive insurance commissions in the ordinary course of business from the insurance companies managed by the Company in accordance with the companies' standard commission schedules and agents' contracts. Such payments made in 2002 to the agencies for commissions written on insurance policies from the Property and Casualty Group and EFL amounted to \$4,264,962 and \$476,472 for the Borneman and the Black insurance agencies, respectively.

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John M. Petersen, a director and former President and Chief Executive Officer, and previous Chief Investment Officer of the Erie Insurance Group of Companies, who retired as an executive officer of the Company on December 31, 1995, entered into a consulting arrangement with the Company effective January 2, 1996. Under the terms of the arrangement, which is terminable upon 30 days notice by either party, the Company engaged Mr. Petersen as a consultant to furnish the Company and its pension trust, the Exchange and EFL with investment services with respect to their investments in common stocks. As compensation for services rendered by Mr. Petersen, a fee of .15 of 1 percent, on an annualized basis, of the total fair market value of the common stocks under management, is paid to Mr. Petersen. The Company also pays for all necessary and reasonable expenses related to Mr. Petersen's consulting services performed under this arrangement. The compensation paid to Mr. Petersen under this arrangement in 2002 by the Exchange, the Company, the pension trust and EFL was \$3,656,546, \$69,511, \$100,001 and \$51,875, respectively. Consistent with the terms of his consulting arrangement, Mr. Petersen notified the Company in writing that he intends to retire. Mr. Petersen has agreed to continue to perform services under the existing consulting arrangement until such services can be transitioned by the Company.

The common stock portfolio of the Exchange under the direction of Mr. Petersen outperformed the Standard & Poor's 500 Stock Index, a standard index used by many managers of equity investments, by \$119.0 million during the seven years ended December 31, 2002 and the period January 1, 2003 to February 28, 2003. The common stock portfolio performance of the Company, the pension trust and EFL (combined) was in-line with the Standard & Poor's 500 Stock Index over

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the same period. The Exchange common stock portfolio returned an annualized 7.48%, the Company, the pension trust and EFL (combined) common stock portfolios returned an annualized 5.93% and the Standard & Poor's 500 Stock Index returned 6.08%.

### LEGAL PROCEEDINGS

#### Legal Proceedings Relating to the Appointment of a Successor Corporate Trustee to Bankers Trust

On March 3, 1999, Bankers Trust filed a petition with the Court requesting that the Court accept its resignation as corporate trustee of the H.O. Hirt Trusts as a result of conflicts of interest that Bankers Trust believed existed from certain insurance operations of its parent company and affiliates. Also, an affiliate of Bankers Trust, Deutsche Bank, is one of the largest market makers in the Company's Class A Common Stock.

On May 7, 1999, the Court conducted a hearing on the Bankers Trust Petition, at which time the Court issued an Order accepting the resignation of Bankers Trust at such time as the Court appoints a successor corporate trustee.

On December 15, 1999 and on January 27, 2000, the Court conducted hearings on the selection of a successor corporate trustee, including the presentation of testimony by two successor trustee candidates, one supported by Mr. Hirt and one supported by Mrs. Hagen. Subsequent to that testimony, Laurel Hirt, Mr. Hirt's daughter and a beneficiary of the H.O. Hirt Trusts, filed a petition requesting that the Court also consider a third successor corporate trustee candidate not supported by

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Mr. Hirt. Mr. Hirt has filed a petition objecting to Laurel Hirt's petition. Both Laurel Hirt's and Mr. Hirt's petitions are currently pending.

In a related matter, Mr. Hirt and Mrs. Hagen, pursuant to a February 23, 2000 Order of the Court, were directed to finalize certain matters relating to a so-called "funding plan" for the payment of the fees and costs of the successor corporate trustee and to make application to the Internal Revenue Service for a private letter ruling on the tax treatment of the finalized "funding plan." Under its Order of February 23, 2000, the Court indicated that upon the receipt of the private letter ruling from the Internal Revenue Service, the Court would then select the successor corporate trustee from the two candidates.

On March 6, 2000, the Company filed a motion for reconsideration and/or clarification of the Court's February 23, 2000 Order. The motion requested that the Court (i) reconsider its schedule for designating a successor corporate trustee due to the March 3, 1999 resignation and make that designation presently and (ii) reconsider and/or clarify the Court's prohibition on the Company's involvement in a finalized funding plan for payment of the corporate trustees' fees because several of the proposed funding alternatives could only be implemented through actions to be undertaken by the Company. On March 8, 2000, Mr. Hirt also filed a motion for reconsideration. On March 15, 2000, the Court denied the Company's and Mr. Hirt's motions.



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On January 30, 2001, the Court conducted a further hearing on the matter of the selection of a successor corporate trustee.

On September 10, 2001, a Joint Petition for Construction of the H.O. Hirt Trusts (the "Joint Construction Petition") was filed by Mr. Hirt, Mrs. Hagen and Bankers Trust. The Joint Construction Petition sought, among other things, relief from the Court in the form of an Order of the Court under which the trustees of the H.O. Hirt Trusts would, under certain circumstances, be permitted to sell shares owned by the H.O. Hirt Trusts in order to fund the fees and expenses of the corporate trustee.

On October 16, 2001, Laurel Hirt filed an Answer and Objection to the Joint Construction Petition. On December 3, 2001, Mr. Hirt and Mrs. Hagen filed responses to Laurel Hirt's Answer and Objection.

On January 25, 2002, the Court conducted a hearing on the matter of the Joint Construction Petition. On January 28, 2002, the Court entered its Order indicating that it was deferring any decision on the Joint Construction Petition until April 1, 2002 so as to permit the parties to attempt to mediate the issues raised by the Joint Construction Petition. The Court further indicated in its January 28, 2002 Order that if the parties were not able to mediate those issues, the Court would enter a ruling on the Joint Construction Petition within 30 days after April 1, 2002.

On June 13, 2002, the Court entered its Order approving the Joint Construction Petition, thereby permitting the H.O. Hirt Trusts, under certain circumstances, to sell shares of Class B Common Stock owned by the H.O. Hirt Trusts in order to pay the fees and expenses of the corporate trustee. Laurel Hirt has appealed the Court's June 13, 2002 Order to the Pennsylvania Superior Court. Mr. Hirt and Mrs. Hagen have opposed Laurel Hirt's appeal, which is currently pending before the Pennsylvania Superior Court.

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### MRS. HAGEN'S SHAREHOLDER PROPOSALS

In a letter dated December 30, 2002, Mrs. Hagen submitted to the Company a notice containing six proposals relating to the nomination of candidates for director at the Annual Meeting and proposed amendments to the Company's Bylaws. The proposals will be presented for consideration by holders of Class B Common Stock at the Annual Meeting only if the proposals are presented by or on behalf of Mrs. Hagen at the Annual Meeting. Mrs. Hagen's letter identified her proposals as follows:

- (1) Nomination of Candidates for Director

"I propose the following persons named below (the "Candidates") for consideration by the Nominating Committee of the Company (the "Nominating Committee") for election to the Board of Directors of the Company (the "Board") at the Annual Meeting. Should the Candidates not be selected by the Nominating Committee, and depending upon the slate of candidates nominated by the Nominating Committee, this Notice constitutes my proposal to nominate a number of the Candidates at the Annual Meeting. The Candidates are:

Kenneth B. Frank

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Susan Hirt Hagen  
Michael H. Hershock  
Louis V. Imundo, Jr., Ph.D.  
Claude C. Lilly, Ph.D., CPCU, CLU  
Henry N. Nassau, Esq.  
Ajay Patel  
Richard J. Pinola, CPA  
William Schwartz, Esq.  
William Starbuck, Ph.D.  
Richard Stover  
Daniel J. Whelan

In addition to myself, I am proposing a pool of candidates who are truly independent, as defined by the proposed new NASDAQ listing standards, for the shareholders to consider at the 2003 Annual Meeting in order to increase the number and percentage of independent Directors on the Board. I believe that all the individuals listed are appropriate candidates for election at the Annual Meeting.

I assume that each of the Company's other three current independent Directors, as defined by the proposed new NASDAQ listing standards, will be renominated by the Nominating Committee to stand for re-election at the Annual Meeting. However, if any of these other independent Directors is not selected by the Nominating Committee when it announces its slate, I hereby reserve the right to renominate any or all of them at the Annual Meeting. Since each of those individuals currently serves on the Board, the Company should be able to access the requisite information required by Section 2.07(a)(4) of the Bylaws in order to update the biographical information contained in the Company's 2002 proxy statement and its recent Form S-3 Registration Statement.

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In addition, if the number of Directors constituting the entire Board is expanded by the Board beyond the currently authorized size of 13 members, I hereby reserve the right to propose additional candidates for the consideration of the Nominating Committee and the shareholders.

I will appear at the Annual Meeting to make these nominations."

(2) Advance Notice of Director Nominations

"To permit the two dozen or so voting shareholders of the Company, including the H.O. Hirt Trusts, sufficient time within which to consider and propose the direct nomination of candidates to stand for election to the Board, I propose that Section 2.07 of the Bylaws be amended, effective upon adoption at the Annual Meeting, to (a) add a new paragraph (c) to read as follows:

"(c) Nomination of Candidates for Election as Directors.  
-----  
Nominations of persons for election to the Board of Directors may be made at any meeting of Shareholders at which Directors are to be elected (i) by or at the direction of the Nominating Committee of the Board of

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Directors, or (ii) by any Shareholder who is entitled to vote at any meeting at which such Directors are to be elected (a "Director Nomination") and who complies with the applicable notice procedures set forth in this Section 2.07(c).

- " (1) A Director Nomination shall be made by notice in writing, delivered in person or by first class United States mail postage prepaid or by reputable overnight delivery service, to the Nominating Committee of the Board of Directors of the corporation to the attention of the Secretary of the corporation at the principal office of the corporation, within the time limits specified herein and otherwise in accordance with this Section 2.07(c).
- " (2) The corporation shall publicly announce the Nominating Committee's nominees for election to the Board of Directors, in the case of an annual meeting of Shareholders, not less than 60 calendar days nor more than 120 calendar days before the first anniversary of the date of the annual meeting of Shareholders in the immediately preceding year by mailing notice of such nominees to its Shareholders, issuing a press release, filing a periodic report with the SEC, or otherwise publicly disseminating notice of such nominees.
- " (3) Any Director Nomination must be received by the Nominating Committee, in the case of an annual meeting of Shareholders, not more than 30 calendar days following the corporation's public announcement of the Nominating Committee's nominees for Director in connection with such meeting as provided in clause (2) of this Section 2.07(c).
- " (4) Any Director Nomination submitted in connection with an annual meeting of Shareholders in accordance with clause (3) of this Section 2.07(c) shall set forth, with respect to each nominee, the information specified in clause (4) of Section 2.07(a).
- " (5) If a Director Nomination submitted to the Nominating Committee fails, in the reasonable judgment of the Nominating Committee, to contain the information specified in clause (4) of Section 2.07(a) is otherwise deficient, the Chairperson of the Nominating Committee shall, as promptly as is practicable under the circumstances, provide written notice to the Shareholder of such failure or deficiency in the Director Nomination and such Shareholder shall have five business days from receipt of such notice to submit a revised Director Nomination that corrects such failure or deficiency in all material respects.

"(6) Notwithstanding anything to the contrary contained in this Section 2.07(c), no Shareholder entitled to vote for Directors shall be required to submit a prior written notice of any Director Nomination that such Shareholder intends to make (i) in the case of an annual meeting of Shareholders, if timely announcement of the Nominating Committee's nominees for Director in connection with such meeting shall not have been made in accordance with clause (2) of this Section 2.07(c), or (ii) in the case of any special meeting of Shareholders at which one or more Direc