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ERIE INDEMNITY CO
Form 8-K
April 24, 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): April 24, 2003

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

| | | |
|---|-----------------------------|---|
| PENNSYLVANIA | 0-24000 | 25-0466020 |
| ----- | ----- | ----- |
| (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

1

Item 9. Regulation FD Disclosure

On April 24, 2003, Erie Indemnity Company issued a press release announcing financial results for the quarter ended March 31, 2003. A copy of this press release is attached hereto and is incorporated herein by reference as Exhibit 99.1.

On April 25, 2003 at 10 a.m. Erie Indemnity Company will hold a telephone conference call that will be webcast and that is complimentary to the press release announcing financial results for the quarter ended March 31, 2003.

This information, furnished under "Item 12. Results of Operations and Financial Condition" of Form 8-K, is being made under Item 9 pursuant to SEC interim filing guidance provided in SEC Release No. 33-8216.

| Exhibit Number | Description |
|----------------|------------------------------------|
| ----- | ----- |
| 99.1 | Press release dated April 24, 2003 |

2

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

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undersigned hereunto duly authorized.

ERIE INDEMNITY COMPANY

Erie Indemnity Company

(Registrant)

Date: April 24, 2003

/s/ Philip A. Garcia

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

3

EXHIBIT 99.1

ERIE INDEMNITY REPORTS FIRST QUARTER 2003 RESULTS

Erie, Pa., April 24, 2003 - Erie Indemnity Company (Nasdaq: ERIE) today announced results for the first quarter 2003:

- o Net income increased by 3.8 percent or \$1.7 million to \$45.9 million, up from \$44.2 million at March 31, 2002.
- o Net income per share increased by 4.1 percent to \$.65 per share, compared to \$.62 per share in the comparable quarter for 2002.
- o Net income, excluding net realized gains on investments and related federal income taxes, increased by 4.9 percent to \$45.5 million, up from \$43.4 million for the same period one year ago.
- o Management fee revenue grew by 16.3 percent to \$207.2 million, up from \$178.3 million for the same period one year ago.

"The Company is coming off a year of accelerated growth," says Jeffrey A. Ludrof, president and CEO. "Because of our strong retention ratio - 91.2 percent at March 31, 2003 - we continue to see healthy growth in direct written premium and, consequently, positive increases in management fee revenue."

Details of First Quarter 2003 Results

Management operations

Management fee revenue increased by 16.3 percent to \$207.2 million for the quarter ended March 31, 2003, compared to \$178.3 million for the same period one year ago. Management fee revenue grew at a slower rate than the growth in direct written premiums in the first quarter of 2003 due to the action taken by the board of directors in December 2002 to reduce the management fee rate from 25 percent to 24 percent.

The property and casualty direct written premiums of the Erie Insurance Group, upon which management fee revenue is calculated totaled \$865.2 million in the first quarter 2003, compared to \$713.0 million in the first quarter 2002. This represents growth rates of 21.3 percent in the first quarter of 2003, compared to 22.4 percent in the first quarter of 2002. Direct written premium for the quarter was positively impacted by a 12.4 percent increase in policies in force and the effect of rate actions taken in 2001 and 2002. The average written premium per policy increased by 10.0 percent to \$920, as compared to \$836 at March 31, 2002. New written premium grew by 8.2 percent in the first quarter of 2003, a slower rate when compared to the same period in 2002. This was primarily

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due to the initial effects of ERIE's underwriting profitability program and the December 2002 close of a major sales incentive contest.

4

Nonaffiliated assumed voluntary reinsurance premiums of Erie Insurance Exchange, upon which the Company receives a 6.0 percent service fee, totaled \$1.9 million in the first quarter of 2003, down 38.3 percent from the \$3.1 million recorded in the first quarter 2002. The decrease resulted from a combination of lower voluntary assumed premiums, due to non-renewal of unprofitable business, and the board's action to reduce the service fee from 7.0 percent in 2002 to 6.0 percent for 2003.

The cost of management operations increased 19.9 percent to \$154.4 million in the first quarter of 2003, from \$128.8 million for the same period in 2002. Commission costs, which were impacted by the growth in policies and premium, increased 22.8 percent to \$110.9 million, from \$90.3 million in the first quarter 2002. First quarter costs of management operations, excluding commissions, increased 12.9 percent to \$43.4 million in 2003 from \$38.5 million in 2002.

Insurance underwriting operations

The Company's insurance underwriting operations recorded losses of \$5.7 million and \$3.6 million in the first quarters of 2003 and 2002, respectively. This was due primarily to increases in catastrophe losses for the quarter, as well as other weather-related losses. These losses resulted in increased frequency in the private passenger automobile and homeowners lines of business in the first quarter 2003. The Company's share of catastrophe losses totaled \$1.1 million and \$0.5 million for the three-month periods ended March 31, 2003 and 2002, respectively. These losses include catastrophe losses previously reported by the Company as a result of severe winter storms in February 2003 affecting many of the Company's operating territories.

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. Costs associated with the eCommerce initiative totaled \$0.8 million and \$1.0 million for the first quarters of 2003 and 2002, respectively. These costs will continue to be incurred as the program develops through 2004.

Investment operations

Net revenue from investment operations for the first quarter of 2003 reflects an increase of 15.5 percent to \$14.8 million, compared to \$12.8 million for the same period in 2002. Net investment income increased by 12.7 percent to \$14.3 million for the quarter ended March 31, 2003, from \$12.7 million for the same period in 2002.

5

Net realized gains on investments of \$0.6 million were recorded during the first quarter of 2003 compared to net realized gains of \$1.2 million for the first quarter of 2002. The decrease in realized gains on investments was affected by impairment charges of \$6.0 million recorded during the first quarter 2003; no impairment charges were recorded in the first quarter of 2002.

Equity in losses of limited partnerships was \$1.3 million and \$1.9 million for the first quarters of 2003 and 2002, respectively. Private equity and fixed income limited partnerships incurred realized losses of \$1.7 million and \$2.9

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million in the first quarters of 2003 and 2002, respectively. Real estate limited partnerships reflected earnings of \$0.4 million for the quarter ended March 31, 2003, compared to earnings of \$1.0 million for the same period in 2002.

The Company's earnings from its 21.6 percent equity ownership of EFL increased to \$1.2 million for the first quarter of 2003 from \$0.8 million in the first quarter 2002.

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.

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. Erie Insurance Group ranked 454 on the FORTUNE 500.

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 management fee revenue, cost of management operations, underwriting, premium and investment income volume, business strategies, profitability and business relationships and the Company's other business activities during 2003 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

6

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

| | Three months ended March 31, (unaudited) | |
|---------------------------|---|------------|
| | 2003 | 2002 |
| OPERATING REVENUE: | | |
| Management fee revenue | \$ 207,246 | \$ 178,252 |
| Premiums earned | 45,182 | 37,219 |
| Service agreement revenue | 6,484 | 7,342 |

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| | | |
|--|------------|------------|
| Total operating revenue | \$ 258,912 | \$ 222,813 |
| OPERATING EXPENSES: | | |
| Cost of management operations | \$ 154,373 | \$ 128,791 |
| Losses and loss expenses incurred | 37,500 | 29,336 |
| Policy acquisition and other underwriting expenses | 13,352 | 11,498 |
| Total operating expenses | \$ 205,225 | \$ 169,625 |
| OTHER INCOME AND EXPENSES: | | |
| Investment income, net of expenses | \$ 14,319 | \$ 12,704 |
| Realized gain on investments | 593 | 1,220 |
| Equity in losses of limited partnerships | (1,326) | (1,914) |
| Total other income and expenses | \$ 13,586 | \$ 12,010 |
| Income before income taxes and equity in earnings of Erie Family Life Insurance Company | \$ 67,273 | \$ 65,198 |
| Less: Provision for income taxes | 22,460 | 21,711 |
| Equity in earnings of Erie Family Life Insurance Company, net of tax | 1,087 | 715 |
| Net income | \$ 45,900 | \$ 44,202 |
| Net income per share | \$ 0.65 | \$ 0.62 |
| Weighted average shares outstanding | 70,997 | 71,184 |
| DIVIDENDS DECLARED | | |
| Class A non-voting common | \$ 0.19 | \$ 0.17 |
| Class B common | \$ 28.50 | \$ 25.50 |

7

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

| | Three months ended March 31 (unaudited) | |
|--|--|------------|
| | 2003 | 2002 |
| MANAGEMENT OPERATIONS: | | |
| Management fee revenue | \$ 207,246 | \$ 178,252 |
| Service agreement revenue | 6,484 | 7,342 |
| Total revenue from management operations | 213,730 | 185,594 |
| Cost of management operations | 154,373 | 128,791 |
| Income from management operations | \$ 59,357 | \$ 56,803 |

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| | | |
|---|------------|------------|
| INSURANCE UNDERWRITING OPERATIONS: | | |
| Premiums earned | \$ 45,182 | \$ 37,219 |
| | ----- | ----- |
| Losses and loss adjustment expenses incurred | 37,500 | 29,336 |
| Policy acquisition and other underwriting expenses | 13,352 | 11,498 |
| | ----- | ----- |
| Total losses and expenses | \$ 50,852 | \$ 40,834 |
| | ----- | ----- |
| Underwriting loss | \$ (5,670) | \$ (3,615) |
| | ----- | ----- |
| INVESTMENT OPERATIONS: | | |
| Net investment income | \$ 14,319 | \$ 12,704 |
| Net realized gain on investments | 593 | 1,220 |
| Equity in losses of limited partnerships | (1,326) | (1,914) |
| Equity in earnings of Erie Family Life Insurance Company | 1,169 | 768 |
| | ----- | ----- |
| Net revenue from investment operations | \$ 14,755 | \$ 12,778 |
| | ----- | ----- |
| Income before income taxes | \$ 68,442 | \$ 65,966 |
| Provision for income taxes | 22,542 | 21,764 |
| | ----- | ----- |
| Net income | \$ 45,900 | \$ 44,202 |
| | ===== | ===== |
| Net income per share | \$ 0.65 | \$ 0.62 |
| | ===== | ===== |
| Net income excluding net realized gains and related taxes | \$ 45,514 | \$ 43,409 |
| | ===== | ===== |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 70,997 | 71,184 |
| | ===== | ===== |

The table below reconciles the Company's GAAP-basis net income to net income excluding net realized gains 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 gain 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 and resulting gains or losses, which may or may not be recurring.

| | Three months ended March 31 (unaudited) | |
|---|--|-----------|
| | 2003 | 2002 |
| | ----- | ----- |
| Net income | \$ 45,900 | \$ 44,202 |
| Net realized gains on investments | 593 | 1,220 |
| Income tax expense on realized gains | 207 | 427 |
| | ----- | ----- |
| Realized gains net of income tax expense | 386 | 793 |
| | ----- | ----- |
| Net income excluding net realized gains and related taxes | \$ 45,514 | \$ 43,409 |
| | ===== | ===== |

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(Amounts in thousands, except per share data)

| | March 31 2003 (unaudited) | December 31 2002 |
|---|---------------------------------|---------------------|
| | ----- | ----- |
| ASSETS | | |
| Investments | | |
| Fixed maturities | \$ 725,736 | \$ 708,068 |
| Equity securities | | |
| Preferred stock | 149,774 | 157,563 |
| Common stock | 42,180 | 36,515 |
| Other invested assets | 101,082 | 96,613 |
| | ----- | ----- |
| Total investments | \$1,018,772 | \$ 998,759 |
| | | |
| Cash and cash equivalents | \$ 98,853 | \$ 85,712 |
| Equity in Erie Family Life Insurance Company | 51,468 | 48,545 |
| Premiums receivable from policyholders | 247,802 | 239,704 |
| Receivables from affiliates | 896,239 | 829,049 |
| Other assets | 171,905 | 155,907 |
| | ----- | ----- |
| Total assets | \$2,485,039 | \$2,357,676 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Unpaid losses and loss adjustment expenses | \$ 750,569 | \$ 717,015 |
| Unearned premiums | 408,161 | 393,091 |
| Other liabilities | 295,536 | 260,198 |
| | ----- | ----- |
| Total liabilities | \$1,454,266 | \$1,370,304 |
| Total shareholders' equity | \$1,030,773 | \$ 987,372 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$2,485,039 | \$2,357,676 |
| | ===== | ===== |
| | | |
| Book value per share | \$14.52 | \$13.91 |
| Shares outstanding | 70,997 | 70,997 |

9

Erie Indemnity Company
Segment Information

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

| | Three months ended March 31 | | % |
|-----------------------------|-----------------------------|-----------|--------|
| | 2003 | 2002 | Change |
| | ----- | | ----- |
| (In thousands) | | | |
| Private passenger auto | \$ 105,206 | \$ 94,514 | 11.3% |
| Commercial auto | 18,997 | 16,467 | 15.4 |
| Homeowners | 27,811 | 22,772 | 22.1 |
| Commercial multi-peril | 25,054 | 21,336 | 17.4 |
| Workers' compensation | 22,381 | 18,104 | 23.6 |
| All other lines of business | 8,197 | 5,059 | 62.0 |

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| | | | |
|-------|------------|------------|-------|
| Total | \$ 207,646 | \$ 178,252 | 16.5% |
|-------|------------|------------|-------|

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 |
|------------|------------------------|---------------------|------------|---------------------|--------------------------------------|---------------------|----------------------|
| 12/31/2001 | 1,432,747 | 7.1% | 1,075,816 | 9.0% | 215,134 | 11.5% | 2,723,697 |
| 03/31/2002 | 1,469,617 | 8.3 | 1,104,806 | 10.1 | 222,061 | 12.2 | 2,796,484 |
| 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 | 2,985,486 |
| 12/31/2002 | 1,591,161 | 11.1 | 1,230,895 | 14.4 | 249,544 | 16.0 | 3,071,600 |
| 03/31/2003 | 1,623,429 | 10.5 | 1,263,118 | 14.3 | 257,327 | 15.9 | 3,143,874 |

| Date | CML* auto | 12-mth. growth rate | CML* multi-peril | 12-mth. growth rate | Workers' comp. | 12-mth. growth rate | All other lines of commercial business |
|------------|-----------|---------------------|------------------|---------------------|----------------|---------------------|--|
| 12/31/2001 | 96,100 | 9.7% | 166,214 | 11.6% | 52,033 | 10.3% | 71,539 |
| 03/31/2002 | 98,926 | 10.7 | 171,283 | 12.5 | 53,320 | 10.8 | 73,392 |
| 06/30/2002 | 102,447 | 11.6 | 179,761 | 13.9 | 55,607 | 11.9 | 75,884 |
| 09/30/2002 | 105,353 | 11.8 | 185,608 | 14.4 | 57,375 | 12.5 | 78,131 |
| 12/31/2002 | 108,069 | 12.5 | 190,787 | 14.8 | 58,930 | 13.3 | 79,772 |
| 03/31/2003 | 109,963 | 11.2 | 194,911 | 13.8 | 60,104 | 12.7 | 81,356 |

| Date | Total All lines | 12-mth. growth rate |
|------------|-----------------|---------------------|
| 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 |
| 03/31/2003 | 3,590,208 | 12.4 |

*CML = Commercial

Policy retention trends for Property and Casualty Group insurance operations:

| Date | Private passenger auto | CML* auto | Homeowners | CML* multi-peril | Workers' comp. |
|------------|------------------------|-----------|------------|------------------|----------------|
| 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 |

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| | | | | | |
|------------|------|------|------|------|------|
| 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 |
| 03/31/2003 | 92.5 | 91.3 | 90.6 | 89.1 | 90.2 |

*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.

| (In thousands) Statutory Accounting Basis | Three months ended | |
|--|--------------------|-------------------|
| | March 31, 2003 | March 31, 2002 |
| | (unaudited) | |
| Premiums earned | \$ 802,647 | \$ 666,429 |
| Losses and loss adjustment expenses | \$ 679,856 | \$ 515,915 |
| Insurance underwriting and other expenses | 242,670 | 219,330 |
| Net underwriting loss | \$ (119,879) | \$ (68,816) |
| Investment income, net | 20,711 | 50,907 |
| Federal income tax benefit | (41,530) | (10,375) |
| Net loss | \$ (57,638) | \$ (7,534) |

| (In thousands) Statutory Accounting Basis | As of | |
|--|-------------------|----------------------|
| | March 31, 2003 | December 31, 2002 |
| | (unaudited) | |
| Cash and invested assets | \$ 6,144,615 | \$ 5,967,051 |
| Total assets | 7,188,052 | 7,007,803 |
| Claims and unearned premium reserves | 4,110,498 | 3,962,218 |
| Total liabilities | 5,114,763 | 4,892,032 |
| Policyholders' surplus | 2,073,289 | 2,115,771 |