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ERIE INDEMNITY CO
Form 8-K
February 26, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): February 25, 2003

ERIE INDEMNITY COMPANY
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	0-24000	25-0466020
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(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

100 Erie Insurance Place, Erie, Pennsylvania	16530
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (814) 870-2000

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Item 5. OTHER EVENTS.

On February 25, 2003, Erie Indemnity Company issued a press release which is filed as Exhibit 99.1 hereto and is incorporated herein by reference.

Item 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

Exhibit Number	Description
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99.1	Press release dated February 25, 2003

SIGNATURE

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

ERIE INDEMNITY COMPANY

Erie Indemnity Company

(Registrant)

Date: February 25, 2003

/s/ Philip A. Garcia

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(Philip A. Garcia, Executive Vice President & CFO)

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EXHIBIT 99.1

ERIE INDEMNITY REPORTS FOURTH QUARTER AND FULL-YEAR 2002 RESULTS

Erie, Pa., Feb. 25, 2003 - Erie Indemnity Company (Nasdaq: ERIE) today announced results for the fourth quarter and full-year 2002. For the fourth quarter:

- o Net income increased to \$33.9 million, up from \$5.9 million for the same period in 2001.
- o Net income per share increased to \$.48 per share, compared to \$.08 per share in the comparable quarter for 2001.
- o Net income, excluding net realized losses on investments and related federal income taxes, increased to \$35.6 million, up from \$23.1 million for the same period one year ago.
- o Management fee revenue grew by 17.9 percent to \$181.8 million, up from \$154.2 million for the same period one year ago.

The increase in fourth quarter net income was due to a combination of management fee growth (calculated on the property and casualty direct written premiums of the Erie Insurance Group) and a reduction in net realized losses on investments, compared to the same period in 2001. Fourth quarter 2001 results were affected by \$26.4 million, or \$.24 per share, in realized losses on investments, as well as a charge of \$10.7 million, or \$.10 per share, related to the retirement of former CEO Stephen Milne.

For the full-year 2002 results, Erie Indemnity reported:

- o Net income was up by 40.8 percent to \$172.1 million, from \$122.3 million at the end of 2001.
- o Net income per share increased to \$2.42 per share at December 31, 2002, from \$1.71 at year-end 2001.
- o Net income, excluding net realized losses on investments and related federal income taxes, grew 27.1 percent to \$179.4 million.

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"We continue to achieve strong growth in direct written premiums, which have propelled the management fee revenue increases we saw in the fourth quarter and throughout 2002," said Jeffrey A. Ludrof, president and CEO. "Our policies in force growth was strong, ending the year at 3.5 million, with commercial lines policies increasing by 13.4 percent and personal lines policies by 12.8 percent over 2001. We also saw significant increases in average written premium per policy, up nearly 10 percent in 2002 over the 2001 figure. I attribute this growth to our competitive products and pricing and our superior service."

Details of Fourth Quarter 2002 Results

Management operations

Management fee revenue increased to \$181.8 million for the quarter ended December 31, 2002, from \$154.2 million for the same period one year ago. The property and casualty direct written premiums of the Erie Insurance Group, upon which management fee revenue is calculated, grew 25.7 percent to \$774.8 million

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in the fourth quarter 2002, from \$616.6 million in the fourth quarter 2001. In the fourth quarter of 2002, the Company established an estimated allowance for management fees returned on mid-term cancellations. The allowance resulted in an \$11.9 million reduction in management fee revenue for the quarter ended December 31, 2002, and a reduction in net income of \$4.0 million, or \$.06 per share, after taxes.

Nonaffiliated assumed reinsurance premiums of Erie Insurance Exchange, upon which the Company receives a 7.0 percent service fee, increased to \$46.7 million in the fourth quarter of 2002, up by 11.2 percent over the \$42 million recorded in the fourth quarter 2001.

The cost of management operations increased 6.6 percent to \$136.3 million in the fourth quarter of 2002, from \$127.8 million for the same period in 2001. Commission costs increased 21.3 percent to \$95.7 million, from \$78.9 million in the fourth quarter 2001. Commission costs grew more slowly than written premium due to a \$5.8 million reduction in commission expense for returned commissions related to the allowance recorded for returned management fees on mid-term policy cancellations.

Fourth quarter costs of management operations, excluding commissions, decreased 16.9 percent to \$40.6 million in 2002 from \$48.9 million in 2001. Included in the fourth quarter 2001 costs was a \$10.7 million severance charge related to the retirement of the Company's president and chief executive officer. Excluding this charge, these costs would have increased 6.2 percent.

Also included in the cost of management operations are technology hardware and infrastructure expenditures for the Erie Insurance Group eCommerce program. These costs amounted to \$ 0.1 million and \$1.1 million in the fourth quarters of 2002 and 2001, respectively.

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Insurance underwriting operations

The Company's insurance underwriting operations recorded losses of \$11.2 million and \$4.6 million in the fourth quarters of 2002 and 2001, respectively. During the fourth quarter of 2002, the Company's property and casualty insurance subsidiaries strengthened their loss and loss adjustment reserves by \$10.1 million.

Underwriting losses in the fourth quarter were negatively impacted by adverse development of loss reserves for prior accident years, principally in personal and commercial automobile coverages, as well as a fourth quarter increase to strengthen reserves in response to loss development trends. Reserve increases amounted to \$6.6 million, or \$.09 per share, after taxes, in the fourth quarter 2002. Approximately half of the reserve strengthening was in accident years prior to 2002.

The Company's share of catastrophe losses totaled \$1.6 million and \$1.5 million for the three-month periods ended December 31, 2002 and 2001, respectively. These losses include catastrophe losses previously reported by the Company from tornado and hail storms in Ohio and Pennsylvania, and ice storms in North Carolina during the fourth quarter 2002.

Included in the Company's policy acquisition and other underwriting expenses is the property and casualty insurance subsidiaries' share of software development costs related to the eCommerce initiative and charges related to guaranty fund assessments. Costs associated with the eCommerce initiative totaled \$0.9 million and \$0.7 million for the fourth quarters of 2002 and 2001, respectively. These costs will continue to be incurred as the program develops through 2004. A

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charge of \$0.6 million for state guaranty fund assessments related to the insolvency of the Pennsylvania Hospital Insurance Company (PHICO) was taken in December 2002. The 2001 expenses include a charge of \$1.7 million related to the insolvency of the Reliance Insurance Company.

Investment operations

Net revenue from investment operations for the fourth quarter of 2002 reflects income of \$8.0 million, compared to a loss of \$19.2 million for the same period in 2001. Increases made in net investment income and equity in earnings of Erie Family Life Insurance Company (EFL), as well as decreased net realized losses on investments, were all contributing factors to the fourth quarter increase. Net investment income increased by 13.1 percent to \$14.7 million for the quarter ended December 31, 2002, from \$13.0 million for the same period in 2001 primarily as the result of increases in investments in taxable bonds.

Net realized losses on investments of \$2.6 million were recorded during the fourth quarter of 2002 compared to net realized losses of \$26.4 million for the fourth quarter of 2001. In the fourth quarter 2002, the Company recorded impairment charges of \$7.7 million related to fixed income and equity security investments, in which declines in value were considered to be other-than-temporary. These impairment charges were offset by net realized gains from the sale of investments of \$5.1 million. Included in the 2001 realized losses were sales of investments in a loss position and impairment charges totaling \$26.4 million. These sales were part of a tax-selling strategy and produced a recovery of \$9.1 million of federal income taxes relating to taxes paid in 2000, 1999 and 1998.

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Equity in losses of limited partnerships was \$4.8 million and \$4.0 million for the fourth quarters of 2002 and 2001, respectively. Private equity and fixed income limited partnerships incurred realized losses of \$5.4 million and \$4.1 million in the fourth quarters of 2002 and 2001, respectively. Real estate limited partnerships reflected earnings of \$0.6 million for the quarter ended December 31, 2002 compared to earnings of \$0.1 million for the same period in 2001. Included in the private equity partnership losses are impairment charges totaling \$5.5 million and \$2.7 million in the fourth quarters of 2002 and 2001, respectively.

The Company's earnings from its 21.6 percent equity ownership of EFL increased \$2.4 million to \$0.6 million for the fourth quarter of 2002 from a loss in the fourth quarter 2001.

Details of 2002 Year-End Results

Management operations

Management fee revenue for 2002 was up 22.2 percent to \$775.7 million. For the years ended December 31, 2002 and 2001, the property and casualty direct written premiums of the Erie Insurance Group totaled \$3.2 billion and \$2.5 billion, respectively, an increase of 24.0 percent. Increases in average premium per policy, continued improvements in new policy growth and increased policy retention rates -- a retention ratio of 91.2 at year end -- were all contributing factors in the growth.

Firming pricing for commercial and personal insurance has allowed the Erie Insurance Group to more adequately price its products. Premium increases anticipated in 2003, due to pricing actions contemplated, filed and awaiting approval, or approved through December 31, 2002, amount to approximately \$200

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million in premium for the Erie Insurance Group. The majority of the anticipated increase stems from the private passenger automobile, commercial automobile, and homeowners lines of business.

Nonaffiliated assumed reinsurance premiums of Erie Insurance Exchange, upon which the Company receives a 7.0 percent service fee, increased to \$183.2 million for 2002, up by 14.0 percent over the \$160.7 million for 2001.

Costs of management operations increased by 16.7 percent at year-end 2002 compared to 14.9 percent a year earlier. Commission costs -- which make up over half of the Company's expenses -- rose 23.3 percent to \$398.3 million in 2002, from \$323.1 million for 2001.

The cost of management operations, excluding commission costs, increased 3.0 percent in 2002 to \$159.1 million from \$154.5 million in 2001, due primarily to increases in personnel and information technology costs. Personnel costs increased 8.4 percent in 2002 compared to 2001, excluding the \$10.7 million charge related to the retirement of the Company's president and chief executive officer in January 2002. Increased personnel costs in 2002 were driven by increased staffing levels.

As mentioned previously, information technology hardware and infrastructure expenditures related to the eCommerce program are included in the cost of management operations. These costs totaled \$2.6 million in 2002 and \$1.6 million in 2001.

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Insurance underwriting operations

Underwriting losses for the year were greater than anticipated. The Company's 5.5 percent share of Erie Insurance Group's underwriting losses totaled \$27.1 million in 2002, compared to \$20.5 million in 2001. These losses stem from greater than average catastrophe losses, adverse development of losses from prior accident years, which are reflected in the corresponding reserve strengthening taken in the fourth quarter, as well as eCommerce program costs and the guaranty fund charge in the fourth quarter for the PHICO insolvency. The Company is addressing underwriting loss trends by controlling exposure growth, improving underwriting risk selection, instituting programs to control loss severity and obtaining additional premium on risks through rate increases.

The Company's share of catastrophe losses totaled \$7.1 million and \$1.6 million, for the years ended December 31, 2002 and 2001, respectively. Recoveries under an excess-of-loss reinsurance agreement with the Exchange for the year totaled \$8.8 million and \$7.2 million for 2002 and 2001, respectively.

For the 12 months ended December 31, 2002 and 2001, the Company's policy acquisition and other underwriting expenses were also impacted by the property and casualty insurance subsidiaries' share of costs related to the eCommerce initiative. These costs totaled \$3.9 million and \$1.3 million, respectively.

Investment operations

For the year ended December 31, 2002, net revenue from investment operations increased by \$23.5 million to \$42.3 million compared to \$18.8 million for the same period in 2001. The increase in net revenue from investment operations from 2001 to 2002 is primarily due to the \$17.9 million decrease in realized losses from 2001 to 2002. Net realized losses on investments were \$11.2 million and \$29.1 million for the years ended December 31, 2002 and 2001, respectively. In 2002, net realized losses included \$25.4 million in impairment charges related primarily to bonds in the communications and energy segments. Of the \$25.4

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million in impairments, \$4.8 million related to equity securities and \$20.6 million related to fixed income securities.

Net investment income totaled \$55.4 million for the year ended December 31, 2002 and \$49.9 million for 2001, up 11.1 percent from 2001. Included in net investment income are primarily interest and dividends on the Company's fixed maturity and equity security portfolios. Increases in investments in taxable bonds contributed to the growth in net investment income in 2002.

For the year ended December 31, 2002, equity in losses in limited partnerships amounted to \$3.7 million, compared to losses of \$2.7 million 2001. Equity in earnings of EFL was \$1.7 million in 2002, compared to \$0.8 million for the same period in 2001.

Erie Indemnity Company provides management services to the member companies of the Erie Insurance Group, which includes the Erie Insurance Exchange, Flagship City Insurance Company, Erie Insurance Company, Erie Insurance Property and Casualty Company, Erie Insurance Company of New York and Erie Family Life Insurance Company.

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According to A.M. Best Company, Erie Insurance Group, based in Erie, Pennsylvania, is the 17th largest automobile insurer in the United States based on direct premiums written and the 25th largest property/casualty insurer in the United States based on total lines net premium written. The Group, rated A++ (Superior) by A.M. Best Company, has more than 3.5 million policies in force and operates in 11 states and the District of Columbia.

News releases and more information about Erie Insurance Group are available at <http://www.erieinsurance.com>

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995: Certain forward-looking statements contained herein involve risks and uncertainties. These statements include certain discussions relating to underwriting, premium and investment income volume, business strategies, profitability and business relationships and the Company's other business activities during 2002 and beyond. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "intend," "anticipate," "believe," "estimate," "project," "predict," "potential" and similar expressions. These forward-looking statements reflect the Company's current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that may cause results to differ materially from those anticipated in those statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict.

STATEMENTS OF OPERATIONS
AND FINANCIAL POSITION AND OTHER INFORMATION
WILL FOLLOW

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Erie Indemnity Company
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

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	Three months ended December 31		Twelve mon Decemb
	2002	2001	2002
OPERATING REVENUES:			
Management fee revenue	\$ 181,805	\$ 154,161	\$ 775,700
Premiums earned	44,134	36,791	163,958
Service agreement revenue	7,419	6,908	23,729
Total operating revenue	\$ 233,358	\$ 197,860	\$ 963,387
OPERATING EXPENSES:			
Cost of management operations	\$ 136,348	\$ 127,849	\$ 557,445
Losses and loss adjustment expenses incurred	40,794	29,127	139,225
Policy acquisition and other underwriting expenses	14,522	12,214	51,865
Total operating expenses	\$ 191,664	\$ 169,190	\$ 748,535
OTHER INCOME AND EXPENSES:			
Investment income, net of expenses	\$ 14,735	\$ 13,029	\$ 55,440
Net realized losses on investments	(2,609)	(26,420)	(11,237)
Equity in losses of limited partnerships	(4,764)	(4,019)	(3,654)
Total other income and expenses	\$ 7,362	\$ (17,410)	\$ 40,549
Income before income taxes and equity in earnings of Erie Family Life Insurance Company	\$ 49,056	\$ 11,260	\$ 255,401
Less: Provision for income taxes	15,716	3,725	84,886
Equity in earnings (losses) of Erie Family Life Insurance Company, net of tax	596	(1,618)	1,611
Net income	\$ 33,936	\$ 5,917	\$ 172,126
Net income per share	\$ 0.48	\$ 0.08	\$ 2.42
Weighted average shares outstanding	70,997	71,225	71,081

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Erie Indemnity Company
CONSOLIDATED STATEMENTS OF OPERATIONS - SEGMENT BASIS
(Amounts in thousands, except per share data)

	Three months ended December 31		Tw
	2002	2001	
MANAGEMENT OPERATIONS:			

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Management fee revenue	\$ 181,805	\$ 154,161	\$ 77
Service agreement revenue	7,419	6,908	2

Total revenue from management operations	189,224	161,069	\$ 79
Cost of management operations	136,348	127,849	55

Income from management operations	\$ 52,876	\$ 33,220	\$ 24

INSURANCE UNDERWRITING OPERATIONS:			
Premiums earned	\$ 44,134	\$ 36,791	\$ 16

Losses and loss adjustment expenses incurred	40,794	29,127	\$ 13
Policy acquisition and other underwriting expenses	14,522	12,214	5

Total losses and expenses	\$ 55,316	\$ 41,341	\$ 19

Underwriting loss	\$ (11,182)	\$ (4,550)	\$ (2)

INVESTMENT OPERATIONS:			
Net investment income	\$ 14,735	\$ 13,029	\$ 5
Net realized losses on investments	(2,609)	(26,420)	(1)
Equity in losses of limited partnerships	(4,764)	(4,019)	(
Equity in earnings (losses) of Erie Family Life Insurance Company	641	(1,740)	

Net revenue (loss) from investment operations	\$ 8,003	\$ (19,150)	\$ 4

Income before income taxes	\$ 49,697	\$ 9,520	\$ 25
Provision for income taxes	15,761	3,603	8

Net income	\$ 33,936	\$ 5,917	\$ 17
	=====		
Net income per share	\$ 0.48	\$ 0.08	\$
	=====		
Net income excluding net realized losses and related taxes	\$ 35,632	\$ 23,090	\$ 17
	=====		
DIVIDENDS DECLARED			
Class A non-voting common	\$ 0.19	0.17	\$

Class B common	\$ 28.50	25.50	\$ 1

WEIGHTED AVERAGE SHARES OUTSTANDING	70,997	71,225	7
	=====		

The table below reconciles the Company's GAAP-basis net income to net income excluding net realized losses and related income taxes. Management believes this measure assists the financial statement reader in interpreting and evaluating the financial results of the Company by removing the effects of gains and losses from investment sales, which could significantly impact the Company's financial results from one period to another based on the timing of investment sales, which may or may not be recurring.

Three months ended	Tw
December 31	
2002	2001

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Net income	\$ 33,936	\$ 5,917	\$ 17,173
Net realized losses on investments	2,609	26,420	1,696
Income benefit on realized losses	(913)	(9,247)	(7,554)
Realized losses net of income tax benefit	1,696	17,173	
Net income excluding net realized losses and related taxes	\$ 35,632	\$ 23,090	\$ 17,173

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Erie Indemnity Company
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in thousands, except per share data)

	December 31 2002	December 31 2001
ASSETS		
Fixed maturities	\$ 708,068	\$ 559,873
Equity securities		
Preferred stock	157,563	130,007
Common stock	36,515	63,791
Other invested assets	96,613	87,296
Total investments	\$ 998,759	\$ 840,967
Cash and cash equivalents	\$ 85,712	\$ 88,213
Equity in Erie Family Life Insurance Company	48,545	44,683
Premiums receivable from policyholders	239,704	186,175
Receivables from affiliates	829,049	640,655
Other assets	155,907	183,677
Total assets	\$ 2,357,676	\$ 1,984,370
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 717,015	\$ 557,278
Unearned premiums	393,091	311,969
Other liabilities	260,198	249,868
Total liabilities	\$ 1,370,304	\$ 1,119,115
Total shareholders' equity	\$ 987,372	\$ 865,255
Total liabilities and shareholders' equity	\$ 2,357,676	\$ 1,984,370
Book value per share	\$13.91	\$12.15
Shares outstanding	70,997	71,204

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ERIE INDEMNITY COMPANY
Segment Information

Management fee revenue by line of business (before consideration of premium cancellation allowance)

	Three Months Ended December 31		%	Twelve Months Ended December 31	
	2002	2001		Change	2002
Private Passenger Auto	\$ 100,640	\$ 83,579	20.4%	\$ 414,426	\$ 340,000
Commercial Auto	16,213	12,779	26.9	67,097	50,000
Homeowners	31,943	25,167	26.9	123,960	100,000
Commercial Multi-Peril	21,603	14,999	44.0	83,974	50,000
Workers' Compensation	15,678	11,916	31.6	67,851	50,000
All Other Lines of Business	7,628	5,721	33.3	30,292	20,000
Total	\$ 193,705	\$ 154,161	25.7%	\$ 787,600	\$ 630,000

Growth rate of policies in force for Property and Casualty Group insurance operations:

Date	Private passenger auto	12-mth. growth rate	Homeowners	12-mth. growth rate	All other lines of personal business	12-mth. growth rate	Total Personal Lines
12/31/2000	1,337,280	4.9%	986,654	7.5%	192,909	10.3%	2,516,847
03/31/2001	1,356,651	5.3	1,003,517	7.7	197,849	10.7	2,558,683
06/30/2001	1,382,419	5.9	1,029,339	8.1	204,614	10.9	2,616,701
09/30/2001	1,408,092	6.3	1,053,014	8.4	210,220	11.4	2,671,346
12/31/2001	1,432,747	7.1	1,075,816	9.0	215,134	11.5	2,723,707
03/31/2002	1,469,617	8.3	1,104,806	10.1	222,061	12.2	2,796,584
06/30/2002	1,512,335	9.4	1,146,639	11.4	231,951	13.4	2,890,925
09/30/2002	1,554,425	10.4	1,190,651	13.1	240,410	14.4	2,985,536
12/31/2002	1,591,161	11.1	1,230,895	14.4	249,544	16.0	3,071,435

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12/31/2002 108,069 12.5 190,787 14.8 58,930 13.3 79,

Date	Total All lines	12-mth. growth rate
12/31/2000	2,865,553	6.5%
03/31/2001	2,914,078	6.9
06/30/2001	2,983,645	7.4
09/30/2001	3,048,808	7.8
12/31/2001	3,109,583	8.5
03/31/2002	3,193,405	9.6
06/30/2002	3,304,624	10.8
09/30/2002	3,411,953	11.9
12/31/2002	3,509,158	12.8

*CML = Commercial

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Policy retention trends for Property and Casualty Group insurance operations:

Date	Private passenger auto	CML* auto	Homeowners	CML* multi-peril	Workers' comp.
12/31/2000	92.3%	89.8%	90.7%	87.9%	88.5%
03/31/2001	92.2	90.3	90.7	88.6	89.1
06/30/2001	92.3	90.4	90.6	88.4	88.8
09/30/2001	92.2	90.2	90.4	88.2	88.5
12/31/2001	92.2	90.5	90.2	88.0	88.4
03/31/2002	92.3	90.9	90.2	88.8	89.3
06/30/2002	92.4	91.1	90.4	89.0	89.5
09/30/2002	92.5	90.8	90.5	88.7	89.5
12/31/2002	92.6	91.0	90.5	88.7	89.4

*CML = Commercial

Selected Financial Data of Erie Insurance Exchange:

The selected financial data below is derived from the Erie Insurance Exchange's financial statements prepared in accordance with Statutory Accounting Principles. In the opinion of management, all adjustments consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. The financial data set forth below is only a summary.

Years ended

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(Statutory Accounting Basis)	December 31, 2002	Decemb 200
	(In thousands)	
Premiums earned	\$ 2,912,147	\$ 2,42
Losses and loss adjustment expenses	\$ 2,566,724	\$ 2,15
Insurance underwriting and other expenses	969,597	76
Net underwriting loss	\$ (624,174)	\$ (49
Investment income (loss), net	33,650	(42
Federal income tax benefit	(173,062)	(30
Net loss	\$ (417,462)	\$ (61
	=====	
	As of	
(Statutory Accounting Basis)	December 31, 2002	Decemb 20
	(In thousands)	
Cash and invested assets	\$ 5,967,051	\$ 5,90
Total assets	7,007,803	6,99
Claims and unearned premium reserves	3,962,218	3,20
Total liabilities	4,892,032	3,95
Policyholders' surplus	2,115,771	3,04