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

# FORM 10-Q

**QUARTERLY REPORT PERSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2009**

**Commission file number 0-24000**

# ERIE INDEMNITY COMPANY

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| PENNSYLVANIA | 25-0466020 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 100 Erie Insurance Place, Erie, Pennsylvania | 16530 |
| (Address of principal executive offices) | (Zip Code) |

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☑ No o

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large Accelerated Filer ☑ | Accelerated Filer o | Non-Accelerated Filer o (Do not check if a smaller reporting company) | Smaller Reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ☑

The number of shares outstanding of the registrant's Class A Common Stock as of the latest practicable date, with no par value and a stated value of $.0292 per share, was 51,252,693 at October 21, 2009.

The number of shares outstanding of the registrant's Class B Common Stock as of the latest practicable date, with no par value and a stated value of $70 per share, was 2,546 at October 21, 2009.

The common stock is the only class of stock the registrant is presently authorized to issue.

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ERIE INDEMNITY COMPANY


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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(dollars in thousands, except share data)

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Investments | | |
| Available-for-sale securities, at fair value: | | |
| Fixed maturities (amortized cost of $624,092 and $597,672, respectively) | $ 646,908 | $ 563,429 |
| Equity securities (cost of $39,359 and $59,958, respectively) | 40,499 | 55,281 |
| Trading securities, at fair value (cost of $37,087 and $37,835, respectively) | 41,072 | 33,338 |
| Limited partnerships (cost of $284,245 and $272,144, respectively) | 248,124 | 299,176 |
| Real estate mortgage loans | 1,142 | 1,215 |
| **Total investments** | **977,745** | **952,439** |
| Cash and cash equivalents | 36,872 | 61,073 |
| Accrued investment income | 9,318 | 8,420 |
| Premiums receivable from policyholders | 251,784 | 244,760 |
| Federal income taxes recoverable | 0 | 7,498 |
| Deferred income taxes | 64,778 | 72,875 |
| Reinsurance recoverable from Erie Insurance Exchange on unpaid losses and loss adjustment expenses | 793,733 | 777,754 |
| Ceded unearned premiums to Erie Insurance Exchange | 132,990 | 109,613 |
| Note receivable from Erie Family Life Insurance | 25,000 | 25,000 |
| Other receivables due from Erie Insurance Exchange and affiliates | 242,650 | 218,243 |
| Reinsurance recoverable from non-affiliates | 1,983 | 1,944 |
| Deferred policy acquisition costs | 17,764 | 16,531 |
| Equity in Erie Family Life Insurance | 71,006 | 29,236 |
| Securities lending collateral | 9,668 | 18,155 |
| Other assets | 74,189 | 69,845 |
| **Total assets** | **$ 2,709,480** | **$ 2,613,386** |

See accompanying notes to Consolidated Financial Statements.

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)
(dollars in thousands, except share data)

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|---|---|---|
| **Liabilities and shareholders' equity** | | |
| **Liabilities** | | |
| Unpaid losses and loss adjustment expenses | $ 982,972 | $ 965,081 |
| Unearned premiums | 452,815 | 424,370 |
| Commissions payable | 133,326 | 126,208 |
| Agent bonuses | 49,922 | 81,269 |
| Securities lending collateral | 9,778 | 18,155 |
| Accounts payable and accrued expenses | 56,670 | 51,333 |
| Deferred executive compensation | 12,959 | 15,152 |
| Dividends payable | 23,236 | 23,249 |
| Federal income tax payable | 228 | 0 |
| Pension plan liability | 92,381 | 97,682 |
| Employee benefit obligations | 17,078 | 19,012 |
| **Total liabilities** | **1,831,365** | **1,821,511** |
| **Shareholders' Equity** | | |
| Capital stock: | | |
| Class A common, no par value and stated value of $0.0292 per share; authorized 74,996,930 shares; issued 68,289,600 and 68,277,600 shares respectively; 51,252,693 and 51,282,893 shares outstanding, respectively | 1,992 | 1,991 |
| Class B common, convertible at a rate of 2,400 Class A shares for one Class B share, no par value and stated value of $70 per share; 2,546 and 2,551 shares authorized, issued and outstanding, respectively | 178 | 179 |
| Additional paid-in capital | 7,830 | 7,830 |
| Accumulated other comprehensive loss | (68,911) | (135,854) |
| Retained earnings, before cumulative effect adjustment | 1,742,537 | 1,717,499 |
| Cumulative effect of accounting changes, net of tax | 6,692 | 11,191 |
| Retained earnings, after cumulative effect adjustment | 1,749,229 | 1,728,690 |
| Total contributed capital and retained earnings | 1,690,318 | 1,602,836 |
| Treasury stock, at cost, 17,036,907 and 16,994,707 shares, respectively | (812,203) | (810,961) |
| **Total shareholders' equity** | **878,115** | **791,875** |
| **Total liabilities and shareholders' equity** | **$ 2,709,480** | **$ 2,613,386** |

See accompanying notes to Consolidated Financial Statements.

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ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(dollars in thousands, except share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Operating revenue** | | | | |
| Management fee revenue, net | $ 238,752 | $ 234,120 | $ 701,270 | $ 692,737 |
| Premiums earned | 52,989 | 52,057 | 156,849 | 155,719 |
| Service agreement revenue | 8,730 | 8,340 | 25,911 | 23,480 |
| **Total operating revenue** | **300,471** | **294,517** | **884,030** | **871,936** |
| **Operating expenses** | | | | |
| Cost of management operations | 202,412 | 195,297 | 581,648 | 577,754 |
| Losses and loss adjustment expenses incurred | 33,746 | 37,185 | 111,834 | 104,768 |
| Policy acquisition and other underwriting expenses | 16,146 | 12,311 | 41,056 | 36,592 |
| **Total operating expenses** | **252,304** | **244,793** | **734,538** | **719,114** |
| **Investment income (loss) — unaffiliated** | | | | |
| Investment income, net of expenses | 9,466 | 10,218 | 31,526 | 33,357 |
| Realized gains (losses) on investments | 5,453 | (3,925) | 5,086 | (18,368) |
| Net impairment losses recognized in earnings | (3,232) | (37,431) | (10,384) | (61,834) |
| Equity in (losses) earnings of limited partnerships | (8,752) | 1,057 | (63,581) | 20,310 |
| **Total investment income (loss) — unaffiliated** | **2,935** | **(30,081)** | **(37,353)** | **(26,535)** |
| Income before income taxes and equity in earnings (losses) of Erie Family Life Insurance | 51,102 | 19,643 | 112,139 | 126,287 |
| Provision for income taxes | 16,440 | 6,011 | 33,918 | 40,550 |
| Equity in earnings (losses) of Erie Family Life Insurance, net of tax | 5,024 | (9,384) | 5,328 | (10,197) |
| **Net income** | **$ 39,686** | **$ 4,248** | **$ 83,549** | **$ 75,540** |
| **Net income per share** | | | | |
| Class A common stock — basic | $ 0.77 | $ 0.08 | $ 1.62 | $ 1.45 |
| **Class A common stock — diluted** | **0.69** | **0.07** | **1.46** | **1.30** |
| Class B common stock — basic and diluted | 112.06 | 15.92 | 239.96 | 216.59 |
| **Weighted average shares outstanding — basic** | | | | |
| Class A common stock | 51,252,693 | 51,376,513 | 51,255,234 | 51,984,203 |
| Class B common stock | 2,546 | 2,551 | 2,549 | 2,551 |
| **Weighted average shares outstanding — diluted** | | | | |
| Class A common stock | 57,383,900 | 57,533,591 | 57,393,641 | 58,141,281 |
| Class B common stock | 2,546 | 2,551 | 2,549 | 2,551 |
| **Dividends declared per share** | | | | |
| Class A common stock | $ 0.45 | $ 0.44 | $ 1.35 | $ 1.32 |
| Class B common stock | 67.50 | 66.00 | 202.50 | 198.00 |

See accompanying notes to Consolidated Financial Statements.

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(dollars in thousands)

| | Three months ended September 30, 2009 | Three months ended September 30, 2008 | Nine months ended September 30, 2009 | Nine months ended September 30, 2008 |
|---|---|---|---|---|
| **Accumulated other comprehensive (loss) income** | | | | |
| Balance, beginning of period | $(101,465) | $ (8,543) | $(135,854) | $ 10,048 |
| Adjustment to opening balance, net of tax* | 0 | 0 | (6,692) | (11,191) |
| Adjusted balance, beginning of period | (101,465) | (8,543) | (142,546) | (1,143) |
| Net unrealized gains (losses) before tax arising during period | 47,585 | (66,105) | 102,107 | (98,040) |
| Less: reclassification adjustment for gross realized losses included in net income | 2,498 | 37,932 | 11,178 | 58,482 |
| Change in comprehensive income (loss), before tax | 50,083 | (28,173) | 113,285 | (39,558) |
| Income tax (expense) benefit related to items of other comprehensive income | (17,529) | 9,860 | (39,650) | 13,845 |
| Change in other comprehensive income (loss), net of tax | 32,554 | (18,313) | 73,635 | (25,713) |
| Balance, end of period | **$ (68,911)** | **$ (26,856)** | **$ (68,911)** | **$ (26,856)** |
| **Comprehensive income** | | | | |
| Net income | $ 39,686 | $ 4,248 | $ 83,549 | $ 75,540 |
| Net change in accumulated other comprehensive income (loss) | 32,554 | (18,313) | 73,635 | (25,713) |
| **Total comprehensive income (loss)** | **$ 72,240** | **$ (14,065)** | **$ 157,184** | **$ 49,827** |

* Previously recognized non-credit other-than-temporary impairment losses were reclassified from retained earnings to other comprehensive income upon the implementation of FASB ASC 320, *Investments — Debt and Equity Securities*, during the second quarter of 2009. See Note 2. The 2008 adjustment reclassified unrealized gains related to common stock to retained earnings upon the adoption of the fair value option at January 1, 2008 in accordance with FASB ASC 825, *Financial Instruments*.

See accompanying notes to Consolidated Financial Statements.

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ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

| | Nine months ended September 30, 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Management fee received | $ 690,337 | $ 680,311 |
| Service agreement fee received | 26,311 | 23,880 |
| Premiums collected | 162,352 | 157,813 |
| Net investment income received | 32,646 | 38,318 |
| Limited partnership distributions | 9,257 | 21,738 |
| Decrease in reimbursements collected from affiliates | (8,702) | (21,443) |
| Commissions paid to agents | (339,186) | (328,494) |
| Agent bonuses paid | (80,519) | (94,855) |
| Salaries and wages paid | (84,474) | (81,030) |
| Pension contribution and employee benefits paid | (24,639) | (36,972) |
| Losses paid | (93,513) | (88,748) |
| Loss adjustment expenses paid | (16,428) | (15,765) |
| Other underwriting and acquisition costs paid | (44,943) | (41,295) |
| General operating expenses paid | (81,719) | (76,305) |
| Interest paid on bank line of credit | 0 | (953) |
| Income taxes paid | (46,861) | (56,360) |
| **Net cash provided by operating activities** | **99,919** | **79,840** |
| **Cash flows from investing activities** | | |
| Purchase of investments: | | |
| Fixed maturities | (102,855) | (141,641) |
| Preferred stock | (8,462) | (31,343) |
| Common stock | (18,760) | (55,894) |
| Additional investment in EFL | (11,897) | — |
| Limited partnerships | (21,294) | (44,702) |
| Sales/maturities of investments: | | |
| Fixed maturity sales | 35,132 | 121,966 |
| Fixed maturity calls/maturities | 36,386 | 80,088 |
| Preferred stock | 28,623 | 35,560 |
| Common stock | 17,540 | 72,508 |
| Sale of and returns on limited partnerships | 1,664 | 20,368 |
| Purchase of property and equipment | (6,892) | (8,551) |
| Net distributions on agent loans | (2,347) | (2,924) |
| **Net cash (used in) provided by investing activities** | **(53,162)** | **45,435** |
| **Cash flows from financing activities** | | |
| Dividends paid to shareholders | (69,716) | (69,528) |
| Purchase of treasury stock | (1,242) | (98,659) |
| Decrease in collateral from securities lending | (8,377) | (15,480) |
| Redemption of securities lending collateral | 8,377 | 15,480 |
| Proceeds from bank line of credit | 0 | 75,000 |
| Payments on bank line of credit | 0 | (45,000) |
| **Net cash used in financing activities** | **(70,958)** | **(138,187)** |
| Net decrease in cash and cash equivalents | (24,201) | (12,912) |
| Cash and cash equivalents at beginning of period | 61,073 | 31,070 |
| **Cash and cash equivalents at end of period** | **$ 36,872** | **$ 18,158** |

See accompanying notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements, which include the accounts of Erie Indemnity Company and our wholly owned property/casualty insurance subsidiaries, Erie Insurance Company (EIC), Erie Insurance Company of New York (EINY) and Erie Insurance Property and Casualty Company (EIPC), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. For further information, refer to the consolidated financial statements and footnotes included in our Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission (SEC) on February 26, 2009. Erie Insurance Exchange (Exchange), for whom we serve as attorney-in-fact, and its property/casualty subsidiary, Flagship City Insurance Company, our three insurance subsidiaries, EIC, EINY and EIPC and Erie Family Life Insurance Company (EFL) operate collectively as the Erie Insurance Group (Group).

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, “The FASB Accounting Standards Codification ™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No.162,” (FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles*). This standard establishes two levels of generally accepted accounting principles (GAAP), authoritative and nonauthoritative. The FASB Accounting Standards Codification (Codification) is the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants. All other accounting literature is nonauthoritative. This statement became effective for periods ending after September 15, 2009. There was no impact on our consolidated financial statements upon adoption of this standard.

In April 2009, the Financial Accounting Standards Board provided additional application guidance and enhanced disclosure requirements regarding fair value measurements and impairments of securities as follows.

- FASB ASC 820, *Fair Value Measurements and Disclosures*, provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased in relation to normal market activity. This guidance states a reporting entity shall evaluate circumstances to determine whether the transaction is orderly based on the weight of the evidence. Additional disclosures required by this guidance include the inputs and valuation techniques used to measure fair values and any changes in such. We implemented this guidance during the second quarter of 2009 and have provided the required disclosure concerning fair value measure inputs and valuation techniques in Note 6.
- FASB ASC 825, *Financial Instruments*, requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. We adopted this guidance in the second quarter of 2009 and the additional fair value disclosures have been provided in Note 6.
- FASB ASC 320, *Investments — Debt and Equity Securities*, amends the existing other-than-temporary impairment (OTTI) guidance for debt securities. This amended other-than-temporary impairment model requires that credit-related losses and securities in an unrealized position we intend to sell be recognized in earnings, with the remaining decline being recognized in other comprehensive income. This guidance also changes the presentation of OTTI in the statement of operations with the total OTTI presented along with an offset for the amount of OTTI recognized in other comprehensive income. Disclosures include further disaggregation of securities, methodology and inputs related to credit-related loss impairments and a rollforward of credit-related loss impairments. We implemented this guidance during the second quarter of 2009 and have made the applicable presentations in the accompanying financial statements and footnotes. The adoption of this guidance required a cumulative effect adjustment to reclass previously recognized non-credit other-than-temporary impairments from retained earnings to other comprehensive income. The net impact of the cumulative effect adjustment for our available-for-sale debt

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2 — RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

securities on April 1, 2009 increased retained earnings and decreased other comprehensive income by $6.7 million, net of tax. Disclosures regarding our impairment methodology are included in Note 3. The remaining disclosures regarding credit and non-credit related impairments have been provided in Note 7.

FASB ASC 855, *Subsequent Events*, was issued in June 2009 to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. This guidance requires disclosure of the date through which subsequent events are evaluated. This statement became effective for periods ending after June 15, 2009. We have provided the required disclosures concerning subsequent events in Note 17.

In June 2009, SFAS 167, “Amendments to FASB Interpretation No. 46(R),” was issued and amends the guidance for determining whether an enterprise is the primary beneficiary of a variable interest entity (VIE) by requiring a qualitative analysis to determine if an enterprise’s variable interest gives it a controlling financial interest. (This pronouncement has not been Codified as of the filing of this report, therefore reference is made to the pre-Codified standard). A primary beneficiary is expected to be identified through qualitative analysis, which looks at the power to direct activities of the VIE, including its economic performance and the right to receive benefits from the VIE that are significant. This pronouncement is effective for fiscal years that begin after November 15, 2009. Under the current quantitative analysis required by FASB ASC 810, *Consolidation*, although we hold a variable interest in it, we are not deemed to be the primary beneficiary of the Exchange (see Note 15), and the Exchange’s financial statements are not consolidated with ours. Under the provisions of this pronouncement we will be deemed to have a controlling financial interest in the Exchange, by virtue of our attorney-in-fact relationship with the Exchange, and consolidation of the Exchange in our financial statements will be required effective for our first quarter 2010 financial statements. This will require that the Exchange’s financial statements, which are currently only prepared in accordance with statutory accounting principles, be prepared in accordance with GAAP. The Exchange will then also be subject to the Sarbanes-Oxley Section 404 internal control reporting requirements. Given the materiality of the Exchange’s operations, consolidating the Exchange’s financial statements with the Company’s will significantly change our reporting entity, related footnote disclosures and the overall presentation of management’s discussion and analysis. The Exchange’s equity will be shown as a noncontrolling interest in such consolidated statements and the net earnings and equity of the Company will be unchanged by this presentation.

NOTE 3 — SIGNIFICANT ACCOUNTING POLICIES

*Available-for-sale securities* — Fixed maturity and preferred stock securities are classified as available-for-sale and are reported at fair value. Unrealized holding gains and losses, net of related tax effects, on fixed maturities and preferred stock are charged or credited directly to shareholders’ equity as accumulated other comprehensive income (loss).

Realized gains and losses on sales of fixed maturity and preferred stock securities are recognized in income based upon the specific identification method. Interest and dividend income are recognized as earned.

Fixed income and redeemable preferred stock (debt securities) are evaluated monthly for other-than-temporary impairment loss. For debt securities that have experienced a decline in fair value and we intend to sell or for which it is more likely than not we will be required to sell the security before recovery of its amortized cost, an other-than-temporary impairment is deemed to have occurred. These other-than-temporary impairment charges are recognized in earnings.

Debt securities that have experienced a decline in fair value and that we do not intend to sell, and that we will not be required to sell before recovery, are evaluated to determine if the decline in fair value is other-than-temporary.

Some factors considered in this evaluation include:

- the extent and duration to which fair value is less than cost;
- historical operating performance and financial condition of the issuer;
- short and long-term prospects of the issuer and its industry based on analysts’ recommendations;
- specific events that occurred affecting the issuer, including a ratings downgrade;
- near term liquidity position of the issuer;
- compliance with financial covenants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

If a decline is deemed to be other-than-temporary, an assessment is made to determine the amount of the total impairment related to a credit loss and that related to all other factors. Consideration is given to all available information relevant to the collectibility of the security in this determination. If the entire amortized cost basis of the security will not be recovered, a credit loss exists. Currently, we have the intent to sell all of our securities that have been determined to have a credit-related impairment. As a result, the entire amount of the impairment has been recognized in earnings. If we would have had securities with credit impairments that we did not intend to sell, the non-credit portion of the impairment would have been recorded in other comprehensive income.

Impairment charges on non-redeemable preferred securities and hybrid securities with equity characteristics are included in earnings consistent with the treatment for equity securities. This approach is more conservative since the lack of a final maturity and unlikelihood of a call means recovery is uncertain and would occur over a multi-year period. We consider whether we have the intent and ability to hold these types of securities until recovery.

NOTE 4 — RECLASSIFICATIONS

Certain amounts previously reported in the 2008 financial statements have been reclassified to conform to the current period's presentation. Such reclassifications affected the Consolidated Statements of Cash Flows. Reclassifications in the Consolidated Statements of Operations resulted from new accounting guidance. These reclassifications had no effect on previously reported net income.

NOTE 5 — EARNINGS PER SHARE

Earnings per share are calculated under the two-class method, which allocates earnings to each class of stock based on its dividend rights. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. During the third quarter 2009, 5 shares of Class B voting common stock were converted into 12,000 shares of Class A nonvoting common stock. Class A diluted earnings per share are calculated under the if-converted method that reflects the conversion of Class B shares and the effect of potentially dilutive outstanding employee stock-based awards under the long-term incentive plan and awards not yet vested related to the outside directors' stock compensation plan.

A reconciliation of the numerators and denominators used in the basic and diluted per-share computations is presented as follows for each class of common stock:

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| *(dollars in thousands, except per share data)* | Allocated net income (numerator) | Weighted shares (denominator) | Per-share amount | Allocated net income (numerator) | Weighted shares (denominator) | Per-share amount |
| Class A — Basic EPS: | | | | | | |
| Income available to Class A stockholders | $39,401 | 51,252,693 | $ 0.77 | $4,208 | 51,376,513 | $ 0.08 |
| Dilutive effect of stock awards | 0 | 20,807 | — | — | 34,678 | — |
| Assumed conversion of Class B shares | 285 | 6,110,400 | — | 40 | 6,122,400 | — |
| Class A — Diluted EPS: | | | | | | |
| Income available to Class A stockholders on Class A equivalent shares | $39,686 | 57,383,900 | $ 0.69 | $4,248 | 57,533,591 | $ 0.07 |
| Class B — Basic and diluted EPS: | | | | | | |
| Income available to Class B stockholders | $ 285 | 2,546 | $112.06 | $ 40 | 2,551 | $15.92 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5 — EARNINGS PER SHARE (Continued)

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| *(dollars in thousands, except per share data)* | Allocated net income (numerator) | Weighted shares (denominator) | Per-share amount | Allocated net income (numerator) | Weighted shares (denominator) | Per-share amount |
| Class A — Basic EPS: | | | | | | |
| Income available to Class A stockholders | $82,937 | 51,255,234 | $ 1.62 | $74,988 | 51,984,203 | $ 1.45 |
| Dilutive effect of stock awards | 0 | 20,807 | — | — | 34,678 | — |
| Assumed conversion of Class B shares | 612 | 6,117,600 | — | 552 | 6,122,400 | — |
| Class A — Diluted EPS: | | | | | | |
| Income available to Class A stockholders on Class A equivalent shares | $83,549 | 57,393,641 | $ 1.46 | $75,540 | 58,141,281 | $ 1.30 |
| Class B — Basic and diluted EPS: | | | | | | |
| Income available to Class B stockholders | $ 612 | 2,549 | $239.96 | $ 552 | 2,551 | $216.59 |

As of December 2008, all shares awarded under our pre-2004 long-term incentive plan for executive and senior management were fully vested. Awards not yet vested related to this plan and included in the calculation of diluted earnings per share for the third quarter of 2008 were 12,535 shares. There were 11,200 shares of other stock-based awards not yet vested that were included in the third quarter 2009 diluted EPS calculation. Awards not yet vested related to the outside directors' stock compensation plan were 9,607 and 6,143 for the third quarters of 2009 and 2008, respectively.

NOTE 6 — FAIR VALUE

Our available-for-sale and trading securities are recorded at fair value, which is the price that would be received to sell the asset in an orderly transaction between willing market participants as of the measurement date.

Valuation techniques used to derive the fair value of our available-for-sale and trading securities are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources.

Unobservable inputs reflect our own assumptions regarding fair market value for these securities. Although the majority of our prices are obtained from third party sources, we also perform an internal pricing review for securities with low trading volumes in the current market conditions. Financial instruments are categorized into three levels based upon the following characteristics or inputs to the valuation techniques:

Level 1 Quoted prices for identical instruments in active markets not subject to adjustments or discounts

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Instruments whose significant value drivers are unobservable and reflect management's estimate of fair value based on assumptions used by market participants in an orderly transaction as of the valuation date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 6 — FAIR VALUE (Continued)

The following table represents the fair value measurements on a recurring basis for our invested assets by major category and level of input:

| | At September 30, 2009 | | | |
|---|---|---|---|---|
| | | Fair value measurements using: | | |
| *(in thousands)* | Total | Quoted prices in active markets for identical assets Level 1 | Significant observable inputs Level 2 | Significant unobservable inputs Level 3 |
| Available-for-sale securities: | | | | |
| Fixed maturities | $646,908 | $ 6,088 | $629,140 | $11,680 |
| Preferred stock | 40,499 | 7,796 | 31,519 | 1,184 |
| Trading securities: | | | | |
| Common stock | 41,072 | 41,050 | 0 | 22 |
| Total | $728,479 | $54,934 | $660,659 | $12,886 |

Level 3 Invested Assets — Quarterly Change:

| *(in thousands)* | Beginning balance at June 30, 2009 | Included in earnings(1) | Included in other comprehensive income | Purchases, sales and adjustments | Transfers in and (out) of Level 3 (2) | Ending balance at September 30, 2009 |
|---|---|---|---|---|---|---|
| Available-for-sale securities: | | | | | | |
| Fixed maturities | $14,367 | $(652) | $1,458 | $(1,991) | $ (1,502) | $11,680 |
| Preferred stock | 11,215 | 0 | 89 | 0 | (10,120) | 1,184 |
| Trading securities: | | | | | | |
| Common stock | 22 | 0 | 0 | 0 | 0 | 22 |
| Total Level 3 assets | $25,604 | $(652) | $1,547 | $(1,991) | $(11,622) | $12,886 |

Level 3 Invested Assets — Year-to-Date Change:

| *(in thousands)* | Beginning balance at December 31, 2008 | Included in earnings (1) | Included in other comprehensive income | Purchases, sales and adjustments | Transfers in and (out) of Level 3 (2) | Ending balance at September 30, 2009 |
|---|---|---|---|---|---|---|
| Available-for-sale securities: | | | | | | |
| Fixed maturities | $14,217 | $(1,647) | $3,527 | $(1,215) | $ (3,202) | $11,680 |
| Preferred stock | 11,818 | (1,118) | 604 | 0 | (10,120) | 1,184 |
| Trading securities: | | | | | | |
| Common stock | 22 | 0 | 0 | 0 | 0 | 22 |
| Total Level 3 assets | $26,057 | $(2,765) | $4,131 | $(1,215) | $(13,322) | $12,886 |

(1) Includes losses as a result of other-than-temporary impairments and accrual of discount and amortization of premium. These amounts are reported in the Consolidated Statement of Operations. There were no unrealized gains or losses included in earnings for the three or nine months ended September 30, 2009 on Level 3 securities.

(2) Transfers in and out of Level 3 are attributable to changes in the availability of market observable information for individual securities within the respective categories.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 6 — FAIR VALUE (Continued)

Estimates of fair values for our investment portfolio are obtained primarily from a nationally recognized pricing service. Our Level 1 category includes those securities valued using an exchange traded price provided by the pricing service. The methodologies used by the pricing service that support a Level 2 classification of a financial instrument include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Pricing service valuations for Level 3 securities are based on proprietary models and are used when observable inputs are not available in illiquid markets. In limited circumstances we adjust the price received from the pricing service when in our judgment a better reflection of fair value is available based on corroborating information and our knowledge and monitoring of market conditions. At September 30, 2009, we adjusted 11 prices received by the pricing service to reflect an alternate fair market value based on observable market data such as a disparity in price of comparable securities and/or non-binding broker quotes. The value of these securities based on prices from the pricing service was $3.5 million. The ultimate value used in our financial statements was $4.1 million. We perform continuous reviews of the prices obtained from the pricing service. This includes evaluating the methodology and inputs used by the pricing service to ensure we determine the proper level classification of the financial instrument. Price variances, including large periodic changes, are investigated and corroborated by market data. We have reviewed the pricing methodologies of our pricing service and believe that their prices adequately consider market activity in determining fair value.

In cases in which a price from the pricing service is not available, values are determined by obtaining non-binding broker quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based on our best estimate of fair value using corroborating market information. Our evaluation includes the consideration of benchmark yields, reported trades, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

For certain structured securities in an illiquid market, there may be no prices available from a pricing service and no comparable market quotes available. In these situations, we value the security using an internally-developed risk-adjusted discounted cash flow model.

The following table sets forth the fair value of our fixed maturity and preferred stock securities by pricing source as of September 30, 2009:

| | September 30, 2009 | | | |
|---|---|---|---|---|
| *(in thousands)* | Total | Level 1 | Level 2 | Level 3 |
| Fixed maturity securities: | | | | |
| Priced via pricing services(1) | $631,680 | $ 6,088 | $625,592 | $ 0 |
| Priced via non-binding broker quote/market comparables (2) | 4,770 | 0 | 3,548 | 1,222 |
| Priced via internal modeling (3) | 10,458 | 0 | 0 | 10,458 |
| Total fixed maturity securities | 646,908 | 6,088 | 629,140 | 11,680 |
| Preferred stock securities: | | | | |
| Priced via pricing services (1) | 26,969 | 7,796 | 19,173 | 0 |
| Priced via non-binding broker quote/market comparables (2) | 13,530 | 0 | 12,346 | 1,184 |
| Priced via internal modeling (3) | 0 | 0 | 0 | 0 |
| Total preferred stock securities | 40,499 | 7,796 | 31,519 | 1,184 |
| Total available-for-sale securities | $690,407 | $13,885 | $660,659 | $12,864 |

(1) Pricing service valuations for Level 3 securities are based on proprietary models and used when observable inputs are not available in illiquid markets.

(2) All broker quotes obtained for Level 3 securities were non-binding.

(3) Internal modeling using a discounted cash flow model was performed on 16 fixed maturities representing less than 1.5% of the total available for sale portfolio.

We have no assets measured at fair value on a nonrecurring basis during the nine months ended September 30, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7 — INVESTMENTS

Available-for-sale securities

The following table summarizes the cost and fair value of our available-for-sale securities at September 30, 2009. Fixed maturities consist of bonds, notes and redeemable preferred stock. Equity securities include nonredeemable preferred stock.

| | At September 30, 2009 | | | |
|---|---|---|---|---|
| *(in thousands)* | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| **Available-for-sale securities** | | | | |
| **Fixed maturities** | | | | |
| U.S. treasuries and government agencies | $ 2,613 | $ 300 | $ 0 | $ 2,913 |
| Foreign government | 1,998 | 80 | 0 | 2,078 |
| Municipal securities | 232,676 | 10,596 | 172 | 243,100 |
| U.S. corporate debt — non-financial | 166,537 | 10,391 | 776 | 176,152 |
| U.S. corporate debt — financial | 134,831 | 7,823 | 5,072 | 137,582 |
| Foreign corporate debt — non-financial | 28,628 | 2,043 | 477 | 30,194 |
| Foreign corporate debt — financial | 17,930 | 281 | 1,066 | 17,145 |
| Structured securities: | | | | |
| Asset-backed securities — auto loans | 3,999 | 124 | 0 | 4,123 |
| Collateralized debt obligations | 10,890 | 575 | 1,942 | 9,523 |
| Commercial mortgage-backed | 5,568 | 33 | 197 | 5,404 |
| Residential mortgage-backed: | | | | |
| Government sponsored enterprises | 15,548 | 390 | 0 | 15,938 |
| Non-government sponsored enterprises | 2,874 | 0 | 118 | 2,756 |
| Total fixed maturities | $624,092 | $32,636 | $ 9,820 | $646,908 |
| **Equity securities** | | | | |
| U.S. nonredeemable preferred securities: | | | | |
| Financial | $ 24,550 | $ 3,180 | $ 2,998 | $ 24,732 |
| Non-financial | 8,667 | 857 | 478 | 9,046 |
| Government sponsored enterprises | 167 | 425 | 0 | 592 |
| Foreign nonredeemable preferred securities: | | | | |
| Financial | 4,975 | 403 | 250 | 5,128 |
| Non-financial | 1,000 | 1 | 0 | 1,001 |
| Total equity securities | $ 39,359 | $ 4,866 | $ 3,726 | $ 40,499 |
| **Total available-for-sale securities** | $663,451 | $37,502 | $13,546 | $687,407 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7 — INVESTMENTS (Continued)

The following table summarizes the cost and fair value of our available-for-sale securities at December 31, 2008.

| | At December 31, 2008 | | | |
|---|---|---|---|---|
| *(in thousands)* | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| **Available-for-sale securities:** | | | | |
| **Fixed maturities** | | | | |
| U.S. treasuries and government agencies | $ 3,078 | $ 345 | $ 51 | $ 3,372 |
| Foreign government | 1,998 | 0 | 180 | 1,818 |
| Municipal securities | 212,224 | 3,041 | 3,846 | 211,419 |
| U.S. corporate debt — non-financial | 164,419 | 1,963 | 13,181 | 153,201 |
| U.S. corporate debt — financial | 130,929 | 4,500 | 15,807 | 119,622 |
| Foreign corporate debt — non-financial | 34,900 | 86 | 2,681 | 32,305 |
| Foreign corporate debt — financial | 21,917 | 100 | 2,875 | 19,142 |
| Structured securities: | | | | |
| Asset-backed securities — auto loans | 4,000 | 0 | 321 | 3,679 |
| Collateralized debt obligations | 11,438 | 0 | 4,362 | 7,076 |
| Commercial mortgage-backed | 5,098 | 80 | 484 | 4,694 |
| Residential mortgage-backed: | | | | |
| Government sponsored enterprises | 3,450 | 219 | 0 | 3,669 |
| Non-government sponsored enterprises | 4,221 | 0 | 789 | 3,432 |
| Total fixed maturities | $597,672 | $10,334 | $44,577 | $563,429 |
| **Equity securities** | | | | |
| U.S. nonredeemable preferred securities: | | | | |
| Financial | $ 34,353 | $ 3,045 | $ 5,650 | $ 31,748 |
| Non-financial | 19,359 | 449 | 2,270 | 17,538 |
| Government sponsored enterprises | 180 | 0 | 1 | 179 |
| Foreign nonredeemable preferred securities: | | | | |
| Financial | 4,066 | 187 | 57 | 4,196 |
| Non-financial | 2,000 | 0 | 380 | 1,620 |
| Total equity securities | $ 59,958 | $ 3,681 | $ 8,358 | $ 55,281 |
| **Total available-for-sale securities** | $657,630 | $14,015 | $52,935 | $618,710 |

The amortized cost and estimated fair value of available-for-sale fixed maturities at September 30, 2009, are shown below by remaining contractual term to maturity. Mortgage-backed securities are allocated based on their stated maturity dates. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| *(in thousands)* | Amortized cost | Estimated fair value |
|---|---|---|
| Due in one year or less | $ 40,606 | $ 40,737 |
| Due after one year through five years | 246,002 | 257,939 |
| Due after five years through ten years | 244,724 | 254,967 |
| Due after ten years | 92,760 | 93,265 |
| Total fixed maturities | $ 624,092 | $ 646,908 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7 — INVESTMENTS (Continued)

Available-for-sale fixed maturities and equity securities in a gross unrealized loss position at September 30, 2009 are as follows. Data are provided by length of time securities were in a gross unrealized loss position.

**September 30, 2009**

| | Less than 12 months | | 12 months or longer | | Total | | |
|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses | No. of holdings |
| **Fixed maturities** | | | | | | | |
| Foreign government | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | 0 |
| Municipal securities | 2,309 | 6 | 8,005 | 166 | 10,314 | 172 | 6 |
| U.S. corporate debt — non-financial | 1,455 | 42 | 18,969 | 734 | 20,424 | 776 | 14 |
| U.S. corporate debt — financial | 2,978 | 62 | 53,470 | 5,010 | 56,448 | 5,072 | 45 |
| Foreign corporate debt — non-financial | 1,860 | 127 | 3,180 | 350 | 5,040 | 477 | 4 |
| Foreign corporate debt — financial | 1,744 | 5 | 7,127 | 1,061 | 8,871 | 1,066 | 8 |
| Structured securities: | | | | | | | |
| Asset-backed securities — auto loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Collateralized debt obligations | 2,322 | 247 | 3,637 | 1,695 | 5,959 | 1,942 | 9 |
| Commercial mortgage-backed | 0 | 0 | 3,310 | 197 | 3,310 | 197 | 2 |
| Residential mortgage-backed: | | | | | | | |
| Government sponsored enterprises | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-government sponsored enterprises | 0 | 0 | 2,756 | 118 | 2,756 | 118 | 2 |
| Total fixed maturities | $12,668 | $ 489 | $100,454 | $9,331 | $113,122 | $9,820 | 90 |
| **Equity securities** | | | | | | | |
| U.S. nonredeemable preferred securities: | | | | | | | |
| Financial | $ 8,866 | $1,511 | $ 10,179 | $1,487 | $ 19,045 | $2,998 | 15 |
| Non-financial | 2,799 | 134 | 3,707 | 344 | 6,506 | 478 | 3 |
| Foreign nonredeemable preferred securities: | | | | | | | |
| Financial | 0 | 0 | 880 | 250 | 880 | 250 | 1 |
| Non-financial | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total equity securities | $11,665 | $1,645 | $ 14,766 | $2,081 | $ 26,431 | $3,726 | 19 |

Quality breakdown of available-for-sale fixed maturities at September 30, 2009

| | Less than 12 months | | 12 months or longer | | Total | | |
|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses | No. of holdings |
| Investment grade | $ 8,602 | $237 | $ 77,213 | $6,240 | $ 85,815 | $6,477 | 61 |
| Non-investment grade | 4,066 | 252 | 23,241 | 3,091 | 27,307 | 3,343 | 29 |
| Total fixed maturities | $12,668 | $489 | $100,454 | $9,331 | $113,122 | $9,820 | 90 |

The above securities have been evaluated and determined to be temporary impairments and we expect to recover our entire principal. The primary components of this analysis are a general review of market conditions and financial performance of the issuer along with the extent and duration of which fair value is less than cost. A large portion of the unrealized losses greater than 12 months are related to U.S. financial securities. The continued unrealized loss positions in these securities are reflective of wide credit spreads due to the uncertain condition in the U.S. financial sectors. Any debt securities that we intend to sell or will more likely than not be required to sell before recovery are included in other-than-temporary impairments with the impairment charges recognized in earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7 — INVESTMENTS (Continued)

Available-for-sale fixed maturities and equity securities in a gross unrealized loss position at December 31, 2008 are as follows:

**December 31, 2008**

| | Less than 12 months | | 12 months or longer | | Total | | |
|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses | No. of holdings |
| **Fixed maturities** | | | | | | | |
| U.S. treasuries and government agencies | $ 948 | $ 51 | $ 0 | $ 0 | $ 948 | $ 51 | 1 |
| Foreign government | 1,818 | 180 | 0 | 0 | 1,818 | 180 | 1 |
| Municipal securities | 82,222 | 2,960 | 4,291 | 886 | 86,513 | 3,846 | 53 |
| U.S. corporate debt — non-financial | 98,422 | 8,199 | 18,961 | 4,982 | 117,383 | 13,181 | 92 |
| U.S. corporate debt — financial | 70,528 | 10,625 | 18,047 | 5,182 | 88,575 | 15,807 | 84 |
| Foreign corporate debt — non-financial | 24,007 | 1,725 | 1,042 | 956 | 25,049 | 2,681 | 18 |
| Foreign corporate debt — financial | 10,514 | 2,029 | 2,154 | 846 | 12,668 | 2,875 | 11 |
| Structured securities: | | | | | | | |
| Asset-backed securities — auto loans | 3,678 | 321 | 0 | 0 | 3,678 | 321 | 3 |
| Collateralized debt obligations | 6,198 | 4,192 | 426 | 170 | 6,624 | 4,362 | 13 |
| Commercial mortgage-backed | 2,064 | 396 | 1,198 | 88 | 3,262 | 484 | 4 |
| Residential mortgage-backed: | | | | | | | |
| Non-government sponsored enterprises | 2,703 | 549 | 729 | 240 | 3,432 | 789 | 5 |
| Total fixed maturities | $303,102 | $31,227 | $46,848 | $13,350 | $349,950 | $44,577 | 285 |
| **Equity securities** | | | | | | | |
| U.S. nonredeemable preferred securities: | | | | | | | |
| Financial | $ 18,370 | $ 5,396 | $ 741 | $ 254 | $ 19,111 | $ 5,650 | 17 |
| Non-financial | 10,538 | 1,286 | 5,708 | 984 | 16,246 | 2,270 | 9 |
| Government sponsored enterprises | 15 | 1 | 0 | 0 | 15 | 1 | 1 |
| Foreign nonredeemable preferred securities: | | | | | | | |
| Financial | 1,073 | 57 | 0 | 0 | 1,073 | 57 | 1 |
| Non-financial | 1,620 | 380 | 0 | 0 | 1,620 | 380 | 1 |
| Total equity securities | $ 31,616 | $ 7,120 | $ 6,449 | $ 1,238 | $ 38,065 | $ 8,358 | 29 |

Quality breakdown of available-for-sale fixed maturities at December 31, 2008

| | Less than 12 months | | 12 months or longer | | Total | | |
|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses | No. of holdings |
| Investment grade | $296,457 | $29,068 | $42,002 | $12,216 | $338,459 | $41,284 | 271 |
| Non-investment grade | 6,645 | 2,159 | 4,846 | 1,134 | 11,491 | 3,293 | 14 |
| Total fixed maturities | $303,102 | $31,227 | $46,848 | $13,350 | $349,950 | $44,577 | 285 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7 — INVESTMENTS (Continued)

We adopted the fair value option for our common stock portfolio effective January 1, 2008 as it better reflects the way we manage our common stock portfolio under a total return approach. Dividend income is recognized as earned and recorded to net investment income.

The components of net realized losses and gains on investments as reported in the Consolidated Statements of Operations are included below.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2009 | 2008 | 2009 | 2008 |
| **Available-for-sale securities:** | | | | |
| **Fixed maturities** | | | | |
| Gross realized gains | $ 79 | $ 137 | $ 778 | $ 2,311 |
| Gross realized losses | (78) | (775) | (2,686) | (1,115) |
| Net realized gains (losses) | 1 | (638) | (1,908) | 1,196 |
| **Equity securities** | | | | |
| Gross realized gains | 3,379 | 2,377 | 6,168 | 5,061 |
| Gross realized losses | (3,556) | (1,572) | (6,381) | (5,993) |
| Net realized (losses) gains | (177) | 805 | (213) | (932) |
| **Trading securities:** | | | | |
| **Common stock** | | | | |
| Gross realized gains | 1,182 | 3,579 | 1,906 | 10,275 |
| Gross realized losses | (96) | (4,247) | (3,181) | (8,814) |
| Valuation adjustments | 4,543 | (3,424) | 8,482 | (21,721) |
| Net realized gains (losses) | 5,629 | (4,092) | 7,207 | (20,260) |
| **Limited partnerships** | | | | |
| Gross realized gains | 0 | 0 | 0 | 3,541 |
| Gross realized losses | 0 | 0 | 0 | (1,913) |
| Net realized gains | 0 | 0 | 0 | 1,628 |
| Net realized gains (losses) on investments | $ 5,453 | $ (3,925) | $ 5,086 | $ (18,368) |

The components of other-than-temporary impairments on investments are included below.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2009 | 2008 | 2009 | 2008 |
| Fixed maturities | $ (2,202) | $ (15,747) | $ (5,999) | $ (29,717) |
| Equity securities | (1,030) | (21,684) | (4,385) | (32,117) |
| Total | (3,232) | (37,431) | (10,384) | (61,834) |
| Portion recognized in other comprehensive income | 0 | 0 | 0 | 0 |
| Net impairment losses recognized in earnings | $ (3,232) | $ (37,431) | $ (10,384) | $ (61,834) |

In considering if fixed maturity securities were credit impaired some of the factors considered include: potential for the default of interest and/or principal, level of subordination, collateral of the issue, compliance with financial covenants, credit ratings and industry conditions. We have the intent to sell all credit-impaired fixed maturity securities, therefore the entire amount of the impairment charges were included in earnings and no non-credit impairments were recognized in other comprehensive income. Prior to the second quarter of 2009, the impairment policy for fixed maturities was consistent with that of equity securities where securities were deemed other-than-temporary if we did not have the intent and ability to hold a security to recovery.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7 — INVESTMENTS (Continued)

Limited partnerships

Erie Indemnity Company has limited partnership investments that are recorded using the equity method of accounting. As these investments are generally reported on a one-quarter lag, our limited partnership results through September 30, 2009 are comprised of general partnership financial results for the fourth quarter of 2008 and the first and second quarters of 2009. Therefore, the volatility in market conditions experienced in these periods is included in our 2009 results. Given the lag in general partner reporting, our limited partnership results do not reflect the market conditions of the third quarter of 2009. While the private equity and mezzanine debt sectors appear to be stabilizing, there may be additional deterioration in the real estate sector due to the commercial real estate market reflected in the general partners' third quarter 2009 financial statements. Such declines could be significant. Cash contributions made to and distributions received from the partnerships are recorded in the period in which the transaction occurs.

For the nine months ended September 30, 2009, our equity in losses from limited partnerships as reported in the Consolidated Statements of Operations totaled $63.6 million compared to gains of $20.3 million for the nine months ended September 30, 2008.

Our ownership interest is less than 50% in any limited partnership and we do not exercise significant influence over any of these partnerships. As the fair value of our limited partnership investments is approximately 9% of total assets, we have provided summarized financial information in the following table.

| *(dollars in thousands)* | Recorded by Erie Indemnity Company as of and for the nine months ended September 30, 2009 | | | |
|---|---|---|---|---|
| Investment percentage in partnership for Erie Indemnity Company | Number of partnerships | Asset recorded | Loss recognized due to valuation adjustments by the partnerships | Income (loss) recorded |
| **Private equity:** | | | | |
| Less than 10% | 30 | $ 82,140 | $(12,656) | $ (421) |
| Greater than or equal to 10% but less than 50% | 1 | 3,020 | (225) | (489) |
| Total private equity | 31 | 85,160 | (12,881) | (910) |
| **Mezzanine debt:** | | | | |
| Less than 10% | 15 | 51,619 | (5,390) | 4,424 |
| Greater than or equal to 10% but less than 50% | 1 | 2,660 | (1,153) | 474 |
| Total mezzanine debt | 16 | 54,279 | (6,543) | 4,898 |
| **Real estate:** | | | | |
| Less than 10% | 24 | 97,628 | (38,061) | (853) |
| Greater than or equal to 10% but less than 50% | 4 | 11,057 | (9,495) | 264 |
| Total real estate | 28 | 108,685 | (47,556) | (589) |
| Total limited partnerships | 75 | $248,124 | $(66,980) | $3,399 |

Per the limited partner financial statements, total partnership assets were $35.1 billion and total partnership liabilities were $9.1 billion at September 30, 2009 (as recorded in the June 30, 2009 limited partnership financial statements). For the nine month period comparable to that presented in the preceding table (fourth quarter of 2008 and first two quarters of 2009), total partnership valuation adjustment losses were $5.0 billion and total partnership net loss was $0.3 billion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7 — INVESTMENTS (Continued)

As these investments are generally reported on a one-quarter lag, our limited partnership results through December 31, 2008 include the general partnership financial results for the fourth quarter of 2007 and the first three quarters of 2008.

| *(dollars in thousands)* | Recorded by Erie Indemnity Company as of and for the year ended December 31, 2008 | | | |
|---|---|---|---|---|
| Investment percentage in partnership for Erie Indemnity Company | Number of partnerships | Asset recorded | (Loss) income recognized due to valuation adjustments by the partnerships | Income (loss) recorded |
| **Private equity:** | | | | |
| Less than 10% | 31 | $ 91,222 | $ (4,668) | $ 8,915 |
| Greater than or equal to 10% but less than 50% | 1 | 3,290 | 0 | (434) |
| Total private equity | 32 | 94,512 | (4,668) | 8,481 |
| **Mezzanine debt:** | | | | |
| Less than 10% | 15 | 51,941 | 1,164 | 4,664 |
| Greater than or equal to 10% but less than 50% | 1 | 3,224 | (717) | 496 |
| Total mezzanine debt | 16 | 55,165 | 447 | 5,160 |
| **Real estate:** | | | | |
| Less than 10% | 24 | 127,349 | (16,176) | 11,224 |
| Greater than or equal to 10% but less than 50% | 5 | 22,150 | (675) | 1,917 |
| Total real estate | 29 | 149,499 | (16,851) | 13,141 |
| Total limited partnerships | 77 | $299,176 | $(21,072) | $26,782 |

Per the limited partner financial statements, total partnership assets were $48.0 billion and total partnership liabilities were $9.4 billion at December 31, 2008 (as recorded in the September 30, 2008 limited partnership financial statements). For the twelve month period comparable to that presented in the preceding table (fourth quarter of 2007 and first three quarters of 2008), total partnership valuation adjustment losses were $2.3 billion and total partnership net income was $1.3 billion.

See also Note 14 for investment commitments related to limited partnerships.

Securities lending program

We participate in a program whereby marketable securities from our investment portfolio are lent to independent brokers or dealers based on, among other things, their creditworthiness, in exchange for collateral equal to 102% of the value of the securities on loan. The collateral is invested primarily in short-term, investment grade asset-backed securities and floating rate notes. The program is in the process of being terminated and we anticipate it to be completed by the end of 2009.

We had loaned securities included as part of our invested assets with a fair value of $9.4 million and $17.5 million at September 30, 2009 and December 31, 2008, respectively. We have incurred no losses on the securities lending program since the program's inception.

Cash equivalents are principally comprised of investments in bank money market funds and approximate fair value.

NOTE 8 — BANK LINE OF CREDIT

As of September 30, 2009, we have available with a bank a $100 million line of credit that expires on December 31, 2009. There were no borrowings outstanding on the line of credit as of September 30, 2009. Bonds with a fair value of $134.0 million are pledged as collateral on the line at September 30, 2009. These securities have no restrictions and are reported as available-for-sale fixed maturities in the Consolidated Statements of Financial Position as of September 30, 2009. The bank requires compliance with certain covenants which include minimum net worth and leverage ratios. Effective June 29, 2009, the net worth covenant was amended to lower the minimum required to be maintained. We are in compliance with all covenants at September 30, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9 — INCOME TAXES

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statement or tax returns. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. At September 30, 2009, we recorded a net deferred tax asset of $64.8 million on our Consolidated Statements of Financial Position. Although realization is not assured, management believes it is more likely than not that the deferred tax asset will be realized based on our assessment that the losses ultimately recognized for tax purposes will be fully utilized. As such, there was no deferred tax valuation allowance recorded at September 30, 2009.

NOTE 10 — SUMMARIZED FINANCIAL STATEMENT INFORMATION OF EFL

EFL is an affiliated Pennsylvania-domiciled life insurance company operating in 10 states and the District of Columbia. We own 21.6% of EFL's outstanding common shares and account for this investment using the equity method of accounting. The remaining 78.4% of EFL is owned by Erie Insurance Exchange.

The following represents unaudited condensed financial statement information for EFL on a GAAP basis:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2009 | 2008 | 2009 | 2008 |
| Revenues | $36,010 | $ (7,183) | $ 96,468 | $ 39,756 |
| Benefits and expenses | 27,170 | 29,296 | 88,160 | 83,115 |
| Income (loss) before income taxes | 8,840 | (36,479) | 8,308 | (43,359) |
| Net income (loss) | 24,975 | (46,650) | 26,485 | (51,081) |
| Comprehensive income (loss) | 62,556 | (66,006) | 138,115 | (77,980) |

The increase in revenues is the result of impairment charges of $2.6 million in the third quarter of 2009 compared to $40.1 million recorded in the third quarter of 2008. The more significant impairment charges in 2008 were primarily related to bonds and preferred stocks in the financial services industry.

The third quarter 2009 benefits and expenses were reduced by a recovery of $4.0 million related to the Pennsylvania Employees Group Life Insurance (PEGLI) Voluntary reinsurance pool that had previously been written off. EFL participated in the pool prior to July 2001.

Income before income taxes in the third quarter of 2009 reflected much lower impairment charges as well as the positive impact of the PEGLI recovery. The loss before income taxes recorded in the third quarter of 2008 was driven by the $40.1 million in impairment charges.

Net income was positively impacted by a reduction in the deferred tax valuation allowance of $18.9 million in the third quarter of 2009. The net loss after taxes in the third quarter of 2008 was negatively impacted by the establishment of a deferred tax valuation allowance of $22.7 million.

Comprehensive income was positively impacted by the $26.9 million cumulative effect of implementing FASB ASC 320, *Investments — Debt and Equity Securities*, in the second quarter of 2009. Additionally, EFL experienced unrealized gains after tax of $37.6 million in the third quarter of 2009, which contributed to the increase in comprehensive income and investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10 — SUMMARIZED FINANCIAL STATEMENT INFORMATION OF EFL (Continued)

| *(in thousands)* | As of September 30, 2009 | As of December 31, 2008 |
|---|---|---|
| Investments | $1,576,102 | $1,327,553 |
| Total assets | 1,926,095 | 1,645,249 |
| Liabilities | 1,597,806 | 1,510,076 |
| Accumulated other comprehensive income (loss) | 13,065 | (71,666) |
| Cumulative effect adjustment | 26,899 | — |
| Total shareholders' equity | 328,289 | 135,173 |
| Book value per share | $ 34.74 | $ 14.30 |

In June 2009, we made an $11.9 million capital contribution to EFL and the Exchange made a $43.1 million capital contribution to EFL to strengthen its surplus. The $55 million in capital contributions increased EFL's investments and total shareholders' equity.

During the second quarter of 2009, a required cumulative effect adjustment reclassified previously recognized non-credit other-than-temporary impairments of $26.9 million out of retained earnings. Deferred taxes of $9.4 million related to this cumulative effect adjustment were offset by a valuation allowance in the same amount that had been previously recorded related to these impairments.

Total shareholders' equity increased over $193 million from December 31, 2008 to September 30, 2009. The main factors driving this increase was the $84.7 million in unrealized gains, net of tax, the capital contribution of $55.0 million, the cumulative effect adjustment of $26.9 million and net income of $26.5 million.

NOTE 11 — POSTRETIREMENT BENEFITS

The liabilities for the plans described in this note are presented in total for all employees of the Group. The gross liability for the pension plans is presented in the Consolidated Statements of Financial Position as employee benefit obligations. A portion of annual expenses related to the pension plans is allocated to related entities within the Group.

We offer a noncontributory defined benefit pension plan that covers substantially all employees. This is the largest benefit plan we offer. We also offer an unfunded supplemental retirement plan (SERP) for certain members of executive and senior management of the Erie Insurance Group. The components of net periodic benefit cost for our pension benefits are:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2009 | 2008 | 2009 | 2008 |
| Service cost | $ 3,797 | $ 3,136 | $ 11,397 | $ 9,408 |
| Interest cost | 4,869 | 4,447 | 14,569 | 13,342 |
| Expected return on plan assets | (6,004) | (6,043) | (18,354) | (18,128) |
| Amortization of prior service cost | 168 | 33 | 518 | 100 |
| Amortization of actuarial loss | 794 | 78 | 2,444 | 233 |
| Settlement | 55 | 97 | 55 | 170 |
| Net periodic benefit cost | $ 3,679 | $ 1,748 | $ 10,629 | $ 5,125 |

The increase in the net periodic benefit cost of the pension plans is primarily due to a change in discount rate to 6.06% for 2009 compared to 6.62% in 2008. The increase in amortization of actuarial loss is a result of the significant difference between the defined benefit pension plan's actual investment returns in 2008 and the expected returns assumed. These experience losses are being amortized over the average remaining service period of the employee group covered under the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 12 — NOTE RECEIVABLE FROM ERIE FAMILY LIFE INSURANCE COMPANY

We are due $25 million from EFL in the form of a surplus note. The note may be repaid only out of unassigned surplus of EFL and repayment is subject to prior approval by the Pennsylvania Insurance Commissioner. The note bears an annual interest rate of 6.70% and is payable on demand on or after December 31, 2018. EFL accrued interest, payable semi-annually to us, of $0.4 million in each of the quarters ended September 30, 2009 and 2008.

NOTE 13 — STATUTORY INFORMATION

Cash and securities with a carrying value of $6.8 million and $6.6 million were deposited by our property/casualty insurance subsidiaries with regulatory authorities under statutory requirements at September 30, 2009 and December 31, 2008, respectively.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

We have contractual commitments to invest up to $72.8 million of additional funds in limited partnership investments at September 30, 2009. These commitments will be funded as required by the partnerships' agreements. At September 30, 2009, the total commitment to fund limited partnerships that invest in private equity securities is $34.2 million, real estate activities is $22.2 million and mezzanine debt securities is $16.4 million.

We are involved in litigation arising in the ordinary course of business. In our opinion, the effects, if any, of such litigation are not expected to be material to our consolidated financial condition, operations or cash flows.

NOTE 15 — VARIABLE INTEREST ENTITY

The Exchange is a reciprocal insurance exchange, domiciled in Pennsylvania, for which we serve as attorney-in-fact. We hold a variable interest in the Exchange, however, we are not the primary beneficiary. We have a significant interest in the financial condition of the Exchange because net management fee revenues are based on the direct written premiums of the Exchange and the other members of the Property and Casualty Group.

We hold a variable interest in the Exchange because of the absence of decision-making capabilities by the equity owners (subscribers) of the Exchange; however, we do not qualify as the primary beneficiary. Our consolidation conclusion has not changed from December 31, 2008. With the issuance of SFAS 167, we will be consolidating the Exchange's results with ours beginning in the first quarter of 2010. See Note 2 for the impact implementing SFAS 167 will have on our financial statements. (SFAS 167 has not yet been Codified, therefore, reference is made to the pre-Codified standard.)

The Exchange underwrites a broad line of personal and commercial insurance, including private passenger auto, homeowners and commercial multi-peril insurance. Direct written premiums of the Exchange totaled $833 million and $819 million for the third quarters of 2009 and 2008, respectively. These premiums, along with investment income are the major sources of cash that support the operations of the Exchange. Policyholders' surplus was $4.3 billion and $4.0 billion at September 30, 2009 and December 31, 2008, respectively.

In the determination as to whether we are the primary beneficiary we consider the variability in the management fee as well as the variability in underwriting results that would accrue to us under the pooling arrangement in determining the residual returns from the Exchange. The variability is modeled using our stochastic modeling software assigning probabilities to the possible outcomes and determining a probability in the weighted result. The outcomes are calculated using discounted cash flows assuming a discount rate of 5%. Gross cash flows modeled assume a run-off of existing insurance policies and investments. To evaluate circumstances as of the determination date, no new insurance policies are assumed to be written after the evaluation date. We do not include new investments from cash inflows from underwriting profits or investment income, which is conservative, as inclusion of these would only lessen our beneficial interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 15 — VARIABLE INTEREST ENTITY (Continued)

We calculate the amount of variability absorbed by us and compare it to the total variability absorbed by all variable interest holders of the Exchange. In the modeled result we absorb approximately 2% of the total variability of the Exchange at December 31, 2008, which is well below the majority and supports the conclusion that the Company is not the primary beneficiary of the Exchange. No changes or triggering events have occurred in the third quarter 2009 that would require reconsideration of this conclusion.

We have not provided financial or other support to the Exchange for the reporting periods presented, that we were not previously contractually required to provide. At September 30, 2009, there are no explicit arrangements that would require us to provide future support to the Exchange.

We have a significant interest in the financial condition of the Exchange:

- Our management fee revenues, which are based on the direct written premiums of the Exchange and the other members of the Property and Casualty Group, made up 83% of our total revenues for the period ended September 30, 2009. This proportion was greater than the historical percentage, which approximated 72% in 2007 and prior. Our limited partnership investments generated significant losses as a result of the volatile market conditions experienced in the second quarter of 2009. Given the quarter lag in receipt of general partner financial statements, which serve as the basis for valuing limited partnership interests, these second quarter 2009 partnership results are included in our third quarter 2009 results. Excluding the limited partnership losses and market value adjustments, management fee revenues accounted for 77% of our 2009 total revenues.
- We participate in the underwriting results of the Exchange through the pooling arrangement in which our insurance subsidiaries have a 5.5% participation. If the Exchange were to default, our insurance subsidiaries would be liable for the policies that they wrote directly. Our property/casualty insurance subsidiaries wrote approximately 16% of the direct written premiums of the Property and Casualty Group in the third quarter 2009.
- A concentration of credit risk exists, and our exposure is limited to the unsecured receivables due from the Exchange for our management fee, costs and reimbursements that are reflected on our Consolidated Statements of Financial Position.

We have no obligation related to any underwriting and/or investment losses experienced by the Exchange. We would however be adversely impacted if the Exchange incurred significant underwriting and/or investment losses. If the surplus of the Exchange were to decline significantly from its current level, its financial strength ratings could be reduced and as a consequence the Exchange could find it more difficult to retain its existing business and attract new business. A decline in the business of the Exchange would have an adverse effect on the amount of the management fees we receive and the underwriting results of the Property and Casualty Group in which we have a 5.5% participation. In addition, a decline in the surplus of the Exchange from its current level would make it more likely that the management fee rate received by us would be reduced. See also the risk factors relating to the business of the Property and Casualty Group in Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on February 26, 2009.

The Exchange has available a $200 million bank line of credit that expires on September 30, 2012. There were no borrowings at September 30, 2009. Bonds with a fair value of $262.6 million were pledged as collateral at September 30, 2009. These securities have no restrictions. The bank requires compliance with certain covenants, which include minimum collateral values. The Exchange was in compliance with all bank covenants at September 30, 2009.

The Exchange has contractual commitments to invest up to $559.3 million related to its limited partnership investments at September 30, 2009. These commitments will be funded as required by the partnerships’ agreements. At September 30, 2009, the total remaining commitment to fund limited partnerships that invest in private equity securities was $273.3 million, real estate activities was $189.1 million and mezzanine debt securities was $96.9 million.

The financial statements of the Exchange are prepared in accordance with statutory accounting principles (SAP) prescribed by the Commonwealth of Pennsylvania. The Exchange is not required to prepare financial statements in accordance with GAAP. Financial statements prepared under statutory accounting principles focus on the solvency of the insurer and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 15 — VARIABLE INTEREST ENTITY (Continued)

generally provide a more conservative approach than under GAAP. Differences between SAP and GAAP include the valuation of investments, deferred policy acquisition cost assets, deferred tax assets, assets for estimated salvage and subrogation recoveries and unearned subscriber fees. Fixed maturities investments are carried at amortized cost and subject to impairment accounting. At September 30, 2009, the market value of fixed maturities was $248.4 million more than the carrying cost. Equity securities are carried at market value.

The selected financial data below is derived from the Exchange's financial statements prepared in accordance with Statutory Accounting Principles (SAP) required by the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual*, as modified to include prescribed practices of the Insurance Department of the Commonwealth of Pennsylvania. In the opinion of management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation, have been included. The condensed financial data set forth below represents the Exchange's share of underwriting results after accounting for intercompany pooling transactions.

**Erie Insurance Exchange — Condensed statutory statements of operations**

| *(in thousands)* | Three months ended September 30, 2009 | Three months ended September 30, 2008 | Nine months ended September 30, 2009 | Nine months ended September 30, 2008 |
|---|---|---|---|---|
| Premiums earned | $921,050 | $ 902,260 | $2,718,765 | $2,694,802 |
| Losses, loss adjustment expenses and other underwriting expenses* | 902,388 | 892,731 | 2,771,110 | 2,558,171 |
| **Net underwriting income (loss)** | **18,662** | **9,529** | **(52,345)** | **136,631** |
| Total investment income (loss) | 27,588 | (269,878) | (163,820) | (294,141) |
| Net income (loss) before federal income tax | 46,250 | (260,349) | (216,165) | (157,510) |
| Federal income tax expense (benefit) | 13,468 | 15,800 | (34,096) | 129,164 |
| **Net income (loss)** | **$ 32,782** | **$(276,149)** | **$ (182,069)** | **$ (286,674)** |

* Includes management fees paid or accrued as payable to the Company.

The Exchange had catastrophe losses of $104.6 million and $91.4 million in the first nine months of 2009 and 2008, respectively. Catastrophes in 2009 included wind and hail storms primarily in the states of Pennsylvania, Ohio and Indiana. During the nine months ended September 30, 2009 and 2008 the Exchange had favorable development of prior accident year loss reserves that improved the combined ratio by 0.2 points and 3.2 points, respectively. During the third quarter 2009 underwriting income of the Exchange was reduced by $47.7 million due to the write off of uncollectible reinsurance premium as a result of state legislation related to North Carolina Beach and Coastal Plans.

As with our investments, the Exchange's investment portfolio was impacted by declines in the value of securities related to current market conditions. In the third quarter 2009, the Exchange recognized impairment charges of $80.9 million, including $6.6 million on fixed maturities, $4.1 million on common stock, $2.5 million on preferred securities, and $67.7 million on limited partnerships. In the third quarter of 2008, total impairment charges were $324.8 million. Under statutory accounting, deferred tax assets on realized capital losses from impairments of investments are reflected as a change in surplus rather than in deferred income tax provision on the statement of operations. Deferred taxes on impairment charges totaled $28.3 million in the third quarter of 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 15 — VARIABLE INTEREST ENTITY (Continued)

**Erie Insurance Exchange — Condensed statutory statements of financial position**

| *(in thousands)* | As of September 30, 2009 | As of December 31, 2008 |
|---|---|---|
| Fixed maturities | $ 4,478,884 | $ 4,119,753 |
| Equity securities | 2,316,307 | 1,900,320 |
| Alternative investments | 1,138,295 | 1,340,047 |
| Other invested assets | 328,951 | 235,607 |
| Total invested assets | 8,262,437 | 7,595,727 |
| Other assets | 1,345,768 | 1,552,902 |
| **Total assets** | **$ 9,608,205** | **$ 9,148,629** |
| Loss and loss adjustment expense reserves | $ 3,359,880 | $ 3,323,704 |
| Unearned premium reserves | 1,549,297 | 1,444,536 |
| Accrued liabilities | 407,944 | 334,399 |
| Total liabilities | 5,317,121 | 5,102,639 |
| Total policyholders' surplus | 4,291,084 | 4,045,990 |
| **Total liabilities and policyholders' surplus** | **$ 9,608,205** | **$ 9,148,629** |

**Erie Insurance Exchange — Condensed statutory statements of cash flows**

| *(in thousands)* | Nine months ended September 30, 2009 | Nine months ended September 30, 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Premiums collected net of reinsurance | $ 2,818,438 | $ 2,711,789 |
| Losses and loss adjustment expenses paid | (1,609,200) | (1,528,555) |
| Management fee and expenses paid | (1,027,151) | (986,404) |
| Net investment income received | 236,780 | 350,177 |
| Federal income taxes and other expenses recovered (paid) | 141,808 | (150,125) |
| **Net cash provided by operating activities** | **560,675** | **396,882** |
| **Net cash used in investing activities** | **(505,065)** | **(252,413)** |
| **Net cash provided by (used in) financing activities** | **12,188** | **(735)** |
| Net increase in cash and cash equivalents | 67,798 | 143,734 |
| Cash and cash equivalents-beginning of period | 203,193 | 98,712 |
| **Cash and cash equivalents-end of period** | **$ 270,991** | **$ 242,446** |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 16 — SEGMENT INFORMATION

We operate our business as three reportable segments — management operations, insurance underwriting operations and investment operations. Accounting policies for segments are the same as those described in the summary of significant accounting policies Note 3 of our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on February 26, 2009. The management fee revenues received from the property/casualty insurance subsidiaries are not eliminated in the segment detail that follows as management bases its decisions on the segment presentation. Summarized financial information for our operating segments is presented as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2009 | 2008 | 2009 | 2008 |
| **Management Operations** | | | | |
| *Operating revenue* | | | | |
| Management fee revenue | $ 252,624 | $ 247,723 | $ 742,166 | $ 733,131 |
| Service agreement revenue | 8,730 | 8,340 | 25,911 | 23,480 |
| Total operating revenue | 261,354 | 256,063 | 768,077 | 756,611 |
| Cost of management operations | 214,175 | 206,652 | 615,541 | 611,426 |
| Income before income taxes | $ 47,179 | $ 49,411 | 152,536 | $ 145,185 |
| Net income from management operations | $ 32,001 | $ 34,291 | $ 107,188 | $ 98,567 |
| **Insurance Underwriting Operations** | | | | |
| *Operating revenue* | | | | |
| Premiums earned: | | | | |
| Personal lines | $ 37,872 | $ 36,826 | $ 112,314 | $ 109,874 |
| Commercial lines | 14,591 | 15,341 | 44,166 | 46,143 |
| Reinsurance — nonaffiliates | 526 | (110) | 369 | (298) |
| Total premiums earned | 52,989 | 52,057 | 156,849 | 155,719 |
| *Operating expenses* | | | | |
| Losses and expenses: | | | | |
| Personal lines | 37,006 | 36,554 | 115,601 | 102,387 |
| Commercial lines | 11,953 | 16,343 | 40,299 | 45,758 |
| Reinsurance — nonaffiliates | 3,042 | (1,153) | 3,993 | (64) |
| Total losses and expenses | 52,001 | 51,744 | 159,893 | 148,081 |
| Income (loss) before income taxes | $ 988 | $ 313 | $ (3,044) | $ 7,638 |
| Net income (loss) from insurance underwriting operations | $ 670 | $ 217 | $ (2,207) | $ 5,185 |
| **Investment Operations** | | | | |
| Investment income, net of expenses | $ 9,466 | $ 10,218 | $ 31,526 | $ 33,357 |
| Realized gains (losses) on investments | 5,453 | (3,925) | 5,086 | (18,368) |
| Net impairment losses recognized in earnings | (3,232) | (37,431) | (10,384) | (61,834) |
| Equity in (losses) earnings of limited partnerships | (8,752) | 1,057 | (63,581) | 20,310 |
| Total investment income (loss)-unaffiliated | $ 2,935 | $ (30,081) | $ (37,353) | $ (26,535) |
| Net income (loss) from investment operations | $ 1,991 | $ (20,876) | $ (26,760) | $ (18,015) |
| Equity in earnings (losses) of EFL, net of tax | $ 5,024 | $ (9,384) | $ 5,328 | $ (10,197) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 16 — SEGMENT INFORMATION (Continued)

A reconciliation of reportable segment revenues and operating expenses to the Consolidated Statements of Operations is as follows:

| *(in thousands)* | Three months ended September 30, 2009 | Three months ended September 30, 2008 | Nine months ended September 30, 2009 | Nine months ended September 30, 2008 |
|---|---|---|---|---|
| Segment revenues, excluding investment operations | $ 314,343 | $ 308,120 | $ 924,926 | $ 912,330 |
| Elimination of intersegment management fee revenues | (13,872) | (13,603) | (40,896) | (40,394) |
| Total operating revenues | $ 300,471 | $ 294,517 | $ 884,030 | $ 871,936 |
| Segment operating expenses | $ 266,176 | $ 258,396 | $ 775,434 | $ 759,508 |
| Elimination of intersegment management fee revenue | (13,872) | (13,603) | (40,896) | (40,394) |
| Total operating expenses | $ 252,304 | $ 244,793 | $ 734,538 | $ 719,114 |

The intersegment revenues and expenses that are eliminated in the Consolidated Statements of Operations relate to our property/casualty insurance subsidiaries' 5.5% share of the intersegment management fees paid to us.

The growth rate of policies in force, policy retention (the percentage of policyholders eligible for renewals who have renewed their policies measured on a twelve-month rolling basis) and average premium per policy trends directly impact our management operations and insurance underwriting operating segments. Below is a summary of each major line of business for the Property and Casualty Group.

**Growth rates 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 Personal Lines | 12-mth. growth rate | Total Personal Lines | 12-mth. growth rate |
|---|---|---|---|---|---|---|---|---|
| 06/30/2008 | 1,667,446 | 1.4% | 1,433,504 | 2.5% | 332,922 | 6.8% | 3,433,872 | 2.4% |
| 09/30/2008 | 1,677,151 | 1.7 | 1,446,779 | 2.7 | 340,566 | 7.5 | 3,464,496 | 2.7 |
| 12/31/2008 | 1,683,526 | 2.0 | 1,454,797 | 2.9 | 346,953 | 7.9 | 3,485,276 | 2.9 |
| 03/31/2009 | 1,694,583 | 2.3 | 1,466,227 | 3.2 | 353,470 | 8.5 | 3,514,280 | 3.3 |
| 06/30/2009 | 1,709,580 | 2.5 | 1,483,763 | 3.5 | 362,582 | 8.9 | 3,555,925 | 3.6 |
| 09/30/2009 | 1,721,388 | 2.6 | 1,498,285 | 3.6 | 369,253 | 8.4 | 3,588,926 | 3.6 |

| Date | CML* Auto | 12-mth. growth rate | CML* Multi-Peril | 12-mth. growth rate | Workers Comp. | 12-mth. growth rate | All Other CML* Lines | 12-mth. growth rate | Total CML* Lines | 12-mth. growth rate |
|---|---|---|---|---|---|---|---|---|---|---|
| 06/30/2008 | 123,955 | 1.9% | 234,393 | 4.8% | 55,801 | 3.4% | 97,745 | 3.3% | 511,894 | 3.7% |
| 09/30/2008 | 124,418 | 1.9 | 236,994 | 4.7 | 56,381 | 3.8 | 98,786 | 2.7 | 516,579 | 3.5 |
| 12/31/2008 | 124,205 | 1.3 | 237,228 | 3.9 | 56,704 | 3.6 | 98,796 | 2.4 | 516,933 | 3.0 |
| 03/31/2009 | 123,747 | 0.7 | 236,804 | 3.1 | 56,661 | 3.2 | 98,622 | 2.2 | 515,834 | 2.4 |
| 06/30/2009 | 124,917 | 0.8 | 240,970 | 2.8 | 57,549 | 3.1 | 99,973 | 2.3 | 523,409 | 2.2 |
| 09/30/2009 | 125,149 | 0.6 | 243,771 | 2.9 | 58,238 | 3.3 | 101,157 | 2.4 | 528,315 | 2.3 |

* CML = Commercial

| Date | Total All Lines | 12-mth. growth rate |
|---|---|---|
| 06/30/2008 | 3,945,766 | 2.5% |
| 09/30/2008 | 3,981,075 | 2.8 |
| 12/31/2008 | 4,002,209 | 2.9 |
| 03/31/2009 | 4,030,114 | 3.2 |
| 06/30/2009 | 4,079,334 | 3.4 |
| 09/30/2009 | 4,117,241 | 3.4 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 16 — SEGMENT INFORMATION (Continued)

**Policy retention trends for Property and Casualty Group insurance operations:**

| Date | Private Passenger Auto | Homeowners | CML* Auto | CML* Multi-Peril | Workers Comp. | All Other Lines | Total All Lines |
|---|---|---|---|---|---|---|---|
| 06/30/2008 | 91.6% | 90.7% | 87.9% | 86.2% | 87.5% | 88.1% | 90.4% |
| 09/30/2008 | 91.7 | 91.0 | 87.8 | 86.0 | 87.2 | 88.2 | 90.5 |
| 12/31/2008 | 91.8 | 91.1 | 87.6 | 85.6 | 86.6 | 88.5 | 90.6 |
| 03/31/2009 | 91.9 | 91.4 | 87.5 | 85.7 | 86.3 | 88.8 | 90.8 |
| 06/30/2009 | 91.9 | 91.6 | 87.3 | 85.2 | 85.7 | 89.1 | 90.8 |
| 09/30/2009 | 91.9 | 91.4 | 87.0 | 84.9 | 85.8 | 88.8 | 90.7 |

* CML = Commercial

**Average premium per policy trends for Property and Casualty Group insurance operations**:

| Date | Private Passenger Auto | 12-mth. percent change | Homeowners | 12-mth. percent change | All Other Personal Lines | 12-mth. percent change | Total Personal Lines | 12-mth. percent change |
|---|---|---|---|---|---|---|---|---|
| 06/30/2008 | $1,088 | (0.5)% | $514 | (1.2)% | $353 | 0.6% | $777 | (1.1)% |
| 09/30/2008 | 1,086 | (0.6) | 511 | (1.5) | 354 | 0.6 | 774 | (1.1) |
| 12/31/2008 | 1,085 | (0.6) | 511 | (1.4) | 356 | 0.8 | 773 | (1.2) |
| 03/31/2009 | 1,081 | (0.9) | 512 | (1.2) | 358 | 1.1 | 771 | (1.3) |
| 06/30/2009 | 1,076 | (1.1) | 516 | 0.4 | 359 | 1.7 | 769 | (1.0) |
| 09/30/2009 | 1,076 | (0.9) | 520 | 1.8 | 359 | 1.4 | 770 | (0.5) |

| Date | CML* Auto | 12-mth. percent change | Workers Comp. | 12-mth. percent change | All Other CML* Lines | 12-mth. percent change | Total CML* Lines | 12-mth. percent change | Total All Lines | 12-mth. percent change |
|---|---|---|---|---|---|---|---|---|---|---|
| 06/30/2008 | $2,530 | (3.7)% | $5,236 | (11.3)% | $1,546 | (4.3)% | $2,187 | (6.3)% | $960 | (2.4)% |
| 09/30/2008 | 2,514 | (3.3) | 5,067 | (12.3) | 1,536 | (3.5) | 2,157 | (6.0) | 953 | (2.6) |
| 12/31/2008 | 2,505 | (2.8) | 4,951 | (11.6) | 1,533 | (3.0) | 2,141 | (5.3) | 949 | (2.5) |
| 03/31/2009 | 2,483 | (3.3) | 4,792 | (12.1) | 1,537 | (2.5) | 2,122 | (5.3) | 944 | (2.6) |
| 06/30/2009 | 2,439 | (3.6) | 4,555 | (13.0) | 1,511 | (2.3) | 2,067 | (5.5) | 936 | (2.5) |
| 09/30/2009 | 2,420 | (3.7) | 4,354 | (14.1) | 1,496 | (2.6) | 2,030 | (5.9) | 932 | (2.2) |

* CML = Commercial

NOTE 17 — SUBSEQUENT EVENTS

We have evaluated for recognized and nonrecognized subsequent events through October 29, 2009, which is the date of financial statement issuance. No items were identified in this period subsequent to the financial statement date that required adjustment or disclosure.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

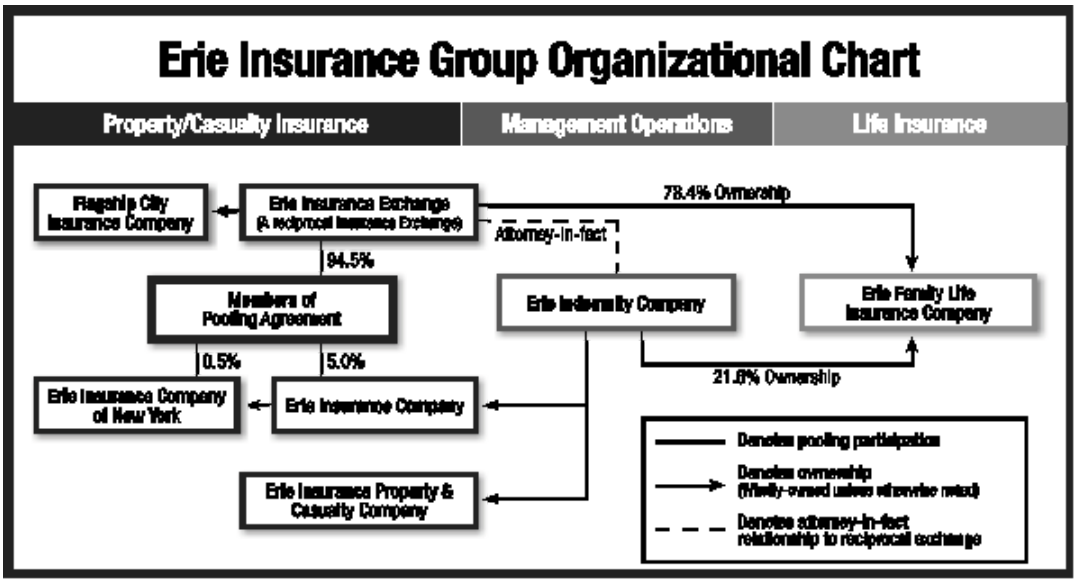
The following information should be read in conjunction with the historical financial information and the notes thereto included in Item 1. of this Quarterly Report on Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on February 26, 2009. The following discussion of financial results focuses heavily on our three segments: management operations, insurance underwriting operations and investment operations, consistent with the presentation in Item 1. Note 16 in the Notes to Consolidated Financial Statements. That presentation, which management uses internally to monitor and evaluate results, is an alternative presentation of our Consolidated Statements of Operations.

Certain statements contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are not in the present or past tense and can generally be identified by the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "likely," "plan," "project," "seek," "should," "target," "will," and other expressions that indicate future trends and events. Forward-looking statements include, without limitation, statements and assumptions on which such statements are based that are related to our plans, strategies, objectives, expectations, intentions and adequacy of resources. Examples of such statements are discussions relating to management fee revenue, cost of management operations, underwriting, premium and investment income volumes, and agency appointments. Such statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Among the risks and uncertainties that could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements are the following: factors affecting the property/casualty and life insurance industries generally, including price competition, legislative and regulatory developments, government regulation of the insurance industry including approval of rate increases, the size, frequency and severity of claims, natural disasters, exposure to environmental claims, fluctuations in interest rates, inflation and general business conditions; the geographic concentration of our business as a result of being a regional company; the accuracy of our pricing and loss reserving methodologies; changes in driving habits; our ability to maintain our business operations including our information technology system; our dependence on the independent agency system; the quality and liquidity of our investment portfolio; our dependence on our relationship with Erie Insurance Exchange; and the other risks and uncertainties discussed or indicated in all documents filed by the Company with the Securities and Exchange Commission, including those described in Part I, "Item 1A. Risk Factors" of the 2008 Form 10-K, which information is incorporated by reference, updated by Part II, "Item 1A. Risk Factors" of this Form 10-Q. A forward-looking statement speaks only as of the date on which it is made and reflects the Company's analysis only as of that date. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changes in assumptions, or otherwise.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

NATURE OF ORGANIZATION

The following organizational chart depicts the organization of the various entities of the Erie Insurance Group:




We serve as the attorney-in-fact for the Erie Insurance Exchange (Exchange), a reciprocal insurance exchange, and operate as a provider of certain management services to the Exchange. We also own subsidiaries that are property and casualty insurers. The Exchange and its property/casualty insurance subsidiary, Flagship City Insurance Company, and our three property/casualty insurance subsidiaries, Erie Insurance Company (EIC), Erie Insurance Company of New York (EINY) and Erie Insurance Property and Casualty Company (EIPC), (collectively, the Property and Casualty Group) underwrite personal and commercial lines property and casualty insurance exclusively through over 2,000 independent agencies comprising over 9,000 licensed independent agents. The entities within the Property and Casualty Group pool their underwriting results. The financial position and results of operations of the Exchange are not consolidated with ours. We, together with the Property and Casualty Group and Erie Family Life Insurance Company (EFL), operate collectively as the Erie Insurance Group.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the Consolidated Financial Statements for a discussion of recent accounting pronouncements.

OVERVIEW

The property/casualty insurance industry remains in stable financial condition, however, the ongoing economic recession is expected to continue to suppress exposure growth. The industry continues to experience mixed insurance premium pricing momentum. The cyclical nature of the insurance industry has a direct impact on our income from management operations as our management fee revenues are based on the direct written premiums of the Property and Casualty Group and the management fee rate we charge. Our management fee revenue increased 2.0%, as the direct written premiums of the Property and Casualty Group grew 2.0% in the third quarter of 2009 compared to the third quarter of 2008.

The financial information presented herein reflects our management operations from serving as attorney-in-fact for the Exchange, our insurance underwriting results from our wholly-owned subsidiaries (EIC, EINY and EIPC) and our investment operations. The bases of calculations used for segment data are described in more detail in Item 1. Note 16 in the Notes to Consolidated Financial Statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

SEGMENT RESULTS

| *(dollars in thousands, except per share data)* | Three months ended September 30, 2009 | 2008 | % Change | Nine months ended September 30, 2009 | 2008 | % Change |
|---|---|---|---|---|---|---|
| | (Unaudited) | | | (Unaudited) | | |
| Income from management operations | $ 47,179 | $ 49,411 | (4.5)% | $ 152,536 | $ 145,185 | 5.1% |
| Underwriting income (loss) | 988 | 313 | NM | (3,044) | 7,638 | NM |
| Net revenue (loss) from investment operations | 8,337 | (40,171) | NM | (31,624) | (37,500) | 15.7 |
| Income before income taxes | 56,504 | 9,553 | NM | 117,868 | 115,323 | 2.2 |
| Provision for income taxes | 16,818 | 5,305 | NM | 34,319 | 39,783 | (13.7) |
| Net income | $ 39,686 | $ 4,248 | NM | $ 83,549 | $ 75,540 | 10.6 |
| Net income per share — diluted | $ 0.69 | $ 0.07 | NM | $ 1.46 | $ 1.30 | 12.0% |

NM = not meaningful

Key Points:

- Increase in net income per share-diluted in the third quarter of 2009 was driven primarily by impairment losses of $3.2 million in the third quarter of 2009 compared to impairment losses of $37.4 million in the third quarter of 2008.
- Gross margins from management operations decreased to 18.1% in the third quarter of 2009 from 19.3% in the third quarter of 2008.
- GAAP combined ratios of the insurance underwriting operations decreased to 98.1% in the third quarter of 2009, from 99.4% in the third quarter of 2008, driven by lower catastrophe losses and favorable development of prior accident year loss reserves.

ANALYSIS OF BUSINESS SEGMENTS

MANAGEMENT OPERATIONS

| *(dollars in thousands)* | Three months ended September 30, 2009 | 2008 | % Change | Nine months ended September 30, 2009 | 2008 | % Change |
|---|---|---|---|---|---|---|
| | (Unaudited) | | | (Unaudited) | | |
| Management fee revenue | $ 252,624 | $ 247,723 | 2.0% | $ 742,166 | $ 733,131 | 1.2% |
| Service agreement revenue | 8,730 | 8,340 | 4.7 | 25,911 | 23,480 | 10.4 |
| Total revenue from management operations | 261,354 | 256,063 | 2.1 | 768,077 | 756,611 | 1.5 |
| Cost of management operations | 214,175 | 206,652 | 3.6 | 615,541 | 611,426 | 0.7 |
| Income from management operations | $ 47,179 | $ 49,411 | (4.5)% | $ 152,536 | $ 145,185 | 5.1% |
| Gross margin | 18.1% | 19.3% | | 19.9% | 19.2% | |

Key Points:

- The management fee rate was 25% in 2009 and 2008.
- Direct written premiums of the Property and Casualty Group increased 2.0% in the third quarter of 2009 compared to the third quarter of 2008.
- Year-over-year policies in force grew 3.4%, or 136,166 policies, to 4,117,241 at September 30, 2009, compared to year-over-year growth of 107,410 policies at September 30, 2008.
- Year-over-year average premium per policy was $932 and $953 at September 30, 2009 and 2008, respectively, a decrease of 2.2%.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

- Cost of management operations increased 3.6%. Commission costs increased 2.3% while non-commission expense increased 6.8% in the third quarter of 2009 compared to the third quarter of 2008 driven by contract labor costs related to various technology initiatives.

**Management fee revenue**

The following table presents the direct written premium of the Property and Casualty Group, shown by major line of business, and the calculation of our management fee revenue.

| *(dollars in thousands)* | Three months ended September 30, 2009 | 2008 | % Change | Nine months ended September 30, 2009 | 2008 | % Change |
|---|---|---|---|---|---|---|
| | (Unaudited) | | | (Unaudited) | | |
| Private passenger auto | $ 500,195 | $ 488,043 | 2.5% | $ 1,433,543 | $ 1,408,259 | 1.8% |
| Homeowners | 223,827 | 209,065 | 7.1 | 603,769 | 567,224 | 6.4 |
| Commercial multi-peril | 104,604 | 103,507 | 1.1 | 340,691 | 338,282 | 0.7 |
| Commercial auto | 71,565 | 73,404 | (2.5) | 234,579 | 242,827 | (3.4) |
| Workers compensation | 54,800 | 63,325 | (13.5) | 198,989 | 226,142 | (12.0) |
| All other lines of business | 53,910 | 51,947 | 3.8 | 162,694 | 154,990 | 5.0 |
| Property and Casualty Group direct written premiums | 1,008,901 | 989,291 | 2.0 | 2,974,265 | 2,937,724 | 1.2 |
| Management fee rate | 25.00% | 25.00% | | 25.00% | 25.00% | |
| Management fee revenue, gross | 252,224 | 247,323 | 2.0 | 743,566 | 734,431 | 1.2 |
| Change in allowance for management fee returned on cancelled policies(1) | 400 | 400 | NM | (1,400) | (1,300) | NM |
| Management fee revenue, net of allowance | $ 252,624 | $ 247,723 | 2.0% | $ 742,166 | $ 733,131 | 1.2% |

NM = not meaningful

(1) Management fees are returned to the Exchange when policies are cancelled mid-term and unearned premiums are refunded. We record an estimated allowance for management fees returned on mid-term policy cancellations.

Direct written premiums of the Property and Casualty Group increased 2.0% in the third quarter of 2009 reflecting an increase in policies in force offset by reductions in average premium. Total year-over-year policies in force increased by 3.4% to 4,117,241 at September 30, 2009. Growth in policies in force is the result of continuing improvements in policyholder retention and increased new policies sold. The year-over-year average premium per policy declined 2.2% to $932 at September 30, 2009 from $953 at September 30, 2008. The impact of these average premium decreases is seen primarily in the commercial lines renewal premiums.

Premiums generated from new business increased 4.8% to $113.9 million from $108.7 million in the third quarter of 2009 compared to 2008. Underlying the trend in new business premiums is an increase in new business policies in force of 6.3% to 505,715 at September 30, 2009, while the year-over-year average premium per policy on new business decreased 1.9% to $841 at September 30, 2009, from $858 at September 30, 2008.

Premiums generated from renewal business increased 1.6% to $895.0 million from $880.6 million in the third quarters of 2009 and 2008, respectively. Renewal policies in force increased 3.0% to 3,611,526, while the year-over-year average premium per policy on renewal business decreased 2.2% to $944 from $966 for the same respective periods in 2009 and 2008. The Property and Casualty Group's policy retention ratio has improved to a twelve-month moving average of 90.7% in the third quarter of 2009, up from 90.6% in the fourth quarter of 2008. The policy retention ratio was 90.5% in the third quarter 2008.

*Personal lines* — The Property and Casualty Group's personal lines new business premiums written increased 6.5% to $78.5 million in the third quarter of 2009 compared to $73.7 million in the third quarter of 2008. Personal lines new policies in force

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

increased 7.9% to 415,495 for the twelve months ended September 30, 2009, compared to 385,190 for the twelve months ended September 30, 2008, while the year-over-year average premium per policy on new business increased 0.3% to $684 at September 30, 2009, from $682 at September 30, 2008.

Private passenger auto new business premiums written increased 6.9% to $49.5 million during the third quarter of 2009 driven by a 9.4% increase in new business policies in force for the twelve months ended September 30, 2009. A private passenger auto incentive program has been in place since July 2006 to stimulate policy growth. The private passenger auto new business year-over-year average premium per policy decreased 0.9% to $1,001 at September 30, 2009. This decrease was driven by market conditions causing shifts to lower exposure coverages and higher deductibles in our private passenger auto book of business.

Renewal premiums written on personal lines policies increased 3.7% during the third quarter of 2009 to $680.9 million from $656.4 million during the third quarter of 2008. The impact of decreasing premium per policy was offset by improving policy retention ratio trends. The year-over-year average premium per policy on personal lines renewal business decreased 0.5% to $781 at September 30, 2009, from $785 at September 30, 2008. The year-over-year policy retention ratio for private passenger auto improved to 91.9% at September 30, 2009, from 91.8% at December 31, 2008, and 91.7% at September 30, 2008, while the policy retention for homeowners improved to 91.4% at September 30, 2009, from 91.1% at December 31, 2008 and 91.0% at September 30, 2008.

*Commercial lines* — The commercial lines new business premiums written increased 1.1% to $35.2 million in the third quarter of 2009 from $34.9 million in the third quarter of 2008, driven by new business premium increases in the commercial multi-peril line. Commercial lines new policies in force decreased 0.4% to 90,220 for the twelve months ended September 30, 2009, while the year-over-year average premium per policy on commercial lines new business decreased 2.5%. This was due primarily to reductions in exposures driven by continued economic pressure on commercial customers.

Renewal premiums for commercial lines decreased 4.5% to $214.1 million from $224.2 million in the third quarter of 2009 compared to 2008. While renewal policies in force increased 2.8% to 438,095 for the twelve months ended September 30, 2009, the year-over-year average premium per policy on commercial lines renewal business declined 6.5% due primarily to the workers compensation and commercial auto lines of business. The workers compensation and commercial auto year-over-year average premium per policy decreased 14.5% and 4.2%, respectively, at September 30, 2009. Contributing to the lower average premium per policy were market conditions causing lower exposures driven by reductions in payroll levels, shifts in the mix of our book of business and certain rate reductions.

*Future trends Property and Casualty Group — premium revenue* — We are continuing our efforts to grow Property and Casualty premiums and improve our competitive position in the marketplace. Expanding the size of our agency force will contribute to future growth as existing and new agents build up their books of business with the Property and Casualty Group. We expect our modest price increases to be offset by exposure reductions and changes in our mix of business resulting in a slight decrease in our average premium per policy in 2009.

**Cost of management operations**

| *(in thousands)* | Three months ended September 30, 2009 | 2008 | % Change | Nine months ended September 30, 2009 | 2008 | % Change |
|---|---|---|---|---|---|---|
| | (Unaudited) | | | (Unaudited) | | |
| Commissions | $ 146,553 | $ 143,306 | 2.3% | $ 419,238 | $ 421,881 | (0.6)% |
| Personnel costs | 37,395 | 36,907 | 1.3 | 109,746 | 110,189 | (0.4) |
| Survey and underwriting costs | 6,832 | 6,047 | 13.0 | 19,789 | 18,250 | 8.4 |
| Sales and policy issuance costs | 7,113 | 6,146 | 15.7 | 20,365 | 19,323 | 5.4 |
| All other operating costs | 16,282 | 14,246 | 14.3 | 46,403 | 41,783 | 11.1 |
| Non-commission expense | 67,622 | 63,346 | 6.8 | 196,303 | 189,545 | 3.6 |
| Total cost of management operations | $ 214,175 | $ 206,652 | 3.6% | $ 615,541 | $ 611,426 | 0.7% |

Key Points:

- Commissions increased 2.3% in the third quarter of 2009 primarily driven by a 2.0% increase in the direct written premiums of the Property and Casualty Group.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

- Personnel costs increased 1.3% in the third quarter of 2009 driven by a $1.0 million increase in incentive plan expense and a $1.0 million increase in employee benefit costs driven by higher pension costs.
- All other operating costs increased $2.0 million primarily as the result of contract labor costs related to various technology initiatives.

Commissions

Commissions to independent agents, which are the largest component of the cost of management operations, include scheduled commissions earned by independent agents on premiums written, accelerated commissions and agent bonuses, and are outlined in the following table:

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| | (Unaudited) | | | (Unaudited) | | |
| Scheduled rate commissions | $ 122,534 | $ 119,229 | 2.8% | $ 359,886 | $ 352,561 | 2.1% |
| Accelerated rate commissions | 910 | 1,132 | (19.6) | 2,937 | 3,237 | (9.3) |
| Agent bonuses | 18,940 | 19,075 | (0.7) | 48,544 | 58,430 | (16.9) |
| Promotional incentives | 87 | 755 | (88.5) | 656 | 2,262 | (71.0) |
| Private passenger auto bonus | 3,782 | 2,915 | 29.7 | 7,915 | 6,191 | 27.8 |
| Change in commissions allowance for mid-term policy cancellations | 300 | 200 | NM | (700) | (800) | NM |
| Total commissions | $ 146,553 | $ 143,306 | 2.3% | $ 419,238 | $ 421,881 | (0.6)% |

NM = not meaningful

*Scheduled and accelerated rate commissions* — Scheduled rate commissions were impacted by the 2.0% increase in the direct written premiums of the Property and Casualty Group in the third quarter of 2009 compared to the third quarter of 2008. Also, effective July 1, 2008, commission rates were increased for certain commercial lines new business premiums, which added $1.6 million to the nine months ended September 30, 2009 scheduled rate commissions, compared to $1.0 million in 2008.

Accelerated rate commissions are offered under specific circumstances to certain newly-recruited agents for their initial three years of operations. Accelerated rate commissions decreased during the third quarter of 2009 as existing accelerated commission contracts are beginning to expire. This is reflective of the fact that although new agency appointments continue, the number of such appointments has been declining. We appointed 214 new agencies in 2007 and 156 in 2008. During the first nine months of 2009, we appointed 87 new agencies and expect to appoint a total of 127 new agencies for the year.

*Agent bonuses* — Agent bonuses are based predominantly on an individual agency's property/casualty underwriting profitability over a three-year period. There is also a growth component to the bonus, paid only if the agency is profitable. The estimate for the bonus is modeled on a monthly basis using the two prior years' actual underwriting data by agency combined with the current year-to-date actual data and projected underwriting data for the remainder of the current year. The decrease in the estimate for agent bonuses in the third quarter of 2009 reflects a reduction in our estimate of the profitability component of the bonus due to factoring in the most recent year's underwriting data. The agent bonus award is estimated at $64.3 million at September 30 2009.

*Private passenger auto bonus* — In July 2006, an incentive program was implemented that pays a bonus to agents for each qualifying new private passenger auto policy issued. Effective June 1, 2008, a tiered payout structure was introduced. Additional commission expense as a result of the tiered bonus structure was $1.8 million and $1.3 million in the third quarters of 2009 and 2008, respectively. For the nine months ended September 30, 2009, this tiered bonus structure contributed $2.6 million of additional commission expense compared to $1.5 million for the nine months ended September 30, 2008.

Other costs of management operations

The cost of management operations excluding commission costs increased 6.8% in the third quarter of 2009 compared to 2008. Personnel costs increased 1.3%, or $0.5 million, in the third quarter of 2009. Management incentive plan expense increased $1.0 million, primarily resulting from favorable market value adjustments of our stock and an increase in our

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

performance as measured against the peer group. Employee benefit costs increased $1.0 million, primarily driven by higher pension benefit costs due to the change in the discount rate assumption used to calculate the pension expense to 6.06% in 2009 from 6.62% in 2008. These increases were offset by a slight decrease in salaries and wages and lower executive severance costs in the third quarter of 2009 compared to 2008. All other operating costs increased 14.3%, or $2.0 million, in the third quarter of 2009 primarily due to increased contract labor costs related to various technology initiatives.

For the nine months ending September 30, 2009, personnel costs decreased 0.4%, or $0.4 million, compared to the nine months ending September 30, 2008. Executive severance costs decreased $2.9 million and salaries and wages decreased slightly in the first nine months of 2009 compared to the first nine months of 2008. Management incentive plan expense increased $1.1 million as a result of an increase in the estimate of the plan payouts. Employee benefit costs increased $2.2 million primarily as a result of higher pension benefit costs due to the lower discount rate assumption used to calculate the pension expense in 2009. All other operating costs increased 11.1%, or $4.6 million, driven by an increase in contract labor costs related to various technology initiatives.

*Future trends — cost of management operations* — The cost structure and competitive position of the Property and Casualty Group is based on many factors including price considerations, service levels, ease of doing business, product features and billing arrangements, among others. Pricing of Property and Casualty Group policies is directly affected by the cost structure of the Property and Casualty Group and the underlying costs of sales, underwriting activities, policy issuance activities and billing arrangements performed by us for the Property and Casualty Group. Management's objective is to better align our growth in costs to our growth in premium over the long-term.

In 2009, our retirement plan GAAP benefit expenses are expected to increase approximately $10 million for all retirement plans as the assumed discount rate used to calculate the pension costs decreased from 6.62% used in 2008 to 6.06% for 2009. Although we are the sponsor of these postretirement plans and record on our balance sheet the funded status of these plans, generally the Exchange and EFL reimburse us for about 50% of the annual benefit expense of these plans.

INSURANCE UNDERWRITING OPERATIONS

Our insurance underwriting operations originate through direct business of our property/casualty insurance subsidiaries but net underwriting results are a product of the intercompany reinsurance pooling agreement between our subsidiaries and the Erie Insurance Exchange.

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| | (Unaudited) | | | (Unaudited) | | |
| Premiums earned | $ 52,989 | $ 52,057 | 1.8% | $ 156,849 | $ 155,719 | 0.7% |
| Losses and loss adjustment expenses incurred | 33,746 | 37,185 | (9.2) | 111,834 | 104,768 | 6.7 |
| Policy acquisition and other underwriting expenses | 18,255 | 14,559 | 25.4 | 48,059 | 43,313 | 11.0 |
| Total losses and expenses | 52,001 | 51,744 | 0.5 | 159,893 | 148,081 | 8.0 |
| Underwriting income (loss) | $ 988 | $ 313 | NM | $ (3,044) | $ 7,638 | NM |

NM = not meaningful

Key Points:

- The loss and loss adjustment expense ratio related to the current accident year, excluding catastrophe losses, was 65.6% in the third quarter of 2009, which was 1.8 points higher than the third quarter of 2008.
- Development of prior accident year direct loss reserves improved the combined ratio by 4.3 points, or $2.3 million, in the third quarter of 2009 compared to 0.4 points for the third quarter of 2008.
- Catastrophe losses contributed 2.4 points and 8.1 points to the GAAP combined ratio in the third quarters of 2009

and 2008, respectively.

- The third quarter 2009 Property and Casualty Group underwriting income was reduced by a net $50.5 million related to the write-off of assumed involuntary reinsurance premium related to the North Carolina Beach and Coastal Plans deemed uncollectible as a result of recent state legislation. Our $2.8 million share of this write off is reflected in policy acquisition and other underwriting expense and contributed 5.2 points to our third quarter 2009 GAAP combined ratio.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **Profitability Measures** | 2009 | 2008 | 2009 | 2008 |
| Erie Indemnity Company GAAP loss and LAE ratio(1) | 63.7% | 71.4% | 71.3% | 67.3% |
| Erie Indemnity Company GAAP combined ratio(2) | 98.1 | 99.4 | 101.9 | 95.1 |
| P&C Group statutory combined ratio | 89.6 | 97.7 | 98.3 | 94.0 |
| P&C Group adjusted statutory combined ratio(3) | 85.8 | 93.6 | 94.0 | 89.8 |
| Direct business: | | | | |
| Personal lines adjusted statutory combined ratio | 89.3 | 91.6 | 96.3 | 87.5 |
| Commercial lines adjusted statutory combined ratio(4) | 85.6 | 109.4 | 89.7 | 97.0 |
| Prior accident year reserve development — redundancy | (4.3) | (0.4) | (0.2) | (3.2) |
| Prior year salvage and subrogation recoveries collected | (0.9) | (1.0) | (1.9) | (2.0) |
| Total loss ratio points from prior accident years | (5.2)% | (1.4)% | (2.1)% | (5.2)% |

(1) The GAAP loss and LAE ratio, expressed as a percentage, is the ratio of losses and loss adjustment expenses incurred to earned premiums of our property/casualty insurance subsidiaries.

(2) The GAAP combined ratio, expressed as a percentage, is the ratio of losses, loss adjustment, acquisition and other underwriting expenses incurred to earned premiums of our property/casualty insurance subsidiaries. Our GAAP combined ratios are different than the results of the Property and Casualty Group due to certain GAAP adjustments.

(3) The adjusted statutory combined ratio removes the profit margin on the management fee we earn from the Property and Casualty Group. The North Carolina Beach and Coastal Plan reinsurance recoverable written off in the third quarter of 2009 is recorded as other expense for statutory purposes and did not impact the reported or adjusted statutory combined ratio.

(4) The third quarter 2009 commercial lines adjusted statutory combined ratio reflects reserve releases for one large workers compensation claim and one large fire claim, while the third quarter 2008 commercial lines adjusted statutory combined ratio reflects one large fire claim in Pennsylvania and losses related to Hurricane Ike in Ohio and Pennsylvania.

**Development of loss reserves on prior accident years**

Our 5.5% share of the Property and Casualty Group's favorable development of prior accident year direct losses, after removing the effects of salvage and subrogation recoveries was $2.3 million and $0.2 million, in the third quarters of 2009 and 2008, respectively, and improved the combined ratio by 4.3 points and 0.4 points, respectively. The favorable development in the third quarter of 2009 was primarily the result of reserve releases for one large workers compensation claim. The favorable development in 2008 resulted from improvements in frequency trends and slight improvements in severity trends on automobile bodily injury and uninsured/underinsured motorist bodily injury.

The Property and Casualty Group also experienced favorable development of prior accident year loss reserves on its assumed book of business totaling $17.7 million in the third quarter of 2009. Our 5.5% share of this favorable development totaled $1.0 million for this period. In the third quarter of 2008, the Property and Casualty Group's assumed business also experienced favorable loss development totaling $20.8 million, of which our share was $1.1 million. The favorable development for both periods was a result of reduced incurred but not reported reserves on involuntary reinsurance.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following table provides the details of the prior year loss reserve development for our wholly-owned property/casualty insurance subsidiaries:

| *(in thousands)* | Three months ended September 30, 2009 | 2008 | % Change | Nine months ended September 30, 2009 | 2008 | % Change |
|---|---|---|---|---|---|---|
| | (Unaudited) | | | (Unaudited) | | |
| **Prior year loss development:** | | | | | | |
| Direct business excluding salvage and subrogation | $ (2,292) | $ (217) | NM | $ (334) | $ (4,974) | 93.3% |
| Assumed reinsurance business | (972) | (1,145) | 15.1 | (1,481) | (1,745) | 15.1 |
| Ceded reinsurance business | (81) | (203) | 60.1 | 40 | (155) | NM |
| Salvage and subrogation | 37 | (36) | NM | (8) | 23 | NM |
| Total prior year loss development — (redundancy) deficiency | $ (3,308) | $ (1,601) | NM | $ (1,783) | $ (6,851) | 74.0% |

NM = not meaningful

*Negative amounts represent a redundancy (decrease in reserves) while positive amounts represent a deficiency (increase in reserves).*

**Catastrophe losses**

Our share of catastrophe losses, as defined by the Property and Casualty Group, amounted to $1.3 million and $4.1 million in the third quarters of 2009 and 2008, respectively. The Property and Casualty Group's definition of catastrophes includes those weather-related or other loss events which we consider significant to our geographic footprint which, individually or in the aggregate, may not reach the level of a national catastrophe as defined by the Property Claim Service (PCS).

Catastrophes in the third quarter of 2009 included flooding, wind and hail storms primarily in the states of Indiana and Wisconsin. Catastrophes in the third quarter of 2008 included flooding, tornado and wind storms related to Hurricane Ike primarily in Ohio and Pennsylvania. Catastrophe losses contributed 2.4 points and 8.1 points to the GAAP combined ratio in the third quarters of 2009 and 2008, respectively. For the first nine months of 2009 and 2008, catastrophe losses incurred were $6.1 million and $6.5 million, respectively, and contributed 3.9 points and 4.2 points to the combined ratio, respectively.

Underwriting losses are seasonally higher in the second through fourth quarters and, as a consequence, our combined ratio generally increases as the year progresses. In the third quarter of 2009, our share of the increase to incurred but not reported reserves related to seasonality adjustments was $1.1 million, compared to $0.2 million in the third quarter of 2008. Seasonality adjustments increased our share of incurred but not reported reserves by $0.3 million in the second quarter of 2009, and reduced these reserves by $1.8 million in the first quarter of 2009.

INVESTMENT OPERATIONS

| *(in thousands)* | Three months ended September 30, 2009 | 2008 | % Change | Nine months ended September 30, 2009 | 2008 | % Change |
|---|---|---|---|---|---|---|
| | (Unaudited) | | | (Unaudited) | | |
| Net investment income | $ 9,466 | $ 10,218 | (7.4)% | $ 31,526 | $ 33,357 | (5.5)% |
| Net realized gains (losses) on investments | 5,453 | (3,925) | NM | 5,086 | (18,368) | NM |
| Net impairment losses recognized in earnings | (3,232) | (37,431) | 91.4 | (10,384) | (61,834) | 83.2 |
| Equity in (losses) earnings of limited partnerships | (8,752) | 1,057 | NM | (63,581) | 20,310 | NM |
| Equity in earnings (losses) of EFL | 5,402 | (10,090) | NM | 5,729 | (10,965) | NM |
| Net revenue (loss) from investment operations | $ 8,337 | $ (40,171) | NM | $ (31,624) | $ (37,500) | 15.7% |

NM = not meaningful

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Key Points

- Net investment income decreased 7.4% for the quarter driven primarily by lower investment income resulting from the sale of some of our non-redeemable preferred stock investments in 2008 and 2009.
- Realized gains increased as a result of market valuation adjustments on our common stock trading portfolio. Unrealized gains of $4.5 million were recorded in the third quarter of 2009 versus unrealized losses of $3.4 million in the third quarter of 2008.
- Net impairment losses recognized in earnings decreased $34.2 million in the third quarter of 2009 compared to 2008 due to an improvement of the financial markets and the change in the impairment policies for debt securities.
- Equity in earnings of limited partnerships decreased $9.8 million in the third quarter of 2009 compared to the third quarter of 2008 due to the continued economic downturn in the real estate market.
- Equity in earnings (losses) of EFL includes our share of impairment losses recognized by EFL of $0.6 million in the third quarter of 2009 compared to $8.7 million in the third quarter of 2008.

Limited partnership investments generated losses in the third quarter and year to date September 30, 2009, which is reflective of market conditions. Limited partnership investments are valued based on the general partner financial statements which are received on a one-quarter lag. Our year to date September 30, 2009 limited partnership investment losses primarily include general partners' financial results for the fourth quarter of 2008 and the first two quarters of 2009.

Private equity and mezzanine debt limited partnerships generated earnings of $2.4 million and losses of $0.7 million for the quarters ended September 30, 2009 and 2008, respectively. Real estate limited partnerships generated losses of $11.2 million and earnings of $1.8 million in the third quarters of 2009 and 2008, respectively. As these investments are generally reported on a one-quarter lag, they do not reflect the market conditions experienced during the third quarter of 2009.

FINANCIAL CONDITION

**Investments**

Our investment strategy takes a long-term perspective emphasizing investment quality, diversification and superior investment returns. Investments are managed on a total return approach that focuses on current income and capital appreciation. Our investment strategy also provides for liquidity to meet our short- and long-term commitments. At September 30, 2009, our investment portfolio of investment-grade bonds and preferred stock, common stock and cash and cash equivalents represents $715.8 million, or 28.0%, of total assets.

Our investments are subject to certain risks, including interest rate and price risk. Our exposure to interest rates is concentrated in our fixed maturities portfolio. The fixed maturities portfolio comprises 65.7% and 59.2% of invested assets at September 30, 2009 and December 31, 2008, respectively. We calculate the duration and convexity of the fixed maturities portfolio each month to measure the price sensitivity of the portfolio to interest rate changes. Duration measures the relative sensitivity of the fair value of an investment to changes in interest rates. Convexity measures the rate of change of duration with respect to changes in interest rates. These factors are analyzed monthly to ensure that both the duration and convexity remain in the targeted ranges established by management.

We continually review the available-for-sale debt and equity portfolios to evaluate positions that might incur other-than-temporary declines in value. For all investment holdings, general economic conditions and/or conditions specifically affecting the underlying issuer or its industry, including downgrades by the major rating agencies, are considered in evaluating impairment in value. In addition to specific factors, other factors considered in our review of investment valuation are the length of time and amount the fair value is below cost.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

We individually analyze all positions with emphasis on those that have, in management's opinion, declined significantly below costs. Beginning in the second quarter of 2009, we further analyze debt securities to determine if a credit-related impairment has occurred. Some of the factors considered in determining whether a debt security is credit impaired include potential for the default of interest and/or principal, level of subordination, collateral of the issue, compliance with financial covenants, credit ratings and industry conditions. We have the intent to sell all credit-impaired debt securities, therefore the entire amount of the impairment charges are included in earnings and no non-credit impairments are recorded in other comprehensive income. Prior to the second quarter of 2009, there was no differentiation between impairments related to credit loss and those related to other factors and declines in fair values of debt securities were deemed other-than-temporary if we did not have the intent and ability to hold a security to recovery. For available-for-sale equity securities, a charge is recorded in the Consolidated Statement of Operations for positions that have experienced other-than-temporary impairments due to credit quality or other factors, or for which it is not our intent or ability to hold the position until recovery has occurred. (See "Investment Operations" section herein.)

If our policy for determining the recognition of impaired positions were different, our Consolidated Results of Operations could be significantly impacted. Management believes its investment valuation philosophy and accounting practices result in appropriate and timely measurement of value and recognition of impairment.

Fixed maturities

Under our investment strategy, we maintain a fixed maturities portfolio that is of high quality and well diversified within each market sector. This investment strategy also achieves a balanced maturity schedule. The fixed maturities portfolio is managed with the goal of achieving reasonable returns while limiting exposure to risk.

The following is a breakdown of the fair value of our fixed maturity portfolio by industry sector as of September 30, 2009:

| *(in thousands)* | Fair value | Percentage to total |
|---|---|---|
| Basic materials | $ 10,816 | 1.7% |
| Communications | 30,054 | 4.7 |
| Consumer | 63,595 | 9.8 |
| Diversified | 1,085 | 0.2 |
| Energy | 33,670 | 5.2 |
| Financial | 154,727 | 23.9 |
| Government sponsored enterprises | 2,078 | 0.3 |
| U.S. Treasury | 2,913 | 0.5 |
| Municipal | 243,101 | 37.6 |
| Industrial | 24,758 | 3.8 |
| Structured securities (1) | 37,744 | 5.8 |
| Technology | 5,276 | 0.8 |
| Utilities | 37,091 | 5.7 |
| Total | $646,908 | 100.0% |

(1) Structured securities include asset-based securities, collateral, lease and debt obligations, commercial mortgage-backed securities and residential mortgage-backed securities.

Equity securities

Our equity securities consist of common stock and nonredeemable preferred stock. Investment characteristics of common stock and nonredeemable preferred stock differ substantially from one another. Our nonredeemable preferred stock portfolio provides a source of current income that is competitive with investment-grade bonds.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following tables present an analysis of our preferred and common stock securities by industry sector at September 30, 2009:

Preferred Stock

| *(in thousands)* | Fair value | Percentage to total |
|---|---|---|
| Communications | $ 1,000 | 2.5% |
| Financial | 29,861 | 73.7 |
| Government sponsored enterprises | 592 | 1.5 |
| Industrial | 1,640 | 4.0 |
| Technology | 2,799 | 6.9 |
| Utilities | 4,607 | 11.4 |
| Total | $40,499 | 100.0% |

Common Stock

| *(in thousands)* | Fair value | Percentage to total |
|---|---|---|
| Basic materials | $ 2,089 | 5.1% |
| Communications | 3,434 | 8.4 |
| Consumer | 15,978 | 39.0 |
| Diversified | 749 | 1.8 |
| Energy | 2,896 | 7.0 |
| Financial | 8,905 | 21.7 |
| Industrial | 5,734 | 13.9 |
| Technology | 747 | 1.8 |
| Utilities | 540 | 1.3 |
| Total | $41,072 | 100.0% |

Limited partnership investments

In the third quarter of 2009, investments in limited partnerships decreased $7.4 million to $248.1 million due to fair value depreciation on existing limited partnerships.

**Property/casualty loss reserves**

Loss reserves are established to account for the estimated ultimate costs of loss and loss adjustment expenses for claims that have been reported but not yet settled and claims that have been incurred but not reported. The factors that may potentially cause the greatest variation between current reserve estimates and the actual future paid amounts are: unforeseen changes in statutory or case law altering the amounts to be paid on existing claim obligations, new medical procedures and/or drugs with costs significantly different from those seen in the past, and claims patterns on current business that differ significantly from historical claims patterns.

Loss and loss adjustment expense reserves are presented in our Consolidated Statements of Financial Position on a gross basis for EIC, EINY, and EIPC. Our property/casualty insurance subsidiaries wrote about 16% of the direct property/casualty premiums of the Property and Casualty Group during the first nine months of 2009. Under the terms of the Property and Casualty Group's quota share and intercompany pooling arrangement, a significant portion of these reserve liabilities are recoverable. Recoverable amounts are reflected as an asset in our Consolidated Statements of Financial Position. The direct and assumed loss and loss adjustment expense reserves by major line of business and the related amount recoverable under the intercompany pooling arrangement are presented as follows:

| | As of | |
|---|---|---|
| *(in thousands)* | September 30, 2009 | December 31, 2008 |
| Gross reserve liability: | | |
| Private passenger auto | $294,809 | $295,174 |
| Pre-1986 automobile massive injury | 157,068 | 167,748 |
| Homeowners | 32,633 | 28,984 |
| Workers compensation | 162,507 | 162,898 |
| Workers compensation massive injury | 100,362 | 92,019 |
| Commercial auto | 74,827 | 75,480 |
| Commercial multi-peril | 92,470 | 76,584 |
| All other lines of business | 68,296 | 66,194 |
| Gross reserves | 982,972 | 965,081 |
| Reinsurance recoverables | 794,276 | 778,328 |
| Net reserve liability | $188,696 | $186,753 |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The reserves that have the greatest potential for variation are the massive injury liability reserves. We are currently reserving for about 300 claimants requiring lifetime medical care, of which about 120 involve massive injuries. The reserve carried by the Property and Casualty Group for the massive injury claimants, which is our best estimate of this liability at this time, was $481.0 million at September 30, 2009, which is net of $157.8 million of anticipated reinsurance recoverables. Our property/casualty subsidiaries' share of the net massive injury liability reserves is $26.5 million at September 30, 2009, compared to $28.3 million at December 31, 2008. The decrease in the pre-1986 automobile massive injury reserve at September 30, 2009, compared to December 31, 2008, was primarily due to continued lower cost expectations of future attendant care services combined with the death of one claimant, while the increase in the workers compensation massive injury reserve was primarily due to one large workers compensation claim.

**Off-balance sheet arrangements**

Off-balance sheet arrangements include those with unconsolidated entities that may have a material current or future effect on our financial condition or results of operations, including material variable interests in unconsolidated entities that conduct certain activities. There are no off-balance sheet obligations related to our variable interest in the Exchange. Any liabilities between us and the Exchange are recorded in our Consolidated Statements of Financial Position. We have no material off-balance sheet obligations or guarantees, other than the limited partnership investment commitments discussed in Note 14 to the Consolidated Financial Statements herein.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the short- and long-term cash requirements of its business operations. Our liquidity requirements have been met primarily by funds generated from management operations, the net cash flows of our insurance subsidiaries 5.5% participation in the underwriting results of the reinsurance pool with the Exchange, and investment income from nonaffiliated investments. Cash provided from these sources is used primarily to fund the costs of management operations including salaries and wages, commissions, pension plans, share repurchases, dividends to shareholders and the purchase and development of information technology. We expect that our operating cash needs will be met by funds generated from operations. When cash provided by operating activities is in excess of our operating cash needs, we may use this excess to fund our investment portfolios. When funding requirements exceed operating cash flows, our investment portfolios may be used as a funding source. Continuing volatility in the financial markets presents challenges to us as we occasionally access our investment portfolio as a source of cash. Some of our fixed income investments, despite being publicly traded, are illiquid due to credit market conditions. Further volatility in these markets could impair our ability to sell certain of our fixed income securities or cause such securities to sell at deep discounts. Additionally, our limited partnership investments are illiquid. We believe we have sufficient liquidity to meet our needs from other sources even if credit market volatility persists throughout 2009. See Item 3. "Quantitative and Qualitative Disclosures about Market Risk," herein for further information on the risk of market volatility.

If the financial market volatility continues, we have the ability to meet our future funding requirements through various alternatives available to us. Outside of our normal operating and investing cash activities future funding requirements could be met through: (1) a $100 million bank line of credit, from which we have no borrowings as of September 30, 2009, (2) dividend payments from our wholly-owned property/casualty insurance subsidiaries, EIC, EIPC and EINY, up to their statutory limits totaling $23.0 million under current regulatory restrictions as of September 30, 2009, (3) our more liquid investments that can be sold, such as our common stock and cash and cash equivalents, which total approximately $77.9 million at September 30, 2009, and (4) the ability to curtail or modify discretionary cash outlays such as those related to our share repurchase activities until the investment markets better support our financing activities. We believe we have the funding sources available to us to support future cash flow requirements.

Cash flows provided by our operating activities totaled $99.9 million for the first nine months of 2009, compared to $79.8 million for the first nine months of 2008. Cash paid for agent bonuses in the first nine months of 2009 was $80.5 million, of which $80.0 million was accrued for at December 31, 2008, compared to $94.9 million in the first nine months of 2008. We made a contribution to our pension plan of $14.3 million in the third quarter of 2009 compared to $15.0 million in 2008. Pension expense is anticipated to be approximately $10 million higher in 2009 as a result of the change in discount rate to 6.06% in 2009 from 6.62% in 2008. Our affiliated entities generally reimburse us for about 50% of the net periodic benefit cost of the pension plan.

At September 30, 2009, we recorded a deferred tax asset of $64.8 million, which included capital loss carryforwards of $3.8

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

million. Although realization is not assured, management believes it is more likely than not that the deferred tax asset will be realized based on our assessment that the losses ultimately recognized for tax purposes will be fully utilized. As such, there was no deferred tax valuation allowance recorded at September 30, 2009.

We have the ability to carry back capital losses of $98.3 million as a result of gains recognized in prior years. We have disposed of assets with tax losses of approximately $31.3 million to carry back against these gains. Our capital gain and loss strategies take into consideration our ability to offset gains and losses in future periods, further capital loss carry-back opportunities to the three preceding years and capital loss carry-forward opportunities to apply against future capital gains over the next five years.

Cash flows used in our investing activities totaled $53.2 million for the nine months ended September 30, 2009, compared to cash provided of $45.4 million for the nine months ended September 30, 2008. In 2008 our investing operations were impacted by fewer reinvestments as a result of our continued share repurchase activity, which continues to impact 2009. Also impacting our future investing activities are our limited partnership commitments, which at September 30, 2009, totaled $72.8 million and will be funded as required by the partnerships' agreements.

In the second quarter of 2009, we made a capital contribution to EFL in the amount of $11.9 million. The capital will be used to support EFL's life insurance and annuity business and strengthen its surplus as its capital has declined as a result of realized and unrealized investment losses due to the financial market turmoil in the second half of 2008 and the continued volatility in 2009.

There were no shares repurchased in the third quarter of 2009 in conjunction with our stock repurchase plan. During the first nine months of 2009, 42,200 shares of our outstanding Class A common stock were repurchased at a total cost of $1.2 million. In May 2009, our Board of Directors approved a continuation of the current stock repurchase program through June 30, 2010. We have approximately $100 million of repurchase authority remaining under this plan at September 30, 2009. The first nine months of 2008 included 2.0 million shares of our outstanding Class A common stock that were repurchased at a total cost of $98.7 million. (See Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds, Issuer Purchases of Equity Securities.)

Financing activities through September 30, 2008 included borrowings of $75 million and payments of $45 million on our bank line of credit for certain intercompany cash settlement needs. This amount was repaid in full by December 31, 2008. This line of credit was extended to December 31, 2009. There were no borrowings on this line as of September 30, 2009. The bank requires compliance with certain covenants, which include minimum net worth and leverage ratios. Effective June 29, 2009, the net worth covenant was amended to lower the minimum required to be maintained. We are in compliance with all covenants at September 30, 2009.

CRITICAL ACCOUNTING ESTIMATES

We make estimates and assumptions that have a significant effect on the amounts and disclosures reported in the financial statements. The most significant estimates relate to valuation of investments, reserves for property/casualty insurance unpaid losses and loss adjustment expenses and retirement benefits. While management believes its estimates are appropriate, the ultimate amounts may differ from estimates provided. Our most critical accounting estimates are described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2008. See Note 6, Fair Value, for additional information.

**Investment valuation**

We make estimates concerning the valuation of all investments. Valuation techniques are used to derive the fair value of the available-for-sale and trading securities we hold. Fair value is the price that would be received to sell an asset in an orderly transaction between willing market participants at the measurement date.

Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

For purposes of determining whether the market is active or inactive, the classification of a financial instrument was based on the following definitions.

- An active market is one in which transactions for the assets being valued occur with sufficient frequency and volume to provide reliable pricing information.
- An inactive (illiquid) market is one in which there are few and infrequent transactions, where the prices are not current, price quotations vary substantially, and/or there is little information publicly available for the asset being valued.

We continually assess whether or not an active market exists for all of our investments and as of each reporting date re-evaluate the classification in the fair value hierarchy.

All assets carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical instruments in active markets not subject to adjustments or discounts
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 — Instruments whose significant value drivers are unobservable and reflect management's estimate of fair value based on assumptions used by market participants in an orderly transaction as of the valuation date.

Level 1 primarily consists of publicly traded common stock, nonredeemable preferred stocks and treasury securities and reflects market data obtained from independent sources, such as prices obtained from an exchange or a nationally recognized pricing service for identical instruments in active markets.

Level 2 includes those financial instruments that are valued using industry-standard models that consider various inputs, such as the interest rate and credit spread for the underlying financial instruments. All significant inputs are observable, or derived from observable information in the marketplace, or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include municipal securities, asset backed securities, collateralized-mortgage obligations, foreign and domestic corporate bonds and redeemable preferred stocks and certain nonredeemable preferred stocks.

Level 3 securities are valued based upon unobservable inputs, reflecting our estimates of value based on assumptions used by market participants. Securities are assigned to Level 3 in cases where non-binding broker quotes are significant to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Fair value estimates for securities valued using unobservable inputs require significant judgment due to the illiquid nature of the market for these securities and represent the best estimate of the fair value that would occur in an orderly transaction between willing market participants at the measurement date under current market conditions. Fair value for these securities are generally determined using comparable securities or non-binding broker quotes received from outside broker dealers based on security type and market conditions. Remaining un-priced securities are valued using an estimate of fair value based on indicative market prices that include significant unobservable inputs not based on, nor corroborated by, market information, including the utilization of discounted cash flow analyses which have been risk-adjusted to take into account illiquidity and other market factors. This category primarily consists of certain private preferred stock and bond securities, collateralized debt and loan obligations, and credit linked notes.

As of each reporting period, financial instruments recorded at fair value are classified based on the lowest level of input that is significant to the fair value measurement. The presence of at least one unobservable input would result in classification as a Level 3 instrument. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and considers factors specific to the asset, such as the relative impact on the fair value as a result of including a particular input and market conditions. We did not make any other significant judgments except as described above.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Estimates of fair values for our investment portfolio are obtained primarily from a nationally recognized pricing service. Our Level 1 category includes those securities valued using an exchange traded price provided by the pricing service. The methodologies used by the pricing service that support a Level 2 classification of a financial instrument include multiple verifiable, observable inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Pricing service valuations for Level 3 securities are based on proprietary models and are used when observable inputs are not available in illiquid markets. In limited circumstances we adjust the price received from the pricing service when in our judgment a better reflection of fair value is available based on corroborating information and our knowledge and monitoring of market conditions such as a disparity in price of comparable securities and/or non-binding broker quotes. We perform continuous reviews of the prices obtained from the pricing service. This includes evaluating the methodology and inputs used by the pricing service to ensure we determine the proper level classification of the financial instrument. Price variances, including large periodic changes, are investigated and corroborated by market data. We have reviewed the pricing methodologies of our pricing service and believe that their prices adequately consider market activity in determining fair value. In cases in which a price from the pricing service is not available, values are determined by obtaining non-binding broker quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based on our best estimate of fair value using corroborating market information. Our evaluation includes the consideration of benchmark yields, reported trades, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

Investments are evaluated monthly for other-than-temporary impairment loss. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include:

- the extent and duration for which fair value is less than cost;
- historical operating performance and financial condition of the issuer;
- short- and long-term prospects of the issuer and its industry based on analysts' recommendations;
- specific events that occurred affecting the issuer, including rating downgrades;
- our intent to sell or more likely than not be required to sell (debt securities); and
- our ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value (equity securities).

For debt securities in which we do not expect full recovery of amortized cost, the security is deemed to be credit-impaired. Credit-related impairments and impairments on securities we intend to sell or more likely than not will be required to sell are recorded in the Consolidated Statements of Operations. It is our intention to sell all debt securities with credit impairments. For available-for-sale equity securities, a charge is recorded in the Consolidated Statements of Operations for positions that have experienced other-than-temporary impairments due to credit quality or other factors, or for which it is not our intent or ability to hold the position until recovery has occurred.

FACTORS THAT MAY AFFECT FUTURE RESULTS

**Financial condition of the Exchange**

We have a direct interest in the financial condition of the Exchange because management fee revenues are based on the direct written premiums of the Exchange and the other members of the Property and Casualty Group. Additionally, we participate in the underwriting results of the Exchange through the pooling arrangement in which our insurance subsidiaries have 5.5% participation. A concentration of credit risk exists related to the unsecured receivables due from the Exchange for certain fees, costs and reimbursements.

To the extent that the Exchange incurs underwriting losses or investment losses resulting from declines in the value of its marketable securities or limited partnership investments, the Exchange's policyholders' surplus would be adversely affected. If the surplus of the Exchange were to decline significantly from its current level, the Property and Casualty Group could find it more difficult to retain its existing business and attract new business. A decline in the business of the Property and Casualty Group would have an adverse effect on the amount of the management fees we receive and the underwriting results of the Property and Casualty Group. In addition, a significant decline in the surplus of the Exchange from its current level would make it more likely that the management fee rate would be reduced. A decline in surplus could also result from variability in investment markets as realized and unrealized losses are recognized. Due to the continued distress in the securities markets, the Exchange recognized impairment charges of $80.9 million in the third quarter of 2009. To the extent the market downturn

continues, the Exchange's investment portfolio may continue to be impacted. In the second quarter of 2009, the Exchange made a capital contribution to EFL in the amount of $43.1 million. The capital will be used to support its life insurance and annuity business and strengthen its surplus as EFL's capital has declined as a result of realized and unrealized investment losses due to the turmoil in the financial markets in the second half of 2008 and the continued volatility in 2009. Despite the current market condition, at September 30, 2009, the Exchange had $4.3 billion in statutory surplus and a premium to surplus ratio of less than 1 to 1.

The Exchange has strong underlying operating cash flows and sufficient liquidity to meet its needs, including the ability to pay the management fees owed to us. Through the nine months ended September 30, 2009, the Exchange generated $560.7 million in cash flows from operating activities. At September 30, 2009, the Exchange had $271.0 million in cash and cash equivalents. The Exchange also has an unused $200 million bank line of credit that expires on September 30, 2012. The bank requires compliance with certain covenants which include minimum collateral values. The Exchange was in compliance with all bank covenants at September 30, 2009.

Additional information, including condensed statutory financial statements of the Exchange, is presented in Note 15 to the Consolidated Financial Statements herein.

**Insurance premium rate actions**

The changes in premiums written attributable to rate changes of the Property and Casualty Group directly affect the direct written premium levels and underwriting profitability of the Property and Casualty Group, the Exchange and us, and also have a direct bearing on management fees. Pricing actions contemplated or taken by the Property and Casualty Group are also subject to various regulatory requirements of the states in which these insurers operate. The pricing actions already implemented, or to be implemented through 2009, will also have an effect on the market competitiveness of the Property and Casualty Group's insurance products. Such pricing actions, and those of competitors, could affect the ability of our agents to sell and/or renew business. We expect our modest price increases to be offset by changes in our mix of business and exposure reductions resulting in a slight decrease in our average premium per policy in 2009.

**Market volatility**

Our portfolio of fixed income, limited partnerships, preferred and common stocks are subject to significant market value changes especially in the current environment of instability in the worldwide financial markets. Uncertainty remains surrounding the general market conditions. The current volatility in the financial markets could have an adverse impact on our financial condition, operations and cash flows.

As of January 1, 2008, all changes to unrealized gains and losses on the common stock portfolio are recognized in investment income as net realized gains or losses in the Consolidated Statements of Operations. The fair value of the common stock portfolio is subject to fluctuation from period-to-period resulting from changes in prices. Depending upon market conditions, this could cause considerable fluctuation in reported total investment income in 2009 and beyond. See Item 3. "Quantitative and Qualitative Disclosures about Market Risk," herein for further information on the risk of market volatility. See additional information related to the Exchange in Note 15 to the Consolidated Financial Statements herein.

**Economic conditions**

Financial markets have been experiencing an improvement in recent months although overall economic conditions remain challenging. Unfavorable changes in economic conditions, including declining consumer confidence, inflation, recession or other changes, may lead the Property and Casualty Group's customers to cancel insurance policies, modify coverage or not renew policies, and the Group's premium revenue, and consequently our management fee, could be adversely affected. Challenging economic conditions also may impair the ability of the Group's customers to pay premiums as they fall due, and as a result, the Group's reserves and write-offs could increase. The Group is unable to predict the uncertainty in current financial markets and adverse economic conditions in the United States and other countries.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is primarily related to fluctuations in prices and interest rates. Quantitative and qualitative disclosures about market risk resulting from changes in prices and interest rates are included in Item 7A. in our 2008 Annual Report on Form 10-K. There have been no material changes in such risks or our periodic reviews of asset and liability positions during the nine months ended September 30, 2009. The information contained in the investments section of Management's Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

Our objective is to earn competitive returns by investing in a diversified portfolio of securities. We are exposed to credit risk through our portfolios of fixed maturity securities, nonredeemable preferred stock, limited partnerships, mortgage loans and to a lesser extent short-term investments. This risk is defined as the potential loss in fair value resulting from adverse changes in the borrower's ability to repay the debt. We manage this risk by performing up front underwriting analysis and ongoing reviews of credit quality by position and for the fixed maturity portfolio in total. We do not hedge credit risk inherent in our fixed maturity investments. Our investment portfolio is diversified with 93.6% of the fixed income portfolio rated investment grade (BBB or higher).

Our municipal bond portfolio accounts for $243.1 million, or 37.6%, of the total fixed maturity portfolio. Of this $243.1 million, $178.1 million, or 73.3%, of the total municipal bond portfolio is insured. This insurance guarantees the payment of principal and interest on a bond if the issuer defaults. Our municipal bond portfolio is highly rated and includes all investment grade holdings (BBB or higher). The overall credit quality rating of our municipal bond portfolio is AA-. Using the underlying rating of the bonds without consideration of insurance, the overall credit quality rating of our municipal bond portfolio would also be AA- . The following table presents an analysis of our municipal bond ratings at September 30, 2009.

Municipal Bond Portfolio at September 30, 2009
*(in thousands)*

Ratings with insurance

| Rating | Fair value | Fair value % |
|---|---|---|
| AAA | $ 29,635 | 12.2% |
| AA | 146,212 | 60.1 |
| A | 62,358 | 25.7 |
| BBB | 4,895 | 2.0 |
| BB | 0 | 0.0 |
| Not rated | 0 | 0.0 |
| Total | $243,100 | 100.0% |

Underlying ratings without insurance

| Rating | Fair value | Fair value % |
|---|---|---|
| AAA | $ 29,635 | 12.2% |
| AA | 110,885 | 45.6 |
| A | 94,199 | 38.8 |
| BBB | 3,522 | 1.4 |
| BB | 1,640 | 0.7 |
| Not rated | 3,219 | 1.3 |
| Total | $243,100 | 100.0% |

We have no significant direct investment exposure to the entities providing financial guarantees or other credit support to any security held in our portfolio.

Of the $178.1 million indirect exposure with monoline insurers, 41% relates to NATL-RE, 39% to FSA, and 13% to Ambac.

In our limited partnership investment portfolio we are exposed to credit risk, as well as price risk. Price risk is defined as the potential loss in estimated fair value resulting from an adverse change in prices. Our investments are directly affected by the impact of changes in these risk factors on the underlying investments held by our fund managers, which could vary significantly from fund to fund. We manage these risks by performing up front due diligence on our fund managers, ongoing monitoring and through the construction of a diversified portfolio.

We have significant receivables from the Exchange, which are subject to credit risk. Our results are directly related to the financial strength of the Exchange. Credit risks related to the receivables from the Exchange are evaluated periodically by management. Similar to our investment portfolio, the Exchange maintains 93.9% of its bond portfolio rated investment grade.

ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Our management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, any change in our internal control over financial reporting and determined there has been no change in our internal control over financial reporting during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

**Issuer Purchases of Equity Securities**

There were no shares purchased in any month in the third quarter of 2009. In May 2009, our Board of Directors approved a continuation of the stock repurchase program, authorizing repurchases through June 30, 2010. As of September 30, 2009, we have $100 million available for the purchase of securities under the publicly announced share repurchase plan.

PART II. OTHER INFORMATION (Continued)

ITEM 6. EXHIBITS

| Exhibit Number | Description of Exhibit |
|---|---|
| 10.1 | $200,000,000.00 Revolving Credit Facility Credit Agreement between Erie Insurance Exchange acting by and through Erie Indemnity Company, its Attorney-in-Fact, and PNC Bank, National Association, JPMorgan Chase Bank, N.A., Bank of America, N.A., and PNC Capital Markets LLC dated September 30, 2009 |
| 10.2 | Form of Revolving Credit Note that Erie Insurance Exchange has entered into by and through the Registrant, as its Attorney-in-Fact, on September 30, 2009 with Bank of America, N.A. ($35 million), The Bank of New York Mellon ($25 million), JPMorgan Chase Bank, N.A. ($35 million), PNC Bank, National Association ($55 million), U.S. Bank National Association ($25 million), and Wells Fargo Bank, National Association ($25 million) |
| 10.3 | Swing Note between Erie Insurance Exchange acting by and through Erie Indemnity Company, its Attorney-in-Fact, and PNC Bank, National Association dated September 30, 2009 |
| 10.4 | Notification and Control Agreement between Erie Indemnity Company as Attorney-in-Fact for Erie Insurance Exchange and The Bank of New York Mellon and PNC Bank, National Association dated September 30, 2009 |
| 10.5 | Pledge Agreement between Erie Indemnity Company as Attorney-in-Fact for Erie Insurance Exchange and PNC Bank, National Association dated September 30, 2009 |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

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 thereunto duly authorized.

Erie Indemnity Company
(Registrant)

Date: October 29, 2009

/s/ Terrence W. Cavanaugh
Terrence W. Cavanaugh, President & CEO

/s/ Marcia A. Dall
Marcia A. Dall, Executive Vice President & CFO

**Exhibit 10.1**

$200,000,000.00 REVOLVING CREDIT FACILITY

CREDIT AGREEMENT

by and among

THE BORROWER PARTY HERETO

and

THE LENDERS PARTY HERETO

and

PNC BANK, NATIONAL ASSOCIATION, as Administrative Agent,

and

JPMORGAN CHASE BANK, N.A., as Co-Syndication Agent,

and

BANK OF AMERICA, N.A., as Co-Syndication Agent,

and

PNC CAPITAL MARKETS LLC, as Sole Lead Arranger and Sole Bookrunner

Dated as of September 30, 2009

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# CREDIT AGREEMENT

THIS CREDIT AGREEMENT (as hereafter amended, restated, modified or supplemented from time to time, this "Agreement") is dated as of September 30, 2009 and is made by and among the BORROWER (as hereinafter defined), the LENDERS (as hereinafter defined), BANK OF AMERICA, N.A., in its capacity as co-syndication agent for the Lenders under this Agreement, JPMORGAN CHASE BANK, N.A., in its capacity as co-syndication agent for the Lenders under this Agreement (each a "Co-Syndication Agent" and hereinafter collectively referred to in such capacity as the "Co-Syndication Agents"), and PNC BANK, NATIONAL ASSOCIATION, in its capacity as administrative agent for the Lenders under this Agreement (hereinafter referred to in such capacity as the "Administrative Agent").

The Borrower has requested the Lenders to provide a revolving credit facility to the Borrower in an aggregate principal amount not to exceed Two Hundred Million and 00/100 Dollars ($200,000,000.00). In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:

## 1. CERTAIN DEFINITIONS

1.1 Certain Definitions. In addition to words and terms defined elsewhere in this Agreement, the following words and terms shall have the following meanings, respectively, unless the context hereof clearly requires otherwise:

Account Bank shall mean any "bank" within the meaning of Section 9-102(a)(8) of the UCC at which any deposit account constituting a Collateral Account is held, which (a) shall be located in the United States of America, (b) shall have a Moody's rating at all times equal to or greater than "A3" and a Standard & Poor's rating at all times equal to or greater than "A-", and (c) shall be otherwise acceptable to the Administrative Agent in its discretion.

Administrative Agent shall have the meaning specified in the Preamble hereof and shall include its successors and assigns.

Administrative Agent's Fee shall have the meaning specified in Section 9.9 [Administrative Agent's Fee].

Administrative Agent's Letter shall have the meaning specified in Section 9.9 [Administrative Agent's Fee].

Affiliate as to any Person any other Person (i) which directly or indirectly controls, is controlled by, or is under common control with such Person, (ii) which beneficially owns or holds ten percent (10%) or more of any class of the voting or other equity interests of such Person, or (iii) ten percent (10%) or more of any class of voting interests or other equity interests of which is beneficially owned or held, directly or indirectly, by such Person.

Agreement shall have the meaning specified in the Preamble hereof and shall include all schedules and exhibits hereto.

Alternate Source shall have the meaning specified in the definition of LIBOR Rate.

Annual Statement shall mean with respect to any Person, the annual financial statement of such Person as required to be filed with the Applicable Insurance Regulatory Authority, together with all exhibits or schedules filed therewith, prepared in conformity with SAP.

Anti-Terrorism Laws shall mean any Laws relating to terrorism or money laundering, including Executive Order No. 13224, the USA Patriot Act, the Laws comprising or implementing the Bank Secrecy Act, and the Laws administered by the United States Treasury Department's Office of Foreign Asset Control (as any of the foregoing Laws may from time to time be amended, renewed, extended, or replaced).

Applicable Insurance Regulatory Authority shall mean the Commonwealth of Pennsylvania Department of Insurance or similar Official Body located in (i) the jurisdiction in which such Person is domiciled or (ii) such other jurisdiction which, due to such Person's activities, has regulatory authority over such Person, and any federal Official Body regulating the insurance industry.

Applicable Letter of Credit Fee Rate shall mean the percentage rate per annum based on the Borrower's Financial Strength Rating then in effect according to the pricing grid on Schedule 1.1(A) below the heading "Letter of Credit Fee".

Applicable Margin shall mean, as applicable:

(A) the percentage spread to be added to the Base Rate applicable to Revolving Credit Loans under the Base Rate Option based on the Borrower's Financial Strength Rating then in effect according to the pricing grid on Schedule 1.1(A) below the heading "Revolving Credit Base Rate Spread", or

(B) the percentage spread to be added to the LIBOR Rate applicable to Revolving Credit Loans under the LIBOR Rate Option based on the Borrower's Financial Strength Rating then in effect according to the pricing grid on Schedule 1.1(A) below the heading "Revolving Credit LIBOR Rate Spread".

Approved Fund shall mean any fund that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

Assignment and Assumption Agreement shall mean an assignment and assumption agreement entered into by a Lender and an assignee permitted under Section 10.8 [Successors and Assigns], in substantially the form of Exhibit 1.1(A).

Attorney-in-Fact shall mean Erie Indemnity Company, a Pennsylvania corporation, in its capacity as the attorney-in-fact for the Borrower or such successor attorney-in-fact for the Borrower approved by the Administrative Agent in accordance with Section 7.1.14 [Successor Attorney-in-Fact].

Authorized Control Level Risk Based Capital shall mean, as to the Borrower, the "authorized control level risk based capital" calculated in accordance with SAP pursuant to the

requirements of the Insurance Department of the Commonwealth of Pennsylvania, as amended, restated, modified or supplemented from time to time.

Authorized Officer shall mean, with respect to the Borrower, the Chief Executive Officer, President, Chief Financial Officer, Treasurer or Assistant Treasurer of the Attorney-in-Fact or such other individuals, designated by written notice to the Administrative Agent from the Borrower, authorized to execute notices, reports and other documents on behalf of the Borrower required hereunder. The Borrower may amend such list of individuals from time to time by giving written notice of such amendment to the Administrative Agent.

Base Rate shall mean the greatest of (i) the Prime Rate, (ii) the Federal Funds Open Rate, plus one-half of one percent (0.5%) per annum, and (iii) the Daily LIBOR Rate, plus one percent (1.0%) per annum. Any change in the Base Rate (or any component thereof) shall take effect at the opening of business on the day such change occurs.

Base Rate Option shall mean the option of the Borrower to have Loans bear interest at the rate and under the terms set forth in Section 3.1.1 (i) [Revolving Credit Base Rate Option].

Borrower shall mean Erie Insurance Exchange, a reciprocal or inter-insurance exchange domiciled in the Commonwealth of Pennsylvania, acting by and through the Attorney-in-Fact.

Borrower Statutory Net Income shall mean, for any period, for the Borrower, the positive net statutory income of the Borrower for that period, calculated in accordance with SAP.

Borrower Statutory Surplus shall mean, on any date, the amount (determined in accordance with SAP) of the Borrower's surplus as of the last day of any fiscal quarter ending on or most recently ended prior to such date.

Borrowing Date shall mean, with respect to any Loan, the date for the making thereof or the renewal or conversion thereof at or to the same or a different Interest Rate Option, which shall be a Business Day.

Borrowing Tranche shall mean specified portions of Loans outstanding as follows: (i) any Loans to which a LIBOR Rate Option applies which become subject to the same Interest Rate Option under the same Loan Request by the Borrower and which have the same Interest Period shall constitute one (1) Borrowing Tranche, and (ii) all Loans to which a Base Rate Option applies shall constitute one (1) Borrowing Tranche.

Business Day shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required to be closed for business in Pittsburgh, Pennsylvania and if the applicable Business Day relates to any Loan to which the LIBOR Rate Option applies, such day must also be a day on which dealings are carried on in the London interbank market.

Cash means Dollars held in a Collateral Account.

Cash Equivalents means at any time:

(a) time deposits and certificates of deposit, maturing not more than two (2) years after the date of determination, which are issued by the applicable Securities Intermediary; and

(b) Short-term asset management accounts offered by the Securities Intermediary which are reasonably acceptable to the Administrative Agent or investments in money market funds.

Change in Law shall mean the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any Law, (b) any change in any Law or in the administration, interpretation or application thereof by any Official Body or (c) the making or issuance of any request, guideline or directive (whether or not having the force of Law) by any Official Body.

CIP Regulations shall have the meaning specified in Section 9.10 [No Reliance on Administrative Agent's Customer Identification Program].

Closing Date shall mean the Business Day on which the first Loan shall be made, which shall be September 30, 2009.

Code shall mean the Internal Revenue Code of 1986, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

Collateral shall mean the collateral under the Pledge Agreement.

Collateral Account means (a) account no. EIRF 1221052 at The Bank of New York Mellon Trust Company, N.A., as to which the Borrower, The Bank of New York Mellon Trust Company, N.A., and the Administrative Agent have entered into a Control Agreement, and (b) any other account at The Bank of New York Mellon Trust Company, N.A., or another Securities Intermediary or Account Bank as to which such Securities Intermediary or Account Bank, as the case may be, the Borrower and the Administrative Agent have entered into a Control Agreement.

Collateral Shortfall shall have the meaning specified in Section 7.1.10 [Collateral Value].

Collateral Value means, on any date, an amount equal to the sum of the Fair Market Value of all Eligible Collateral; provided, however, that the portion of Eligible Collateral of any issuer (other than an issuer of Government Debt) which exceeds five percent (5%) of the Fair Market Value of all Eligible Collateral shall be excluded from such calculation.

Commercial Letter of Credit shall mean any letter of credit which is a commercial letter of credit issued in respect of the purchase of goods or services by the Borrower in the ordinary course of its business.

Commissioner shall mean the Insurance Commissioner of the Commonwealth of Pennsylvania.

Commitment shall mean, as to any Lender, its Revolving Credit Commitment and, in the case of PNC Bank, its Swing Loan Commitment, and Commitments shall mean the Revolving Credit Commitments and Swing Loan Commitment of all of the Lenders.

Commitment Fee shall have the meaning specified in Section 2.3 [Commitment Fees].

Compliance Certificate shall have the meaning specified in Section 7.3.3 [Certificate of the Borrower].

Control Agreement shall mean the Notification and Control Agreement by and among the Borrower, the applicable Securities Intermediary or Account Bank, as the case may be, and the Administrative Agent with respect to any Collateral Account substantially in the form of Exhibit 1.1(C).

Corporate Securities means publicly traded debt securities (other than preferred stock) denominated in Dollars issued by a corporation, limited liability company, limited partnership or similar entity organized in the United States.

Co-Syndication Agent shall have the meaning specified in the preamble of this Agreement.

Co-Syndication Agents shall have the meaning specified in the preamble of this Agreement.

Daily LIBOR Rate shall mean, for any day, the rate per annum determined by the Administrative Agent by dividing (x) the Published Rate by (y) a number equal to 1.00 *minus* the percentage prescribed by the Federal Reserve for determining the maximum reserve requirements with respect to any eurocurrency funding by banks on such day.

Defaulting Lender means any Lender that (a) has failed to fund any portion of the Loans, participations with respect to Letters of Credit, or participations in Swing Loans required to be funded by it hereunder within one (1) Business Day of the date required to be funded by it hereunder unless such failure has been cured and all interest accruing as a result of such failure has been fully paid in accordance with the terms hereof, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one (1) Business Day of the date when due, unless the subject of a good faith dispute or unless such failure has been cured and all interest accruing as a result of such failure has been fully paid in accordance with the terms hereof, or (c) has since the date of this Agreement been deemed insolvent by an Official Body or become the subject of a bankruptcy, receivership, conservatorship or insolvency proceeding.

Delinquency Proceeding shall have the meaning specified in Section 221.3 of the Suspension of Business-Involuntary Dissolutions Article in the Insurance Act, 40 P.S. § 221.3.

Delinquent Lender shall have the meaning specified in Section 4.3 [Sharing of Payments by Lenders].

Dispositions shall have the meaning specified in Section 7.2.7 [Dispositions of Assets or Subsidiaries].

Dollar, Dollars, U.S. Dollars and the symbol $ shall mean lawful money of the United States of America.

Drawing Date shall have the meaning specified in Section 2.9.3 [Disbursements, Reimbursement].

Eligible Collateral means Cash, Cash Equivalents, Corporate Securities, Federal Agency Debt, Government Debt and Municipal Securities which (a) are denominated in Dollars, (b) meet the requirements set forth in the Pledge Agreement, if any, (c) are capable of being marked to market on a daily basis and capable of being cleared by the Depository Trust Company (other than United States Federal Governmental Securities which will clear through the Federal Reserve System) and (d) are held in a Collateral Account.

Environmental Laws shall mean all applicable federal, state, local, tribal, territorial and foreign Laws (including common law), constitutions, statutes, treaties, regulations, rules, ordinances and codes and any consent decrees, settlement agreements, judgments, orders, directives, policies or programs issued by or entered into with an Official Body pertaining or relating to: (i) pollution or pollution control; (ii) protection of human health from exposure to regulated substances; (iii) protection of the environment and/or natural resources; employee safety in the workplace; (iv) the presence, use, management, generation, manufacture, processing, extraction, treatment, recycling, refining, reclamation, labeling, packaging, sale, transport, storage, collection, distribution, disposal or release or threat of release of regulated substances; (v) the presence of contamination; (vi) the protection of endangered or threatened species; and (vii) the protection of environmentally sensitive areas.

Equity Interests shall have the meaning specified in Section 5.1.2 [Subsidiaries and Owners; Investment Companies].

Erie Property & Casualty Insurance Group shall mean Erie Insurance Company, Erie Insurance Property and Casualty Company, Erie Insurance Company of New York, the Borrower and Flagship City Insurance Company.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

ERISA Affiliate shall mean, at any time, any trade or business (whether or not incorporated) under common control with the Borrower and are treated as a single employer under Section 414 of the Code.

ERISA Event means (a) a reportable event (under Section 4043 of ERISA and regulations thereunder) with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001 (a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a

complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

ERISA Group shall mean, at any time, the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control and all other entities which, together with the Borrower, are treated as a single employer under Section 414 of the Internal Revenue Code.

Event of Default shall mean any of the events described in Section 8.1 [Events of Default] and referred to therein as an “Event of Default.”

Excluded Taxes shall mean, with respect to the Administrative Agent, any Lender, the Issuing Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new lending office) or is attributable to such Foreign Lender’s failure or inability (other than as a result of a Change in Law) to comply with Section 4.8.5 [Status of Lenders], except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 4.8.1 [Payments Free of Taxes].

Executive Order No. 13224 shall mean the Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

Existing Credit Agreement shall mean that certain Amended, Restated and Consolidated Loan Agreement dated January 30, 2008, by and between the Borrower and PNC Bank.

Existing Letters of Credit shall mean all letters of credit set forth on Schedule 1.1(E) which were issued by PNC Bank under the Existing Credit Agreement prior to the date hereof upon the application of the Borrower and are outstanding on the Closing Date.

Expiration Date shall mean, with respect to the Revolving Credit Commitments, September 30, 2012.

Fair Market Value shall mean (a) with respect to any Government Debt, Federal Agency Debt, or other publicly-traded security (other than those set forth in clause (b)) the closing price for such security on Bloomberg, Inc., and with respect to Municipal Securities, Standard & Poor's/J.J. Kenny or, if Bloomberg, Inc. or Standard & Poor's/J.J. Kenny with respect to Municipal Securities is not available, another quotation service or services reasonably acceptable to the Administrative Agent, (b) with respect to Cash and Cash Equivalents, the amounts thereof, and (c) with respect to any Eligible Collateral (other than those set forth in clauses (a), and (b)), the price for such Eligible Collateral on the date of calculation obtained from a generally recognized source approved by the Administrative Agent or the most recent bid quotation from such approved source (or, if no generally recognized source exists as to such Eligible Collateral, any other source specified by the Borrower to which the Administrative Agent does not object).

Federal Agency means any of the following agencies of the federal government of the United States: (a) Government National Mortgage Association; (b) the Export-Import Bank of the United States; (c) the Farmers Home Administration, an agency of the United States Department of Agriculture; (d) the United States General Services Administration; (e) the United States Maritime Administration; (f) the United States Small Business Administration; (g) the Commodity Credit Corporation; (h) the Rural Electrification Administration; (i) the Rural Telephone Bank; (j) Washington Metropolitan Area Transit Authority; (k) the Federal National Mortgage Association; and (l) such other federal agencies as are reasonably acceptable to the Administrative Agent.

Federal Agency Debt means evidence of Freely Transferable Indebtedness that constitutes obligations of a Federal Agency.

Federal Funds Effective Rate for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed and rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the "Federal Funds Effective Rate" as of the date of this Agreement; provided, if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the "Federal Funds Effective Rate" for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

Federal Funds Open Rate for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed) which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption "OPEN" (or on such other substitute Bloomberg Screen that displays such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as selected by the Administrative Agent (a "Federal Funds Open Rate Alternate Source") (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Federal Funds Open Rate Alternate Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute screen) or any Federal Funds Open Rate Alternate Source, a comparable replacement rate determined by the Administrative Agent at such time (which determination shall be

conclusive absent manifest error); provided, however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the "open" rate on the immediately preceding Business Day. If and when the Federal Funds Open Rate changes, the rate of interest with respect to any Loan to which the Federal Funds Open Rate applies will change automatically without notice to the Borrower, effective on the date of any such change.

Federal Funds Open Rate Alternate Source shall have the meaning specified in the definition of Federal Funds Open Rate.

Financial Strength Rating shall mean, as of the date of determination, the Erie Insurance Exchange Financial Strength Rating by A.M. Best Company, Inc. or its successors.

Foreign Lender shall mean any Lender that is organized under the Laws of a jurisdiction other than that in which the Borrower is resident for tax purposes. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

Freely Transferable means securities which are freely transferable and traded in established and recognized markets and as to which there are readily available price quotations.

GAAP shall mean generally accepted accounting principles as are in effect from time to time, subject to the provisions of Section 1.3 [Accounting Principles], and applied on a consistent basis both as to classification of items and amounts.

Government Debt means Freely Transferable Indebtedness issued by the U.S. Treasury Department or backed by the full faith and credit of the United States.

Guarantee means, as to any Person, any (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as

determined by the guaranteeing Person in good faith. The term “Guarantee” as a verb has a corresponding meaning.

Increasing Lender shall have the meaning assigned to that term in Section 2.5 [Increase in Revolving Credit Commitments].

Indebtedness shall mean, as to any Person at any time, any and all indebtedness, obligations or liabilities (whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, or joint or several) of such Person for or in respect of: (i) borrowed money, (ii) amounts raised under or liabilities in respect of any note purchase or acceptance credit facility, (iii) reimbursement obligations (contingent or otherwise) under any letter of credit, currency swap agreement, interest rate swap, cap, collar or floor agreement or other interest rate management device, (iv) any other transaction (including forward sale or purchase agreements, capitalized leases and conditional sales agreements) having the commercial effect of a borrowing of money entered into by such Person to finance its operations or capital requirements (but not including trade payables and accrued expenses incurred in the ordinary course of business which are not represented by a promissory note or other evidence of indebtedness and which are not more than forty-five (45) days past due), or (v) any Guarantee of Indebtedness for borrowed money.

Indemnified Taxes shall mean Taxes other than Excluded Taxes.

Indemnitee shall have the meaning specified in Section 10.3.2 [Indemnification by the Borrower].

Information shall mean all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or the Issuing Lender on a non-confidential basis prior to disclosure by the Borrower or any of its Subsidiaries, provided that, in the case of information received from the Borrower or any of its Subsidiaries after the date of this Agreement, such information is clearly identified at the time of delivery as confidential.

Insolvency Proceeding shall mean, with respect to any Person, (a) a case, action or proceeding with respect to such Person (i) before any court or any other Official Body under any bankruptcy, insolvency, reorganization or other similar Law now or hereafter in effect, or (ii) for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of the Borrower or otherwise relating to the liquidation, dissolution, winding-up or relief of such Person, or (b) any general assignment for the benefit of creditors, composition, marshaling of assets for creditors, or other, similar arrangement in respect of such Person’s creditors generally or any substantial portion of its creditors; undertaken under any Law.

Insurance License means any license, certificate of authority, permit or other authorization which is required to be obtained from any Official Body in connection with the operation, ownership or transaction of insurance or reinsurance business.

Interest Period shall mean the period of time selected by the Borrower in connection with (and to apply to) any election permitted hereunder by the Borrower to have Revolving Credit

Loans bear interest under the LIBOR Rate Option. Subject to the last sentence of this definition, such period shall be one (1), two (2), three (3) or six (6) Months. Such Interest Period shall commence on the effective date of such Interest Rate Option, which shall be (i) the Borrowing Date if the Borrower is requesting new Loans, or (ii) the date of renewal of or conversion to the LIBOR Rate Option if the Borrower is renewing or converting to the LIBOR Rate Option applicable to outstanding Loans. Notwithstanding the second sentence hereof: (A) any Interest Period which would otherwise end on a date which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (B) the Borrower shall not select, convert to or renew an Interest Period for any portion of the Loans that would end after the Expiration Date.

Interest Rate Hedge shall mean an interest rate exchange, collar, cap, swap, adjustable strike cap, adjustable strike corridor or similar agreements entered into by the Borrower or its Subsidiaries in order to provide protection to, or minimize the impact upon, the Borrower and/or its Subsidiaries of increasing floating rates of interest applicable to Indebtedness.

Interest Rate Option shall mean any LIBOR Rate Option or Base Rate Option.

Interim Statement shall mean, with respect to any Person, any interim statutory financial statement or financial report (whether quarterly, semiannually or otherwise) of such Person as required to be filed with the Applicable Insurance Regulatory Authority, together with all exhibits or schedules filed therewith, prepared in conformity with SAP.

Investments shall mean, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person or (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person and any arrangement pursuant to which the investor Guarantees Indebtedness of such other Person.

IRS shall mean the Internal Revenue Service.

ISP98 shall have the meaning specified in Section 10.11.1 [Governing Law].

Issuing Lender means PNC Bank, in its individual capacity as issuer of Letters of Credit hereunder.

Joint Venture shall mean a corporation, partnership, limited liability company or other entities in which any Person other than the Borrower and its Subsidiaries holds, directly or indirectly, an equity interest.

Law shall mean any law (including common law), constitution, statute, treaty, regulation, rule, ordinance, opinion, release, ruling, order, injunction, writ, decree, bond, judgment, authorization or approval, lien or award by or settlement agreement with any Official Body.

Lender Provided Interest Rate Hedge shall mean an Interest Rate Hedge which is provided by any Lender or its Affiliate and with respect to which the Administrative Agent confirms: (i) is documented in a standard International Swap Dealer Association Agreement, (ii) provides for the method of calculating the reimbursable amount of the provider's credit exposure in a reasonable and customary manner, and (iii) is entered into for hedging (rather than speculative) purposes.

Lenders shall mean the financial institutions named on Schedule 1.1 (B) and their respective successors and assigns as permitted hereunder, each of which is referred to herein as a Lender. For the purpose of any Loan Document which provides for the granting of a security interest or other Lien to the Lenders or to the Administrative Agent (for its benefit and for the benefit of the Lenders) as security for the Obligations, "Lenders" shall include any Affiliate of a Lender to which such Obligation is owed.

Letter of Credit shall have the meaning specified in Section 2.9.1 [Issuance of Letters of Credit].

Letter of Credit Borrowing shall have the meaning specified in Section 2.9.3.3 [Disbursements, Reimbursement].

Letter of Credit Fee shall have the meaning specified in Section 2.9.2 [Letter of Credit Fees].

Letter of Credit Obligation means, as of any date of determination, the aggregate amount available to be drawn under all outstanding Letters of Credit (if any Letter of Credit shall increase in amount automatically in the future, such aggregate amount available to be drawn shall currently give effect to any such future increase) plus the aggregate Reimbursement Obligations and Letter of Credit Borrowings.

Letter of Credit Sublimit shall have the meaning specified in Section 2.9 [Letter of Credit Subfacility].

LIBOR Rate shall mean, with respect to the Loans comprising any Borrowing Tranche to which the LIBOR Rate Option applies for any Interest Period, the interest rate per annum determined by the Administrative Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (i) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which U.S. Dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by the Administrative Agent which has been approved by the British Bankers' Association as an authorized information vendor for the purpose of displaying rates at which U.S. Dollar deposits are offered by leading banks in the London interbank deposit market (an "Alternate Source"), at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period as the London interbank offered rate for U.S. Dollars for an amount comparable to such Borrowing Tranche and having a borrowing date and a maturity comparable to such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by the Administrative Agent at

such time (which determination shall be conclusive absent manifest error)), by (ii) a number equal to 1.00 minus the LIBOR Rate Reserve Percentage. LIBOR may also be expressed by the following formula:

$$\text{LIBOR Rate} = \frac{\text{London interbank offered rate quoted by Bloomberg or appropriate successor as shown on Bloomberg Page BBAM1}}{\text{1.00 - LIBOR Rate Reserve Percentage}}$$

The LIBOR Rate shall be adjusted with respect to any Loan to which the LIBOR Rate Option applies that is outstanding on the effective date of any change in the LIBOR Rate Reserve Percentage as of such effective date. The Administrative Agent shall give prompt notice to the Borrower of the LIBOR Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

LIBOR Rate Option shall mean the option of the Borrower to have Loans bear interest at the rate and under the terms set forth in Section 3.1.1 (ii) [Revolving Credit LIBOR Rate Option].

LIBOR Rate Reserve Percentage shall mean as of any day the maximum percentage in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "Eurocurrency Liabilities").

Lien shall mean any mortgage, deed of trust, pledge, lien, security interest, charge or other encumbrance or security arrangement of any nature whatsoever, whether voluntarily or involuntarily given, including any conditional sale or title retention arrangement, and any assignment, deposit arrangement or lease intended as, or having the effect of, security and any filed financing statement or other notice of any of the foregoing (whether or not a lien or other encumbrance is created or exists at the time of the filing).

Loan Documents shall mean this Agreement, the Administrative Agent's Letter, the Notes, the Pledge Agreement, the Control Agreement, and any other instruments, certificates or documents delivered in connection herewith or therewith, as the same may be amended, restated, modified or supplemented from time to time in accordance herewith or therewith, and Loan Document shall mean any of the Loan Documents.

Loan Request shall mean either a Revolving Credit Loan Request or a Swing Loan Request, as the case may be.

Loans shall mean collectively and Loan shall mean separately, all Revolving Credit Loans and Swing Loans or any Revolving Credit Loan or Swing Loan.

Material Adverse Change shall mean any set of circumstances or events which (a) has or could reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of this Agreement or any other Loan Document, (b) is material and adverse to the business, properties, assets, financial condition, results of operations or prospects of the Borrower, (c) impairs materially the ability of the Borrower to duly and punctually pay or

perform its Indebtedness, or (d) impairs materially the ability of the Administrative Agent or any of the Lenders, to the extent permitted, to enforce their legal remedies pursuant to this Agreement or any other Loan Document.

Month, with respect to an Interest Period under the LIBOR Rate Option, shall mean the interval between the days in consecutive calendar months numerically corresponding to the first (1st) day of such Interest Period. If any LIBOR Rate Interest Period begins on a day of a calendar month for which there is no numerically corresponding day in the month in which such Interest Period is to end, the final month of such Interest Period shall be deemed to end on the last Business Day of such final month.

Moody's shall mean Moody's Investors Service, Inc.

Multiemployer Plan shall mean any employee benefit plan which is a "multiemployer plan" within the meaning of Section 400l(a)(3) of ERISA and to which the Borrower or any member of the ERISA Group is then making or accruing an obligation to make contributions or, within the preceding five (5) Plan years, has made or had an obligation to make such contributions.

Municipal Securities means publicly traded debt securities issued by any state or municipality or subdivision or instrumentality thereunder located in the United States.

NAIC mans the National Association of Insurance Commissioners and any successor thereto.

New Lender shall have the meaning specified in Section 2.5 [Increase in Revolving Credit Commitments].

Non-Consenting Lender shall have the meaning specified in Section 10.1.4 [Miscellaneous].

Non-Delinquent Lender shall mean any Lender which is not a Delinquent Lender.

Notes shall mean, collectively, the Notes in the form of Exhibit l.l(N)(1) evidencing the Revolving Credit Loans and in the form of Exhibit 1.1(N)(2) evidencing the Swing Loan, each as amended, restated, modified or supplemented from time to time.

Obligation shall mean any obligation or liability of the Borrower, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due, under or in connection with (i) this Agreement, the Notes, the Letters of Credit, the Administrative Agent's Letter or any other Loan Document whether to the Administrative Agent, any of the Lenders or their Affiliates or other persons provided for under such Loan Documents and (ii) any Lender Provided Interest Rate Hedge.

Official Body shall mean the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to

government (including any supra-national bodies such as the European Union or the European Central Bank).

Other Taxes shall mean all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

Participant has the meaning specified in Section 10.8.4 [Participations].

Participation Advance shall have the meaning specified in Section 2.9.3 [Disbursements, Reimbursement].

Payment Date shall mean the first (1st) day of each calendar quarter after the date hereof and on the Expiration Date or upon acceleration of the Notes.

Payment In Full shall mean payment in full in cash of the Loans and other Obligations hereunder, termination of the Commitments and expiration or termination of all Letters of Credit.

PBGC shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

Pension Plan means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any times during the immediately preceding five plan years.

Permitted Liens shall have the meaning specified in Section 7.2.2 [Liens].

Person shall mean any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, joint venture, government or political subdivision or agency thereof, or any other entity.

Plan shall mean at any time an employee pension benefit plan (including a Multiple Employer Plan, but not a Multiemployer Plan) which is covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code and either (i) is maintained by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five (5) years been maintained by any entity which was at such time a member of the ERISA Group for employees of any entity which was at such time a member of the ERISA Group.

Pledge Agreement shall mean the Pledge Agreement in substantially the form of Exhibit 1.1 (P) executed and delivered by the Borrower to the Administrative Agent for the benefit of the Lenders.

PNC Bank shall mean PNC Bank, National Association, its successors and assigns.

Post-Closing Filings shall have the meaning assigned to such term in Section 7.1.11 [Post-Closing Filings].

Potential Default shall mean any event or condition which with notice or passage of time, or both, would constitute an Event of Default.

Prime Rate shall mean the interest rate per annum announced from time to time by the Administrative Agent at its Principal Office as its then prime rate, which rate may not be the lowest or most favorable rate then being charged commercial borrowers or others by the Administrative Agent. Any change in the Prime Rate shall take effect at the opening of business on the day such change is announced.

Principal Office shall mean the main banking office of the Administrative Agent in Pittsburgh, Pennsylvania.

Prior Security Interest shall mean a valid and enforceable perfected first-priority security interest under the UCC in the Collateral which is subject only to statutory Liens for taxes not yet due and payable.

Published Rate shall mean the rate of interest published each Business Day in *The Wall Street Journal* "Money Rates" listing under the caption "London Interbank Offered Rates" for a one (1) month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the eurodollar rate for a one (1) month period as published in another publication selected by the Administrative Agent).

Ratable Share shall mean the proportion that a Lender's Commitment (excluding the Swing Loan Commitment) bears to the Commitments (excluding the Swing Loan Commitment) of all of the Lenders. If the Commitments have terminated or expired, the Ratable Shares shall be determined based upon the Commitments (excluding the Swing Loan Commitment) most recently in effect, giving effect to any assignments.

Reimbursement Obligation shall have the meaning specified in Section 2.9.3 [Disbursements, Reimbursement].

Related Parties shall mean, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

Relief Proceeding shall mean any Delinquency Proceeding or any proceeding seeking a decree or order for relief in respect of the Borrower or any Subsidiary of the Borrower in a voluntary or involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of the Borrower or any Subsidiary of the Borrower for any substantial part of its property, or for the winding-up or liquidation of its affairs, or an assignment for the benefit of its creditors.

Required Lenders shall mean Lenders (other than any Defaulting Lender) having more than fifty percent (50%) of the aggregate amount of the Revolving Credit Commitments of the

Lenders (excluding any Defaulting Lender) or, after the termination of the Revolving Credit Commitments, the outstanding Revolving Credit Loans and Ratable Share of Letter of Credit Obligations of the Lenders (excluding any Defaulting Lender).

Required Share shall have the meaning specified in Section 4.10 [Settlement Date Procedures].

Revolving Credit Commitment shall mean, as to any Lender at any time, the amount initially set forth opposite its name on Schedule 1.1(B) in the column labeled "Amount of Commitment for Revolving Credit Loans", as such Commitment is thereafter increased pursuant to Section 2.5 [Increase in Revolving Credit Commitments] or decreased pursuant to Section 2.10 [Reduction of Revolving Credit Commitments], as applicable, and Revolving Credit Commitments shall mean the aggregate Revolving Credit Commitments of all of the Lenders.

Revolving Credit Loans shall mean collectively, and Revolving Credit Loan shall mean separately, all Revolving Credit Loans or any Revolving Credit Loan made by the Lender or one (1) of the Lenders to the Borrower pursuant to Section 2.1.1 [Revolving Credit Loans] or Section 2.9.3 [Disbursements, Reimbursement].

Revolving Credit Loan Request shall have the meaning specified in Section 2.4.1 [Revolving Credit Loan Requests].

Revolving Facility Usage shall mean at any time the sum of the outstanding Revolving Credit Loans and the Letter of Credit Obligations (for purposes of this computation, PNC Bank's Swing Loans shall be deemed to be borrowed amounts under its Revolving Credit Commitment).

SAP means, as to any Person, the accounting practices prescribed or permitted by NAIC, if then applicable to such Person, or the Applicable Insurance Regulatory Authority of the jurisdiction of domicile of such Person for the preparation of Annual Statements, Interim Statements and other financial reports by insurance companies of the same type as such Person.

Securities Intermediary shall mean any "securities intermediary" within the meaning of Section 8.102(a)(14) of the UCC at which any securities account constituting a Collateral Account is held, which shall be (a) located in the United States of America and (b) acceptable to the Administrative Agent in its reasonable discretion.

Settlement Dates shall mean any Business Day on which the Administrative Agent elects to effect settlement pursuant to Section 4.10 [Settlement Date Procedures].

Solvent shall mean, with respect to any Person on a particular date, that on such date (i) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (ii) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (iii) such Person is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (iv) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature, and (v) such Person is not engaged in

business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

Standard & Poor's shall mean Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

Standby Letter of Credit shall mean a Letter of Credit issued to support obligations of the Borrower, contingent or otherwise, which finance the working capital and business needs of the Borrower incurred in the ordinary course of business.

Statements shall have the meaning specified in Section 5.1.6 [Financial Statements].

Subscriber's Agreement shall mean an agreement executed by each policyholder in a reciprocal/inter-insurance exchange pursuant to which, among other things, the policyholder appoints an attorney-in-fact to act on its behalf in connection with the policyholder's insurance business at the reciprocal/inter-insurance exchange.

Subsidiary of any Person at any time shall mean any corporation, trust, partnership, any limited liability company or other business entity (i) of which fifty percent (50%) or more of the outstanding voting securities or other interests normally entitled to vote for the election of one or more directors or trustees (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such Person or one or more of such Person's Subsidiaries, or (ii) which is controlled or capable of being controlled by such Person or one or more of such Person's Subsidiaries.

Subsidiary Equity Interests shall have the meaning specified in Section 5.1.2 [Subsidiaries and Owners; Investment Companies].

Swing Loan Commitment shall have the meaning specified in Section 2.1.2 [Swing Loan Commitment].

Swing Loan Request shall have the meaning specified in Section 2.4.2 [Swing Loan Requests].

Swing Loans shall mean PNC Bank's commitment to make Swing Loans to the Borrower pursuant to Section 2.1.2 [Swing Loan Commitment] hereof in an aggregate principal amount up to Twenty-Five Million and 00/100 Dollars ($25,000,000.00).

Taxes shall mean all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Official Body, including any interest, additions to tax or penalties applicable thereto.

Total Adjusted Capital shall mean, as to the Borrower, the "total adjusted capital" calculated in accordance with SAP pursuant to the requirements of the Insurance Department of

the Commonwealth of Pennsylvania, as amended, restated, modified or supplemented from time to time.

UCC shall mean the Uniform Commercial Code as in effect in each applicable jurisdiction.

UCP shall have the meaning specified in Section 10.11.1 [Governing Law].

USA Patriot Act shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

Valuation Statement shall have the meaning specified in Section 7.3.5 [Valuation Statements].

1.2 Construction. Unless the context of this Agreement otherwise clearly requires, the following rules of construction shall apply to this Agreement and each of the other Loan Documents: (i) references to the plural include the singular, the plural, the part and the whole and the words “include”, “includes” and “including” shall be deemed to be followed by the phrase“without limitation”; (ii) the words “hereof, “herein”, “hereunder”, “hereto” and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document as a whole; (iii) article, section, subsection, clause, schedule and exhibit references are to this Agreement or other Loan Document, as the case may be, unless otherwise specified; (iv) reference to any Person includes such Person’s successors and assigns; (v) reference to any agreement, including this Agreement and any other Loan Document together with the schedules and exhibits hereto or thereto, document or instrument means such agreement, document or instrument as amended, modified, replaced, substituted for, superseded or restated; (vi) relative to the determination of any period of time, “from” means “from and including”, “to” means “to but excluding”, and “through” means “through and including”; (vii) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights, (viii) section headings herein and in each other Loan Document are included for convenience and shall not affect the interpretation of this Agreement or such Loan Document,and (ix) unless otherwise specified, all references herein to times of day shall be references to Eastern Time.

1.3 Accounting Principles. Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP or SAP, as applicable (including principles of consolidation where appropriate), and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP or SAP, as applicable; provided, however, that all accounting terms used in Section 7.2 [Negative Covenants] (and all defined terms used in the definition of any accounting term used in Section 7.2 [Negative Covenants] shall have the meaning given to such terms (and defined terms) under GAAP or SAP, as applicable, as in effect on the date hereof applied on a basis consistent with those used in preparing Statements referred to in Section 5.1.6(i) [Financial Statements]. In the event of any change after the date hereof in GAAP or SAP, as applicable,

and if such change would result in the inability to determine compliance with the financial covenants set forth in Section 7.2 [Negative Covenants], then the parties hereto agree to endeavor, in good faith, to agree upon an amendment to this Agreement that would adjust such financial covenants in a manner that would preserve the original intent thereof, but would allow compliance therewith to be determined in accordance with the Borrower's financial statements at that time, provided that, until so amended such financial covenants shall continue to be computed in accordance with GAAP or SAP, as applicable, prior to such change therein.

2. REVOLVING CREDIT AND SWING LOAN FACILITIES

2.1 Revolving Credit and Swing Loan Commitments.

2.1.1 Revolving Credit Loans. Subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, each Lender severally agrees to make Revolving Credit Loans to the Borrower at any time or from time to time on or after the date hereof to, but not including, the Expiration Date; provided that after giving effect to such Loan (i) the aggregate amount of Loans from such Lender shall not exceed such Lender's Revolving Credit Commitment minus such Lender's Ratable Share of the Letter of Credit Obligations and (ii) the Revolving Facility Usage shall not exceed the Revolving Credit Commitments. Within such limits of time and amount and subject to the other provisions of this Agreement, the Borrower may borrow, repay and reborrow pursuant to this Section 2.1.1 [Revolving Credit Loans].

2.1.2 Swing Loans. Subject to the terms and conditions hereof and relying upon the representations and warranties herein set forth, and in order to facilitate loans and repayments between Settlement Dates, PNC Bank may, at its option, cancelable at any time for any reason whatsoever, make swing loans (the "Swing Loans") to the Borrower at any time or from time to time after the date hereof to, but not including, the Expiration Date, in an aggregate principal amount up to, but not in excess of Twenty-Five Million and 00/100 Dollars ($25,000,000.00)(the "Swing Loan Commitment"), provided that the aggregate principal amount of PNC Bank's Swing Loans and the Revolving Credit Loans of all Lenders and the Letter of Credit Obligations at any one time outstanding shall not exceed the Revolving Credit Commitments of all the Lenders. Within such limits of time and amount and subject to the other provisions of this Agreement, the Borrower may borrow, repay and reborrow pursuant to this Section 2.1.2 [Swing Loans].

2.2 Nature of Lenders Obligations with Respect to Revolving Credit Loans. Each Lender shall be obligated to participate in each request for Revolving Credit Loans pursuant to Section 2.4.1 [Revolving Credit Loan Requests] in accordance with its Ratable Share. The aggregate of each Lender's Revolving Credit Loans outstanding hereunder to the Borrower at anytime shall never exceed its Revolving Credit Commitment minus its Ratable Share of the Letter of Credit Obligations. The obligations of each Lender hereunder are several. The failure of any Lender to perform its obligations hereunder shall not affect the Obligations of the Borrower to any other party nor shall any other party be liable for the failure of such Lender to perform its obligations hereunder. The Lenders shall have no obligation to make Revolving Credit Loans hereunder on or after the Expiration Date.

2.3 Commitment Fees. Accruing from the date hereof until the Expiration Date, the Borrower agrees to pay to the Administrative Agent for the account of each Lender, as consideration for such Lender's Revolving Credit Commitment hereunder, a nonrefundable commitment fee (the "Commitment Fee") equal to one-quarter of one percent (0.25%) per annum (computed on the basis of a year of three hundred sixty (360) days and actual days elapsed) times the average daily difference between the amount of (i) such Lender's Revolving Credit Commitment as the same may be constituted from time to time and (ii) the Revolving Facility Usage; provided, however, that any Commitment Fee accrued with respect to the Revolving Credit Commitment of a Defaulting Lender during the period prior to the time such Lender became a Defaulting Lender and unpaid at such time shall not be payable by the Borrower so long as such Lender shall be a Defaulting Lender except to the extent that such Commitment Fee shall otherwise have been due and payable by the Borrower prior to such time; and provided further that no Commitment Fee shall accrue with respect to the Revolving Credit Commitment of a Defaulting Lender so long as such Lender shall be a Defaulting Lender. Subject to the proviso in the directly preceding sentence, all Commitment Fees shall be payable in arrears on each Payment Date.

2.4 Revolving Credit Loan Requests; Swing Loan Requests.

2.4.1 Revolving Credit Loan Requests. Except as otherwise provided herein, the Borrower may from time to time prior to the Expiration Date request the Lenders to make Revolving Credit Loans, or renew or convert the Interest Rate Option applicable to existing Revolving Credit Loans pursuant to Section 3.2 [Interest Periods], by delivering to the Administrative Agent, not later than 10:00 a.m., (i) three (3) Business Days prior to the proposed Borrowing Date with respect to the making of Revolving Credit Loans to which the LIBOR Rate Option applies or the conversion to or the renewal of the LIBOR Rate Option for any Loans; and(ii) on the proposed Borrowing Date with respect to the making of a Revolving Credit Loan to which the Base Rate Option applies or the last day of the preceding Interest Period with respect to the conversion to the Base Rate Option for any Loan, of a duly completed request therefor substantially in the form of Exhibit 2.4.1 or a request by telephone immediately confirmed in writing by letter, facsimile or telex in such form (each, a "Revolving Credit Loan Request"), it being understood that the Administrative Agent may rely on the authority of any individual making such a telephonic request without the necessity of receipt of such written confirmation. Each Revolving Credit Loan Request shall be irrevocable and shall specify the aggregate amount of the proposed Loans comprising each Borrowing Tranche, and, if applicable, the Interest Period, which amounts shall be in integral multiples of Five Hundred Thousand and 00/100 Dollars ($500,000.00) and not less than Two Million and 00/100 Dollars ($2,000,000.00) for each Borrowing Tranche under the LIBOR Rate Option and not less than the lesser of Two Million and 00/100 Dollars ($2,000,000.00) or the maximum amount available for Borrowing Tranches under the Base Rate Option.

2.4.2 Swing Loan Requests. Except as otherwise provided herein, the Borrower may from time to time prior to the Expiration Date request PNC Bank to make Swing Loans by delivery to PNC Bank not later than 1:00 p.m. on the proposed Borrowing Date of a duly completed request therefor substantially in the form of Exhibit 2.4.2 hereto or a request by telephone immediately confirmed in writing by letter, facsimile or telex, in such form (each, a"Swing Loan Request"), it being understood that the Administrative Agent may rely on the

authority of any individual making such a telephonic request without the necessity of receipt of such written confirmation. Each Swing Loan Request shall be irrevocable and shall specify (i) the proposed Borrowing Date and (ii) the principal amount of such Swing Loan, which shall be in integral multiples of One Hundred Thousand and 00/100 Dollars ($100,000.00) and not less than One Hundred Thousand and 00/100 Dollars ($100,000.00).

2.5 Increase in Revolving Credit Commitments.

(i) Increasing Lenders and New Lenders. The Borrower may, one time prior to the second anniversary of the Closing Date, request that (1) the current Lenders increase their Revolving Credit Commitments (any current Lender which elects to increase its Revolving Credit Commitment shall be referred to as an "Increasing Lender") or (2) one or more new lenders (each a "New Lender") join this Agreement and provide a Revolving Credit Commitment hereunder, subject to the following terms and conditions:

a. No Obligation to Increase. No current Lender shall be obligated to increase its Revolving Credit Commitment and any increase in the Revolving Credit Commitment by any current Lender shall be in the sole discretion of such current Lender.

b. Defaults. There shall exist no Events of Default or Potential Default on the effective date of such increase after giving effect to such increase.

c. Aggregate Revolving Credit Commitments. After giving effect to such increase, the total Revolving Credit Commitments shall not exceed Two Hundred Fifty Million and 00/100 Dollars ($250,000,000.00).

d. Minimum Revolving Credit Commitments. After giving effect to such increase, the amount of the Revolving Credit Commitments provided by each of the New Lenders and each of the Increasing Lenders shall be at least Twenty-Five Million and 00/100 Dollars ($25,000,000.00).

e. Resolutions; Opinion. The Borrower shall deliver to the Administrative Agent on or before the effective date of such increase the following documents in a form acceptable to the Administrative Agent: (1) certifications of an Authorized Officer with attached resolutions of the Attorney-in-Fact certifying that the increase in the Revolving Credit Commitment has been approved by the Borrower, and (2) an opinion of counsel addressed to the Administrative Agent and the Lenders addressing the authorization of the Borrower and the Attorney-in-Fact and execution of the Loan Documents by the Attorney-in-Fact, and enforceability of the Loan Documents against, the Borrower.

f. Notes. The Borrower shall execute and deliver (1) to each Increasing Lender a replacement revolving credit Note reflecting the new amount of such Increasing Lender's Revolving Credit Commitment after giving effect to the increase (and the prior Note issued to such Increasing Lender shall be deemed to be terminated) and (2) to each New Lender a revolving credit Note reflecting the amount of such New Lender's Revolving Credit Commitment.

g. Approval of New Lenders. Any New Lender shall be subject to the approval of the Administrative Agent, which approval shall not be unreasonably withheld.

h. Increasing Lenders. Each Increasing Lender shall confirm its agreement to increase its Revolving Credit Commitment pursuant to an acknowledgement in a form reasonably acceptable to the Administrative Agent, signed by it and the Borrower and delivered to the Administrative Agent at least five (5) days before the effective date of such increase.

i. New Lenders—Joinder. Each New Lender shall execute a lender joinder in form and substance reasonably satisfactory to the Administrative Agent pursuant to which such New Lender shall join and become a party to this Agreement and the other Loan Documents with a Revolving Credit Commitment in the amount set forth in such lender joinder.

(ii) Treatment of Outstanding Loans and Letters of Credit.

(a) Repayment of Outstanding Loans; Borrowing of New Loans. On the effective date of any increase in Revolving Credit Commitments as provided in the preceding clause (i), the Borrower shall repay all Loans then outstanding, subject to the Borrower's indemnity obligations under Section 4.9 [Indemnity]; provided that it may borrow new Loans with a Borrowing Date on such date. Each of the Lenders shall participate in any new Loans made on or after such date in accordance with their respective Ratable Shares after giving effect to the increase in Revolving Credit Commitments contemplated by this Section 2.5 [Increase in Revolving Credit Commitments].

(b) Outstanding Letters of Credit. Repayment of Outstanding Loans; Borrowing of New Loans. On the effective date of such increase, each Increasing Lender and each New Lender (i) will be deemed to have purchased a participation in each then outstanding Letter of Credit equal to its Ratable Share of such Letter of Credit and the participation of each other Lender in such Letter of Credit shall be adjusted accordingly and (ii) will acquire, (and will pay to the Administrative Agent, for the account of each Lender, in immediately available funds, an amount equal to) its Ratable Share of all outstanding Participation Advances.

2.6 Making Revolving Credit Loans and Swing Loans; Presumptions by the Administrative Agent; Repayment of Revolving Credit Loans; Borrowings to Repay Swing Loans.

2.6.1 Making Revolving Credit Loans. The Administrative Agent shall, promptly after receipt by it of a Revolving Credit Loan Request pursuant to Section 2.4.1 [Revolving Credit Loan Requests], notify the Lenders of its receipt of such Loan Request specifying the information provided by the Borrower and the apportionment among the Lenders of the requested Revolving Credit Loans as determined by the Administrative Agent in accordance with Section 2.2 [Nature of Lenders Obligations with Respect to Revolving Credit Loans]. Each Lender shall remit the principal amount of each Revolving Credit Loan to the

Administrative Agent such that the Administrative Agent is able to, and the Administrative Agent shall, to the extent the Lenders have made funds available to it for such purpose and subject to Section 6.2 [Each Loan or Letter of Credit], fund such Revolving Credit Loans to the Borrower in U.S. Dollars and immediately available funds at the Principal Office prior to 2:00 p.m., on the applicable Borrowing Date; provided that if any Lender fails to remit such funds to the Administrative Agent in a timely manner, the Administrative Agent may elect in its sole discretion to fund with its own funds the Revolving Credit Loans of such Lender on such Borrowing Date, and such Lender shall be subject to the repayment obligation in Section 2.6.3 [Presumptions by the Administrative Agent].

2.6.2 Making Swing Loans. So long as PNC Bank elects to make Swing Loans, PNC Bank shall, after receipt by it of a Swing Loan Request pursuant to Section 2.4.2 [Swing Loan Requests], fund such Swing Loan to the Borrower in U.S. Dollars and immediately available funds at the Principal Office prior to 2:00 p.m. on the Borrowing Date.

2.6.3 Presumptions by the Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Loan that such Lender will not make available to the Administrative Agent such Lender's share of such Loan, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.6.1 [Making Revolving Credit Loans] and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Loan available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of a payment to be made by such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation and(ii) in the case of a payment to be made by the Borrower, the interest rate applicable to Loans under the Base Rate Option. If such Lender pays its share of the applicable Loan to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

2.6.4 Repayment of Revolving Credit Loans. The Borrower shall repay the Revolving Credit Loans together with all outstanding interest thereon on the Expiration Date.

2.6.5 Borrowings to Repay Swing Loans. PNC Bank may, at its option, exercisable at any time for any reason whatsoever, demand repayment of the Swing Loans, and each Lender shall make a Revolving Credit Loan in an amount equal to such Lender's Ratable Share of the aggregate principal amount of the outstanding Swing Loans, plus, if PNC Bank so requests, accrued interest thereon, provided that no Lender shall be obligated in any event to make Revolving Credit Loans in excess of its Revolving Credit Commitment less its Ratable Share of the Letter of Credit Obligations. Revolving Credit Loans made pursuant to the preceding sentence shall bear interest at the Base Rate Option and shall be deemed to have been properly requested in accordance with Section 2.4.1 [Revolving Credit Loan Requests] without regard to any of the requirements of that provision. PNC Bank shall provide notice to the

Lenders (which may be telephonic, written, or facsimile notice) that such Revolving Credit Loans are to be made under this Section 2.6.5 [Borrowings to Repay Swing Loans] and of the apportionment among the Lenders, and the Lenders shall be unconditionally obligated to fund such Revolving Credit Loans (whether or not the conditions specified in Section 2.4.1 [Revolving Credit Loan Requests] are then satisfied) by the time PNC Bank so requests, which shall not be earlier than 2:00 p.m. on the next Business Day after the date the Lenders receive such notice from PNC Bank.

2.7 Notes. The Obligation of the Borrower to repay the aggregate unpaid principal amount of the Revolving Credit Loans made to it by each Lender, together with interest thereon, shall be evidenced by a revolving credit Note, dated the Closing Date payable to the order of such Lender in a face amount equal to the Revolving Credit Commitment. The Obligation of the Borrower to repay the aggregate unpaid principal amount of the Swing Loans made to it by PNC Bank, together with interest thereon, shall be evidenced by a swing Note, dated the Closing Date payable to the order of PNC Bank in a face amount equal to the Swing Loan Commitment.

2.8 Use of Proceeds. The proceeds of the Loans shall be used (a) to provide working capital to the Borrower, (b) for general corporate purposes of the Borrower, and (c) to refinance the existing Indebtedness owed by the Borrower to PNC Bank. The Borrower shall not use the Letters of Credit or the proceeds of the Loans for any purposes that contravene any Law or any provision hereof.

2.9 Letter of Credit Subfacility.

2.9.1 Issuance of Letters of Credit. Borrower may at any time prior to the Expiration Date request the issuance of letters of credit (each, a "Letter of Credit") on behalf of itself, or the amendment or extension of an existing Letter of Credit, by delivering to the Issuing Lender (with a copy to the Administrative Agent) a completed application and agreement for letters of credit, or request for such amendment or extension, as applicable, in such form as the Issuing Lender may specify from time to time by no later than 10:00 a.m. at least five (5) Business Days, or such shorter period as may be agreed to by the Issuing Lender, in advance of the proposed date of issuance. Each Letter of Credit shall be a Standby Letter of Credit (and may not be a Commercial Letter of Credit). Promptly after receipt of any Letter of Credit application, the Issuing Lender shall confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Letter of Credit application and if not, such Issuing Lender will provide Administrative Agent with a copy thereof. Unless the Issuing Lender has received notice from any Lender, the Administrative Agent or the Borrower, at least one (1) day prior to the requested date of issuance, amendment or extension of the applicable Letter of Credit, that one or more applicable conditions in Section 6 [Conditions of Lending and Issuance of Letters of Credit] is not satisfied, then, subject to the terms and conditions hereof and in reliance on the agreements of the other Lenders set forth in this Section 2.9 [Letter of Credit Subfacility], the Issuing Lender or any of the Issuing Lender's Affiliates will issue a Letter of Credit or agree to such amendment or extension, provided that each Letter of Credit shall (A) have a maximum maturity of twelve (12) months from the date of issuance, and (B) in no event expire later than the Expiration Date and provided further that in no event shall (i) the Letter of Credit Obligations exceed, at any one time, Twenty-Five Million and 00/100 Dollars ($25,000,000.00) (the "Letter of Credit Sublimit") or (ii) the Revolving Facility

Usage exceed, at any one time, the Revolving Credit Commitments. Each request by the Borrower for the issuance, amendment or extension of a Letter of Credit shall be deemed to be a representation by the Borrower that it shall be in compliance with the preceding sentence and with Section 6 [Conditions of Lending and Issuance of Letters of Credit] after giving effect to the requested issuance, amendment or extension of such Letter of Credit. Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to the beneficiary thereof, the Issuing Lender will also deliver to the Borrower and Administrative Agent a true and complete copy of such Letter of Credit or amendment. Notwithstanding any other provision hereof, no Issuing Lender shall be required to issue any Letter of Credit, if any Lender is at such time a Defaulting Lender hereunder, unless such Issuing Lender has entered into satisfactory arrangements with the Borrower or such Defaulting Lender to eliminate the Issuing Lender's risk with respect to such Defaulting Lender (it being understood that the Issuing Lender would consider the Borrower providing cash collateral to the Administrative Agent, for the benefit of the Issuing Lender, to secure the Defaulting Lender's Ratable Share of the Letter of Credit to be a satisfactory arrangement. Each of the Existing Letters of Credit shall be deemed to have been issued hereunder on the Closing Date by PNC Bank as the Issuing Lender. Each of the Existing Letters of Credit shall be deemed to be a Letter of Credit for all purposes of this Agreement.

2.9.2 Letter of Credit Fees. The Borrower shall pay (i) to the Administrative Agent for the ratable account of the Lenders a fee (the "Letter of Credit Fee") equal to the Applicable Letter of Credit Fee Rate, and (ii) to the Issuing Lender for its own account a fronting fee equal to one hundred twenty-five thousandths of one percent (0.125%) per annum (in each case computed on the basis of a year of 360 days and actual days elapsed), which fees shall be computed on the daily average Letter of Credit Obligations and shall be payable quarterly in arrears on each Payment Date following issuance of each Letter of Credit. The Borrower shall also pay to the Issuing Lender for the Issuing Lender's sole account the Issuing Lenders then in effect customary fees and administrative expenses payable with respect to the Letters of Credit as the Issuing Lender may generally charge or incur from time to time in connection with the issuance, maintenance, amendment (if any), assignment or transfer (if any), negotiation, and administration of Letters of Credit.

2.9.3 Disbursements, Reimbursement. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Lender a participation in such Letter of Credit and each drawing thereunder in an amount equal to such Lender's Ratable Share of the maximum amount available to be drawn under such Letter of Credit and the amount of such drawing, respectively.

2.9.3.1 In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, the Issuing Lender will promptly notify the Borrower and the Administrative Agent thereof. Provided that it shall have received such notice, the Borrower shall reimburse (such obligation to reimburse the Issuing Lender shall sometimes be referred to as a "Reimbursement Obligation") the Issuing Lender prior to 12:00 noon, Pittsburgh time on each date that an amount is paid by the Issuing Lender under any Letter of Credit (each such date, a "Drawing Date") by paying to the Administrative Agent for the account of the Issuing Lender an amount equal to the amount so paid by the Issuing Lender. In the event the Borrower fails to reimburse the Issuing Lender (through the Administrative Agent) for the full amount of any drawing under any Letter of Credit by 12:00 noon, Pittsburgh time, on the

Drawing Date, the Administrative Agent will promptly notify each Lender thereof, and the Borrower shall be deemed to have requested that Revolving Credit Loans be made by the Lenders under the Base Rate Option to be disbursed on the Drawing Date under such Letter of Credit, subject to the amount of the unutilized portion of the Revolving Credit Commitment and subject to the conditions set forth in Section 6.2 [Each Loan or Letter of Credit] other than any notice requirements. Any notice given by the Administrative Agent or Issuing Lender pursuant to this Section 2.9.3.1 [Disbursements; Reimbursement] may be oral if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

2.9.3.2 Each Lender shall upon any notice pursuant to this Section 2.9.3 [Disbursements; Reimbursement] make available to the Administrative Agent for the account of the Issuing Lender an amount in immediately available funds equal to its Ratable Share of the amount of the drawing, whereupon the participating Lenders shall (subject to this Section 2.9.3 [Disbursements; Reimbursement]) each be deemed to have made a Revolving Credit Loan under the Base Rate Option to the Borrower in that amount. If any Lender so notified fails to make available to the Administrative Agent for the account of the Issuing Lender the amount of such Lender's Ratable Share of such amount by no later than 2:00 p.m., Pittsburgh time on the Drawing Date, then interest shall accrue on such Lender's obligation to make such payment, from the Drawing Date to the date on which such Lender makes such payment (i) at a rate per annum equal to the Federal Funds Effective Rate during the first three (3) days following the Drawing Date and (ii) at a rate per annum equal to the rate applicable to Loans under the Revolving Credit Base Rate Option on and after the fourth day following the Drawing Date. The Administrative Agent and the Issuing Lender will promptly give notice (as described in this Section 2.9.3 [Disbursements; Reimbursement] above) of the occurrence of the Drawing Date, but failure of the Administrative Agent or the Issuing Lender to give any such notice on the Drawing Date or in sufficient time to enable any Lender to effect such payment on such date shall not relieve such Lender from its obligation under this Section 2.9.3 [Disbursements; Reimbursement].

2.9.3.3 With respect to any unreimbursed drawing that is not converted into Revolving Credit Loans under the Base Rate Option to the Borrower in whole or in part as contemplated by this Section 2.9.3 [Disbursements; Reimbursement], because of the Borrower's failure to satisfy the conditions set forth in Section 6.2 [Each Loan or Letter of Credit] other than any notice requirements, or for any other reason, the Borrower shall be deemed to have incurred from the Issuing Lender a borrowing (each, a "Letter of Credit Borrowing") in the amount of such drawing. Such Letter of Credit Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the rate per annum applicable to the Revolving Credit Loans under the Base Rate Option. Each Lender's payment to the Administrative Agent for the
account of the Issuing Lender pursuant to this Section 2.9.3 [Disbursements, Reimbursement] shall be deemed to be a payment in respect of its participation in such Letter of Credit Borrowing (each, a "Participation Advance") from such Lender in satisfaction of its participation obligation under this Section 2.9.3 [Disbursements; Reimbursement].

2.9.4 Repayment of Participation Advances.

2.9.4.1 Upon (and only upon) receipt by the Administrative Agent for the account of the Issuing Lender of immediately available funds from the Borrower (i) in reimbursement of any payment made by the Issuing Lender under any Letter of Credit with respect to which any Lender has made a Participation Advance to the Administrative Agent, or (ii) in payment of interest on such a payment made by the Issuing Lender under such a Letter of Credit, the Administrative Agent on behalf of the Issuing Lender will pay to each Lender, in the same funds as those received by the Administrative Agent, the amount of such Lender's Ratable Share of such funds, except the Administrative Agent shall retain for the account of the Issuing Lender the amount of the Ratable Share of such funds of any Lender that did not make a Participation Advance in respect of such payment by the Issuing Lender.

2.9.4.2 If the Administrative Agent is required at any time to return to the Borrower, or to a trustee, receiver, liquidator, custodian, or any official in any Insolvency Proceeding, any portion of any payment made by the Borrower to the Administrative Agent for the account of the Issuing Lender pursuant to this Section 2.9.4 [Repayment of Participation Advances] in reimbursement of a payment made under the Letter of Credit or interest or fee thereon, each Lender shall, on demand of the Administrative Agent, forthwith return to the Administrative Agent for the account of the Issuing Lender the amount of its Ratable Share of any amounts so returned by the Administrative Agent plus interest thereon from the date such demand is made to the date such amounts are returned by such Lender to the Administrative Agent, at a rate per annum equal to the Federal Funds Effective Rate in effect from time to time.

2.9.5 Documentation. The Borrower agrees to be bound by the terms of the Issuing Lender's application and agreement for letters of credit and the Issuing Lender's written regulations and customary practices relating to letters of credit. In the event of a conflict between such application or agreement and this Agreement, this Agreement shall govern. It is understood and agreed that, except in the case of gross negligence or willful misconduct, the Issuing Lender shall not be liable for any error, negligence and/or mistakes, whether of omission or commission, in following the Borrower's instructions or those contained in the Letters of Credit or any modifications, amendments or supplements thereto.

2.9.6 Determinations to Honor Drawing Requests. In determining whether to honor any request for drawing under any Letter of Credit by the beneficiary thereof, the Issuing Lender shall be responsible only to determine that the documents and certificates required to be delivered under such Letter of Credit have been delivered and that they comply on their face with the requirements of such Letter of Credit.

2.9.7 Nature of Participation and Reimbursement Obligations. Each Lender's obligation in accordance with this Agreement to make the Revolving Credit Loans or Participation Advances, as contemplated by Section 2.9.3 [Disbursements, Reimbursement], as a result of a drawing under a Letter of Credit, and the Obligations of the Borrower to reimburse the Issuing Lender upon a draw under a Letter of Credit, shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Section 2.9 [Letter of Credit Subfacility] under all circumstances, including the following circumstances:

(i) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Issuing Lender or any of its Affiliates, the Borrower or any other Person for any reason whatsoever, or which the Borrower may have against the Issuing Lender or any of its Affiliates, any Lender or any other Person for any reason whatsoever;

(ii) the failure of the Borrower or any other Person to comply, in connection with a Letter of Credit Borrowing, with the conditions set forth in Section 2.1 [Revolving Credit Loans], Section 2.4.1 [Revolving Credit Loan Requests], Section 2.6.1 [Making Revolving Credit Loans] or Section 6.2 [Each Loan or Letter of Credit] or as otherwise set forth in this Agreement for the making of a Revolving Credit Loan, it being acknowledged that such conditions are not required for the making of a Letter of Credit Borrowing and the obligation of the Lenders to make Participation Advances under Section 2.9.3 [Disbursements, Reimbursement];

(iii) any lack of validity or enforceability of any Letter of Credit;

(iv) any claim of breach of warranty that might be made by the Borrower or any Lender against any beneficiary of a Letter of Credit, or the existence of any claim, set-off, recoupment, counterclaim, crossclaim, defense or other right which the Borrower or any Lender may have at any time against a beneficiary, successor beneficiary any transferee or assignee of any Letter of Credit or the proceeds thereof (or any Persons for whom any such transferee may be acting), the Issuing Lender or its Affiliates or any Lender or any other Person, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between the Borrower or any Subsidiaries of the Borrower and the beneficiary for which any Letter of Credit was procured);

(v) the lack of power or authority of any signer of (or any defect in or forgery of any signature or endorsement on) or the form of or lack of validity, sufficiency, accuracy, enforceability or genuineness of any draft, demand, instrument, certificate or other document presented under or in connection with any Letter of Credit, or any fraud or alleged fraud in connection with any Letter of Credit, or the transport of any property or provision of services relating to a Letter of Credit, in each case even if the Issuing Lender or any of its Affiliates has been notified thereof;

(vi) payment by the Issuing Lender or any of its Affiliates under any Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit;

(vii) the solvency of, or any acts or omissions by, any beneficiary of any Letter of Credit, or any other Person having a role in any transaction or obligation relating to a Letter of Credit, or the existence, nature, quality, quantity, condition, value or other characteristic of any property or services relating to a Letter of Credit;

(viii) any failure by the Issuing Lender or any of its Affiliates to issue any Letter of Credit in the form requested by the Borrower, unless the Issuing Lender has received written notice from the Borrower of such failure within three (3) Business Days after the Issuing Lender or any of its Affiliates shall have furnished the Borrower and the

Administrative Agent a copy of such Letter of Credit and such error is material and no drawing has been made thereon prior to receipt of such notice;

(ix) any adverse change in the business, operations, properties, assets, condition (financial or otherwise) or prospects of the Borrower or any Subsidiaries of the Borrower;

(x) any breach of this Agreement or any other Loan Document by any party thereto;

(xi) the occurrence or continuance of an Insolvency Proceeding with respect to the Borrower;

(xii) the fact that an Event of Default or a Potential Default shall have occurred and be continuing;

(xiii) the fact that the Expiration Date shall have passed or this Agreement or the Commitments hereunder shall have been terminated; and

(xiv) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

2.9.8 Indemnity. The Borrower hereby agrees to protect, indemnify, pay and save harmless the Issuing Lender and any of its Affiliates that has issued a Letter of Credit from and against any and all claims, demands, liabilities, damages, taxes, penalties, interest, judgments, losses, costs, charges and expenses (including reasonable fees, expenses and disbursements of counsel and allocated costs of internal counsel) which the Issuing Lender or any of its Affiliates may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit, other than as a result of (A) the gross negligence or willful misconduct of the Issuing Lender as determined by a final non-appealable judgment of a court of competent jurisdiction or (B) the wrongful dishonor by the Issuing Lender or any of Issuing Lender's Affiliates of a proper demand for payment made under any Letter of Credit, except if such dishonor resulted from any act or omission, whether rightful or wrongful, of any present or future de jure or de facto government or governmental authority.

2.9.9 Liability for Acts and Omissions. As between the Borrower and the Issuing Lender, or the Issuing Lender's Affiliates, the Borrower assumes all risks of the acts and omissions of, or misuse of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the foregoing, the Issuing Lender shall not be responsible for any of the following, including any losses or damages to the Borrower or other Person or property relating therefrom: (i) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for an issuance of any such Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged (even if the Issuing Lender or its Affiliates shall have been notified thereof); (ii) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any such Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) the failure of the beneficiary of any such Letter of Credit, or any other party

to which such Letter of Credit may be transferred, to comply fully with any conditions required in order to draw upon such Letter of Credit or any other claim of the Borrower against any beneficiary of such Letter of Credit, or any such transferee, or any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any such transferee; (iv) errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (v) errors in interpretation of technical terms; (vi) any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such Letter of Credit or of the proceeds thereof; (vii) the misapplication by the beneficiary of any such Letter of Credit of the proceeds of any drawing under such Letter of Credit; or (viii) any consequences arising from causes beyond the control of the Issuing Lender or its Affiliates, as applicable, including any act or omission of any governmental authority, and none of the above shall affect or impair, or prevent the vesting of, any of the Issuing Lender's or its Affiliates' rights or powers hereunder. Nothing in the preceding sentence shall relieve the Issuing Lender from liability for the Issuing Lender's gross negligence or willful misconduct in connection with actions or omissions described in such clauses (i) through (viii) of such sentence. In no event shall the Issuing Lender or its Affiliates be liable to the Borrower for any indirect, consequential, incidental, punitive, exemplary or special damages or expenses (including without limitation attorneys fees), or for any damages resulting from any change in the value of any property relating to a Letter of Credit.

Without limiting the generality of the foregoing, the Issuing Lender and each of its Affiliates (i) may rely on any oral or other communication believed in good faith by the Issuing Lender or such Affiliate to have been authorized or given by or on behalf of the applicant for a Letter of Credit, (ii) may honor any presentation if the documents presented appear on their face substantially to comply with the terms and conditions of the relevant Letter of Credit; (iii) may honor a previously dishonored presentation under a Letter of Credit, whether such dishonor was pursuant to a court order, to settle or compromise any claim of wrongful dishonor, or otherwise, and shall be entitled to reimbursement to the same extent as if such presentation had initially been honored, together with any interest paid by the Issuing Lender or its Affiliates; (iv) may honor any drawing that is payable upon presentation of a statement advising negotiation or payment, upon receipt of such statement (even if such statement indicates that a draft or other document is being delivered separately), and shall not be liable for any failure of any such draft or other document to arrive, or to conform in any way with the relevant Letter of Credit; (v) may pay any paying or negotiating bank claiming that it rightfully honored under the Laws or practices of the place where such bank is located; and (vi) may settle or adjust any claim or demand made on the Issuing Lender or its Affiliates in any way related to any order issued at the applicant's request to an air carrier, a letter of guarantee or of indemnity issued to a carrier or any similar document (each, an "Order") and honor any drawing in connection with any Letter of Credit that is the subject of such Order, notwithstanding that any drafts or other documents presented in connection with such Letter of Credit fail to conform in any way with such Letter of Credit.

In furtherance and extension and not in limitation of the specific provisions set forth above, any action taken or omitted by the Issuing Lender or its Affiliates under or in connection with the Letters of Credit issued by it or any documents and certificates delivered thereunder, if taken or omitted in good faith, shall not put the Issuing Lender or its Affiliates under any resulting liability to the Borrower or any Lender.

2.9.10 Issuing Lender Reporting Requirements. Each Issuing Lender shall, on the first (1st) Business Day of each month, provide to the Administrative Agent and Borrower a schedule of the Letters of Credit issued by it, in form and substance satisfactory to Administrative Agent, showing the date of issuance of each Letter of Credit, the account party, the original face amount (if any), and the expiration date of any Letter of Credit outstanding at any time during the preceding month, and any other information relating to such Letter of Credit that the Administrative Agent may request.

2.10 Reduction of Revolving Credit Commitment. The Borrower shall have the right at any time after the Closing Date upon five (5) days' prior written notice to the Administrative Agent to permanently reduce (ratably among the Lenders in proportion to their Ratable Shares) the Revolving Credit Commitments, in a minimum amount of Five Million and 00/100 Dollars ($5,000,000.00), and whole multiples of One Million and 00/100 Dollars ($1,000,000.00), or to terminate completely the Revolving Credit Commitments, without penalty or premium except as hereinafter set forth; provided that any such reduction or termination shall be accompanied by prepayment of the Notes, together with outstanding Commitment Fees, and the full amount of interest accrued on the principal sum to be prepaid (and all amounts referred to in Section 4.9 [Indemnity] hereof) to the extent necessary to cause the aggregate Revolving Facility Usage after giving effect to such prepayments to be equal to or less than the Revolving Credit Commitments as so reduced or terminated. Any notice to reduce the Revolving Credit Commitments under this Section 2.10 [Reduction of Revolving Credit Commitment] shall be irrevocable.

2.11 Mark to Market Collateral Certification. Prior to any Revolving Credit Loan Request, Swing Loan Request or request for a Letter of Credit that would cause the Revolving Facility Usage to be greater than One Hundred Twenty-Five Million and 00/100 Dollars ($125,000,000.00), the Borrower must deliver to the Administrative Agent a certification that the Borrower has marked to market the Collateral as of the date of such request and a Valuation Statement calculated as of the most recent Business Day prior to the date of such request.

## 3. INTEREST RATES

3.1 Interest Rate Options. The Borrower shall pay interest in respect of the outstanding unpaid principal amount of the Loans as selected by it from the Base Rate Option or LIBOR Rate Option set forth below applicable to the Loans, it being understood that, subject to the provisions of this Agreement, the Borrower may select different Interest Rate Options and different Interest Periods to apply simultaneously to the Loans comprising different Borrowing Tranches and may convert to or renew one or more Interest Rate Options with respect to all or any portion of the Loans comprising any Borrowing Tranche; provided that there shall not be at any one time outstanding more than six (6) Borrowing Tranches in the aggregate among all of the Loans; and provided further that if an Event of Default exists and is continuing, the Borrower may not request, convert to, or renew the LIBOR Rate Option for any Loans and the Required Lenders may demand that all existing Borrowing Tranches bearing interest under the LIBOR Rate Option shall be converted at the end of the applicable Interest Period. If at any time the designated rate applicable to any Loan made by any Lender exceeds such Lender's highest lawful rate, the rate of interest on such Lender's Loan shall be limited to such Lender's highest lawful rate.

3.1.1 Revolving Credit Interest Rate Options; Swing Line Interest Rate. The Borrower shall have the right to select from the following Interest Rate Options applicable to the Revolving Credit Loans (subject to the provisions above regarding Swing Loans):

(i) Revolving Credit Base Rate Option: A fluctuating rate per annum (computed on the basis of a year of 360 days and actual days elapsed) equal to the Base Rate plus the Applicable Margin, such interest rate to change automatically from time to time effective as of the effective date of each change in the Base Rate; or

(ii) Revolving Credit LIBOR Rate Option: A rate per annum (computed on the basis of a year of 360 days and actual days elapsed) equal to the LIBOR Rate plus the Applicable Margin.

Subject to Section 3.3 [Interest After Default], only the Base Rate Option shall apply to the Swing Loans.

3.1.2 Rate Quotations. The Borrower may call the Administrative Agent on or before the date on which a Loan Request is to be delivered to receive an indication of the rates then in effect, but it is acknowledged that such projection shall not be binding on the Administrative Agent or the Lenders nor affect the rate of interest which thereafter is actually in effect when the election is made.

3.2 Interest Periods. At any time when the Borrower shall select, convert to or renew a LIBOR Rate Option, the Borrower shall notify the Administrative Agent thereof at least three (3) Business Days prior to the effective date of such LIBOR Rate Option by delivering a Loan Request. The notice shall specify an Interest Period during which such Interest Rate Option shall apply. Notwithstanding the preceding sentence, the following provisions shall apply to any selection of, renewal of, or conversion to a LIBOR Rate Option:

3.2.1 Amount of Borrowing Tranche. Each Borrowing Tranche of Loans under the LIBOR Rate Option shall be in integral multiples of Five Hundred Thousand and 00/100 Dollars ($500,000.00) and not less than Two Million and 00/100 Dollars ($2,000,000.00); and

3.2.2 Renewals. In the case of the renewal of a LIBOR Rate Option at the end of an Interest Period, the first day of the new Interest Period shall be the last day of the preceding Interest Period, without duplication in payment of interest for such day.

3.3 Interest After Default. To the extent permitted by Law, upon the occurrence of an Event of Default and until such time such Event of Default shall have been cured or waived, and at the discretion of the Administrative Agent or upon written demand by the Required Lenders to the Administrative Agent:

3.3.1 Letter of Credit Fees, Interest Rate. The Letter of Credit Fees and the rate of interest for each Loan otherwise applicable pursuant to Section 2.9.2 [Letter of Credit Fees] or Section 3.1 [Interest Rate Options], respectively, shall be increased by two percent (2.0%) per annum;

3.3.2 Other Obligations. Each other Obligation hereunder if not paid when due shall bear interest at a rate per annum equal to the sum of the rate of interest applicable under the Revolving Credit Base Rate Option plus an additional two percent (2%) per annum from the time such Obligation becomes due and payable and until it is paid in full; and

3.3.3 Acknowledgment. The Borrower acknowledges that the increase in rates referred to in this Section 3.3 [Interest After Default] reflects, among other things, the fact that such Loans or other amounts have become a substantially greater risk given their default status and that the Lenders are entitled to additional compensation for such risk; and all such interest shall be payable by Borrower upon demand by Administrative Agent.

3.4 LIBOR Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available.

3.4.1 Unascertainable. If on any date on which a LIBOR Rate would otherwise be determined, the Administrative Agent shall have determined that:

(i) adequate and reasonable means do not exist for ascertaining such LIBOR Rate, or

(ii) a contingency has occurred which materially and adversely affects the London interbank eurodollar market relating to the LIBOR Rate,

the Administrative Agent shall have the rights specified in Section 3.4.3 [Administrative Agent's and Lender's Rights].

3.4.2 Illegality; Increased Costs; Deposits Not Available. If at any time any Lender shall have determined that:

(i) the making, maintenance or funding of any Loan to which a LIBOR Rate Option applies has been made impracticable or unlawful by compliance by such Lender in good faith with any Law or any interpretation or application thereof by any Official Body or with any request or directive of any such Official Body (whether or not having the force of Law), or

(ii) such LIBOR Rate Option will not adequately and fairly reflect the cost to such Lender of the establishment or maintenance of any such Loan, or

(iii) after making all reasonable efforts, deposits of the relevant amount in Dollars for the relevant Interest Period for a Loan, or to banks generally, to which a LIBOR Rate Option applies, respectively, are not available to such Lender with respect to such Loan, or to banks generally, in the interbank eurodollar market,

then the Administrative Agent shall have the rights specified in Section 3.4.3 [Administrative Agents and Lenders Rights].

3.4.3 Administrative Agent's and Lender's Rights. In the case of any event specified in Section 3.4.1 [Unascertainable] above, the Administrative Agent shall promptly so notify the Lenders and the Borrower thereof, and in the case of an event specified in

Section 3.4.2 [Illegality; Increased Costs; Deposits Not Available] above, such Lender shall promptly so notify the Administrative Agent and endorse a certificate to such notice as to the specific circumstances of such notice, and the Administrative Agent shall promptly send copies of such notice and certificate to the other Lenders and the Borrower. Upon such date as shall be specified in such notice (which shall not be earlier than the date such notice is given), the obligation of (A) the Lenders, in the case of such notice given by the Administrative Agent, or (B) such Lender, in the case of such notice given by such Lender, to allow the Borrower to select, convert to or renew a LIBOR Rate Option shall be suspended until the Administrative Agent shall have later notified the Borrower, or such Lender shall have later notified the Administrative Agent, of the Administrative Agent's or such Lender's, as the case may be, determination that the circumstances giving rise to such previous determination no longer exist, which notice shall be given promptly following the termination of the circumstance which gave rise to such determination. If at any time the Administrative Agent makes a determination under Section 3.4.1 [Unascertainable] and the Borrower has previously notified the Administrative Agent of its selection of, conversion to or renewal of a LIBOR Rate Option and such Interest Rate Option has not yet gone into effect, such notification shall be deemed to provide for selection of, conversion to or renewal of the Base Rate Option otherwise available with respect to such Loans. If any Lender notifies the Administrative Agent of a determination under Section 3.4.2 [Illegality; Increased Costs; Deposits Not Available], the Borrower shall, subject to the Borrower's indemnification Obligations under Section 4.9 [Indemnity], as to any Loan of the Lender to which a LIBOR Rate Option applies, on the date specified in such notice either convert such Loan to the Base Rate Option otherwise available with respect to such Loan or prepay such Loan in accordance with Section 4.6 [Voluntary Prepayments]. Absent due notice from the Borrower of conversion or prepayment, such Loan shall automatically be converted to the Base Rate Option otherwise available with respect to such Loan upon such specified date.

3.5 Selection of Interest Rate Options. If the Borrower fails to select a new Interest Period to apply to any Borrowing Tranche of Loans under the LIBOR Rate Option at the expiration of an existing Interest Period applicable to such Borrowing Tranche in accordance with the provisions of Section 3.2 [Interest Periods], the Borrower shall be deemed to have converted such Borrowing Tranche to the Revolving Credit Base Rate Option, commencing upon the last day of the existing Interest Period.

## 4. PAYMENTS

4.1 Payments. All payments and prepayments to be made in respect of principal, interest, Commitment Fees, Letter of Credit Fees, Administrative Agent's Fee or other fees or amounts due from the Borrower hereunder shall be payable prior to 12:00 noon on the date when due without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrower, and without set-off, counterclaim or other deduction of any nature. Such payments shall be made to the Administrative Agent at the Principal Office for the account of PNC Bank with respect to the Swing Loans and for the ratable accounts of the Lenders with respect to the Loans in U.S. Dollars and in immediately available funds, and the Administrative Agent shall promptly distribute such amounts to the Lenders in immediately available funds; provided that in the event payments are received by 12:00 noon by the Administrative Agent with respect to the Loans and such payments are not distributed to the Lenders on the same day received by the Administrative Agent, the Administrative Agent shall

pay the Lenders the Federal Funds Effective Rate with respect to the amount of such payments for each day held by the Administrative Agent and not distributed to the Lenders. The Administrative Agent's and each Lender's statement of account, ledger or other relevant record shall, in the absence of manifest error, be conclusive as the statement of the amount of principal of and interest on the Loans and other amounts owing under this Agreement and shall be deemed an "account stated."

4.2 Pro Rata Treatment of Lenders. Each borrowing shall be allocated to each Lender according to its Ratable Share, and each selection of, conversion to or renewal of any Interest Rate Option and each payment or prepayment by the Borrower with respect to principal, interest, Commitment Fees, Letter of Credit Fees, or other fees (except for the Administrative Agent's Fee and the Issuing Lender's fronting fee) or amounts due from the Borrower hereunder to the Lenders with respect to the Loans, shall (except as otherwise may be provided with respect to a Defaulting Lender or a Delinquent Lender and except as provided in Section 3.4.3 [Administrative Agent's and Lender's Rights] in the case of an event specified in Section 3.4 [LIBOR Rate Unascertainable; Etc.], Section 4.6.2 [Replacement of a Lender] or Section 4.7 [Increased Costs]) be made in proportion to the applicable Loans outstanding from each Lender and, if no such Loans are then outstanding, in proportion to the Ratable Share of each Lender. Notwithstanding any of the foregoing, each borrowing or payment or pre-payment by the Borrower of principal, interest, fees or other amounts from the Borrower with respect to Swing Loans shall be made by or to PNC Bank according to Article 2 [Revolving Credit and Swing Loan Facilities].

4.3 Sharing of Payments by Lenders. If any Lender shall, by exercising any right of setoff, counterclaim or banker's lien, by receipt of voluntary payment, by realization upon security, or by any other non-pro rata source, obtain payment in respect of any principal of or interest on any of its Loans or other obligations hereunder resulting in such Lender receiving payment of a proportion of the aggregate amount of its Loans and accrued interest thereon or other such obligations greater than its Ratable Share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Loans and such other obligations of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them, provided that:

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, together with interest or other amounts, if any, required by Law (including court order) to be paid by the Lender or the holder making such purchase; and

(ii) the provisions of this Section 4.3 [Sharing of Payments by Lenders] shall not be construed to apply to (x) any payment made by the Borrower pursuant to and in accordance with the express terms of the Loan Documents or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or Participation Advances to any assignee or participant, other than to the Borrower or any

Subsidiary of the Borrower (as to which the provisions of this Section 4.3 [Sharing of Payments by Lenders] shall apply).

The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable Law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

Notwithstanding anything to the contrary contained in this Agreement or any of the other Loan Documents, any Lender that fails at any time to comply with the provisions of this Section 4.3 [Sharing of Payments by Lenders] with respect to purchasing participations from the other Lenders whereby such Lender's share of any payment received, whether by setoff or otherwise, is in excess of its Ratable Share of such payments due and payable to all of the Lenders, when and to the full extent required by the provisions of this Agreement, shall be deemed delinquent (a "Delinquent Lender") and shall be deemed to be a Delinquent Lender until such time as each such delinquency and all of its obligations hereunder are satisfied. A Delinquent Lender shall be deemed to have assigned any and all payments due to it from the Borrower, whether on account of or relating to outstanding Loans, Letters of Credit, interest, fees or otherwise, to the remaining Non-Delinquent Lenders for application to, and reduction of, their respective Ratable Shares of all outstanding Loans and other unpaid Obligations of the Borrower. The Delinquent Lender hereby authorizes the Administrative Agent to distribute such payments to the Non-Delinquent Lenders in proportion to their respective Ratable Share of all outstanding Loans and other unpaid Obligations of the Borrower. A Delinquent Lender shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payments to all outstanding Loans and other unpaid Obligations of the Borrower to the Non-Delinquent Lenders, the Lenders' respective Ratable Share of all outstanding Loans and unpaid Obligations have returned to those in effect immediately prior to such delinquency and without giving effect to the nonpayment causing such delinquency.

4.4 Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Lender hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Lender, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Lender, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the Issuing Lender, with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

4.5 Interest Payment Dates. Interest on Loans to which the Base Rate Option applies shall be due and payable in arrears on each Payment Date. Interest on Loans to which the LIBOR Rate Option applies shall be due and payable on the last day of each Interest Period for

those Loans and, if such Interest Period is longer than three (3) Months, also on the 90th day of such Interest Period. Interest on the principal amount of each Loan or other monetary Obligation shall be due and payable on demand after such principal amount or other monetary Obligation becomes due and payable (whether on the stated Expiration Date, upon acceleration or otherwise).

4.6 Voluntary Prepayments.

4.6.1 Right to Prepay. The Borrower shall have the right at its option from time to time to prepay the Loans in whole or part without premium or penalty (except as provided in Section 4.6.2 [Replacement of a Lender] below, or in Section 4.7 [Increased Costs]):

(i) at any time with respect to any Loan to which the Base Rate Option applies,

(ii) on the last day of the applicable Interest Period with respect to Loans to which a LIBOR Rate Option applies or any other day subject to compliance with the provisions of Section 4.9 [Indemnity], or

(iii) on the date specified in a notice by any Lender pursuant to Section 3.4 [LIBOR Rate Unascertainable, Etc.] with respect to any Loan to which a LIBOR Rate Option applies.

Whenever the Borrower desires to prepay any part of the Loans, it shall provide a prepayment notice to the Administrative Agent by (a) 1:00 p.m. at least one (1) Business Day prior to the date of prepayment of the Revolving Credit Loans and (b) 11:00 a.m. on the date of prepayment of Swing Loans, setting forth the following information:

(x) the date, which shall be a Business Day, on which the proposed prepayment is to be made;

(y) a statement indicating the application of the prepayment between the Revolving Credit Loans and Swing Loans; and

(z) the total principal amount of such prepayment, which shall not be less than the lesser of (i) the Facility Usage or (ii) One Hundred Thousand and 00/100 Dollars ($100,000.00) for any Swing Loan or Two Million and 00/100 Dollars ($2,000,000.00) for any Revolving Credit Loan.

All prepayment notices shall be irrevocable. The principal amount of the Loans for which a prepayment notice is given, together with interest on such principal amount except with respect to Loans to which the Base Rate Option applies, shall be due and payable on the date specified in such prepayment notice as the date on which the proposed prepayment is to be made. Except as provided in Section 3.4.3 [Administrative Agent’s and Lender’s Rights], if the Borrower prepays a Loan but fails to specify the applicable Borrowing Tranche which the Borrower is prepaying, the prepayment shall be applied (i) first to Swing Loans then to Revolving Credit Loans; and (ii) after giving effect to the allocations in clause (i) above and in the preceding sentence, first to Loans to which the Base Rate Option applies, then to Loans to

which the LIBOR Rate Option applies. Any prepayment hereunder shall be subject to the Borrower's Obligation to indemnify the Lenders under Section 4.9 [Indemnity].

4.6.2 Replacement of a Lender. In the event any Lender (i) gives notice under Section 3.4 [LIBOR Rate Unascertainable; Etc.], (ii) requests compensation under Section 4.7 [Increased Costs], or requires the Borrower to pay any additional amount to any Lender or any Official Body for the account of any Lender pursuant to Section 4.8 [Taxes], (iii) is a Defaulting Lender, (iv) becomes subject to the control of an Official Body (other than normal and customary supervision), or (v) is a Non-Consenting Lender referred to in Section 10.1 [Modifications, Amendments or Waivers], then in any such event the Borrower may, at its sole expense, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 10.8 [Successors and Assigns]), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(i) the Borrower shall have paid to the Administrative Agent the assignment fee specified in Section 10.8 [Successors and Assigns];

(ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and Participation Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 4.9 [Indemnity]) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(iii) in the case of any such assignment resulting from a claim for compensation under Section 4.7.1 [Increased Costs Generally] or payments required to be made pursuant to Section 4.8 [Taxes], such assignment will result in a reduction in such compensation or payments thereafter; and

(iv) such assignment does not conflict with applicable Law.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

4.7 Increased Costs.

4.7.1 Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the LIBOR Rate) or the Issuing Lender;

(ii) subject any Lender or the Issuing Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Loan under the LIBOR Rate Option made by it, or change the basis of taxation of payments to such Lender or the Issuing Lender in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 4.8 [Taxes] and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender or the Issuing Lender); or

(iii) impose on any Lender, the Issuing Lender or the London interbank market any other condition, cost or expense affecting this Agreement or Loan under the LIBOR Rate Option made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Loan under the LIBOR Rate Option (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender or the Issuing Lender of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or the Issuing Lender hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or the Issuing Lender, the Borrower will pay to such Lender or the Issuing Lender, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Lender, as the case may be, for such additional costs incurred or reduction suffered.

The obligations of the Borrower pursuant to this Section 4.7.1 [Increased Costs Generally] are subject to the following: no Lender shall enforce the provisions solely against the Borrower or against a few of such Lender's customers without in each case generally enforcing these (or similar provisions in other contracts) with respect to similarly situated borrowers (provided that, anything herein to the contrary notwithstanding, no Lender shall be required to disclose to the Borrower the identity of, or the nature of such Lender's relationship with, any other of such Lender's customers).

4.7.2 Capital Requirements. If any Lender or the Issuing Lender determines that any Change in Law affecting such Lender or the Issuing Lender or any lending office of such Lender or such Lender's or the Issuing Lender's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Lender's capital or on the capital of such Lender's or the Issuing Lender's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Lender, to a level below that which such Lender or the Issuing Lender or such Lender's or the Issuing Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Lender's policies and the policies of such Lender's or the Issuing Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Lender, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Lender or such Lender's or the Issuing Lender's holding company for any such reduction suffered.

The obligations of the Borrower pursuant to this Section 4.7.2 [Capital Requirements] are subject to the following: no Lender shall enforce these provisions solely against the Borrower or against

a few of such Lender's customers without in each case generally enforcing these (or similar provisions in other contracts) with respect to similarly situated borrowers (provided that, anything herein to the contrary notwithstanding, no Lender shall be required to disclose to the Borrower the identity of, or the nature of such Lender's relationship with, any other of such Lender's customers).

4.7.3 Certificates for Reimbursement; Repayment of Outstanding Loans; Borrowing of New Loans. A certificate of a Lender or the Issuing Lender setting forth the amount or amounts necessary to compensate such Lender or the Issuing Lender or its holding company, as the case may be, as specified in Sections 4.7.1 [Increased Costs Generally] or 4.7.2 [Capital Requirements] (including the calculation thereof in reasonable detail) delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Lender, as the case may be, the amount shown as due on any such certificate within ten (10) Business Days after receipt thereof.

4.7.4 Delay in Requests. Failure or delay on the part of any Lender or the Issuing Lender to demand compensation pursuant to this Section 4.7.4 [Delay in Requests] shall not constitute a waiver of such Lender's or the Issuing Lender's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or the Issuing Lender pursuant to this Section 4.7.4 [Delay in Requests] for any increased costs incurred or reductions suffered more than six (6) months prior to the date that such Lender or the Issuing Lender, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six (6) month period referred to above shall be extended to include the period of retroactive effect thereof).

4.8 Taxes.

4.8.1 Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required by applicable Law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Lender, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant Official Body in accordance with applicable Law.

4.8.2 Payment of Other Taxes by the Borrower. Without limiting the provisions of Section 4.8.1 [Payments Free of Taxes] above, the Borrower shall timely pay any Other Taxes to the relevant Official Body in accordance with applicable Law.

4.8.3 Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Lender, within ten (10) days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 4.8 [Taxes]) paid by the Administrative Agent, such Lender or the Issuing Lender, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Official Body. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Lender, shall be conclusive absent manifest error.

4.8.4 Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Official Body, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Official Body evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

4.8.5 Status of Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the Law of the jurisdiction in which the Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower (with a duplicate original to the Administrative Agent), at the time or times prescribed by applicable Law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by applicable Law as will permit such payments to be made without withholding or at a reduced rate of withholding. Notwithstanding the submission of a such documentation claiming a reduced rate of or exemption from U.S. withholding tax, the Administrative Agent shall be entitled to withhold United States federal income taxes at the full thirty percent (30%) withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under § 1.1441-7(b) of the United States Income Tax Regulations. Further, the Administrative Agent is indemnified under § 1.1461-1 (e) of the United States Income Tax Regulations against any claims and demands of any Lender or assignee or participant of a Lender for the amount of any tax it deducts and withholds in accordance with regulations under § 1441 of the Internal Revenue Code. In addition, any Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other original documentation prescribed by applicable Law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

Without limiting the generality of the foregoing, in the event that the Borrower is resident for tax purposes in the United States of America, any Foreign Lender shall deliver to the Borrower and the Administrative Agent (in such number of originals as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) duly completed originals of IRS Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States of America is a party,

(ii) duly completed originals of IRS Form W-8ECI,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) an original certificate to the effect that such Foreign Lender is not (A) a "bank" within the meaning of section 881(c)(3)(A) of the Code, (B) a "10 percent shareholder" of the Borrower within the meaning of section 881(c)(3)(B) of the Code, or (C) a "controlled foreign corporation" described in section 881(c)(3)(C) of the Code and (y) duly completed originals of IRS Form W-8BEN, or

(iv) any other original form prescribed by applicable Law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by applicable Law to permit the Borrower to determine the withholding or deduction required to be made. To the extent that any Lender is not a Foreign Lender, such Lender shall submit to the Administrative Agent two (2) originals of a W-9 or any other form prescribed by applicable Law demonstrating that such Lender is not a Foreign Lender.

4.8.6 Treatment of Certain Refunds. If the Administrative Agent, a Lender or the Issuing Lender determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund); net of all out-of-pocket expenses of the Administrative Agent, such Lender or the Issuing Lender, as the case may be, and without interest (other than any interest paid by the relevant Official Body with respect to such refund), provided that the Borrower, upon the request of the Administrative Agent, such Lender or the Issuing Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Official Body) to the Administrative Agent, such Lender or the Issuing Lender in the event the Administrative Agent, such Lender or the Issuing Lender is required to repay such refund to such Official Body. This Section shall not be construed to require the Administrative Agent, any Lender or the Issuing Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

4.9 Indemnity. In addition to the compensation or payments required by Section 4.7 [Increased Costs] or Section 4.8 [Taxes], the Borrower shall indemnify each Lender against all liabilities, losses or expenses (including loss of margin, any loss or expense incurred in liquidating or employing deposits from third parties and any loss or expense incurred in connection with funds acquired by a Lender to fund or maintain Loans subject to a LIBOR Rate Option) which such Lender sustains or incurs as a consequence of any

(i) payment, prepayment, conversion or renewal of any Loan to which a LIBOR Rate Option applies on a day other than the last day of the corresponding Interest

Period (whether or not such payment or prepayment is mandatory, voluntary or automatic and whether or not such payment or prepayment is then due),

(ii) attempt by the Borrower to revoke (expressly, by later inconsistent notices or otherwise) in whole or part any Loan Requests under Section 2.4 [Revolving Credit Loan Requests; Swing Loan Requests] or Section 3.2 [Interest Periods] or notice relating to prepayments under Section 4.6 [Voluntary Prepayments], or

(iii) default by the Borrower in the performance or observance of any covenant or condition contained in this Agreement or any other Loan Document, including any failure of the Borrower to pay when due (by acceleration or otherwise) any principal, interest, Commitment Fee or any other amount due hereunder.

If any Lender sustains or incurs any such loss or expense, it shall from time to time notify the Borrower of the amount determined in good faith by such Lender (which determination may include such assumptions, allocations of costs and expenses and averaging or attribution methods as such Lender shall deem reasonable) to be necessary to indemnify such Lender for such loss or expense. Such notice shall set forth in reasonable detail the basis for such determination. Such amount shall be due and payable by the Borrower to such Lender ten (10) Business Days after such notice is given.

4.10 Settlement Date Procedures. In order to minimize the transfer of funds between the Lenders and the Administrative Agent, the Borrower may borrow, repay and reborrow Swing Loans and PNC Bank may make Swing Loans as provided in Section 2.1.2 [Swing Loans] hereof during the period between Settlement Dates. Not later than 10:00 a.m. on each Settlement Date, the Administrative Agent shall notify each Lender of its Ratable Share of the total of the Revolving Credit Loans (each, a "Required Share"). Prior to 2:00 p.m. on such Settlement Date, each Lender shall pay to the Administrative Agent the amount equal to the difference between its Required Share and its Revolving Credit Loans, and the Administrative Agent shall pay to each Lender its Ratable Share of all payments made by the Borrower to the Administrative Agent with respect to the Revolving Credit Loans. The Administrative Agent shall also effect settlement in accordance with the foregoing sentence on the proposed Borrowing Dates for Revolving Credit Loans and may at its option effect settlement on any other Business Day. These settlement procedures are established solely as a matter of administrative convenience, and nothing contained in this Section 4.10 [Settlement Date Procedures] shall relieve the Lenders of their obligations to fund Revolving Credit Loans on dates other than a Settlement Date pursuant to Section 2.1.1 [Revolving Credit Loans]. The Administrative Agent may at any time at its option for any reason whatsoever require each Lender to pay immediately to the Administrative Agent such Lender's Ratable Share of the outstanding Revolving Credit Loans and each Lender may at any time require the Administrative Agent to pay immediately to such Lender its Ratable Share of all payments made by the Borrower to the Administrative Agent with respect to the Revolving Credit Loans.

## 5. REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties. The Borrower represents and warrants to the Administrative Agent and each of the Lenders as follows:

5.1.1 Organization and Qualification; Power and Authority; Compliance With Laws; Title to Properties; Event of Default, (i) The Borrower is a reciprocal insurance exchange duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (ii) the Attorney-in-Fact is a corporation, limited partnership or limited liability company duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (iii) the Borrower has the lawful power to own or lease its properties and to engage in the business it presently conducts or proposes to conduct, (iv) the Borrower is duly licensed or qualified and in good standing as of the Closing Date in each jurisdiction listed on Schedule 5.1.1 and in all other jurisdictions where the property owned or leased by it or the nature of the business transacted by it or both makes such licensing or qualification necessary, (v) each of the Borrower and the Attorney-in-Fact has full power to enter into, execute, deliver and carry out this Agreement and the other Loan Documents to which it is a party, (vi) the Borrower has full power to incur the Indebtedness contemplated by the Loan Documents and to perform its Obligations under the Loan Documents to which it is a party, and all such actions have been duly authorized by all necessary proceedings on its part or the part of the Attorney-in-Fact, (vii) the Borrower is in compliance in all material respects with all applicable Laws (other than Environmental Laws which are specifically addressed in Section 5.1.14 [Environmental Matters]) in all jurisdictions in which the Borrower and any Subsidiary of the Borrower is presently or will be doing business except where the failure to do so would not constitute a Material Adverse Change, and (viii) the Borrower has good and marketable title to or valid leasehold interest in all properties, assets and other rights which it purports to own or lease or which are reflected as owned or leased on its books and records, free and clear of all Liens and encumbrances except Permitted Liens. No Event of Default or Potential Default exists or is continuing.

5.1.2 Subsidiaries and Owners; Investment Companies. Schedule 5.1.2 states (i) the name of each of the Borrower's Subsidiaries (if any), its jurisdiction of organization and the amount, percentage and type of equity interests in such Subsidiary (the "Subsidiary Equity Interests"), and (ii) any options, warrants or other rights outstanding to purchase any such equity interests referred to in clause (i) (collectively, the "Equity Interests"). The Borrower and each Subsidiary of the Borrower has good and marketable title to all of the Subsidiary Equity Interests it purports to own, free and clear in each case of any Lien and all such Subsidiary Equity Interests have been validly issued, fully paid and nonassessable. Neither the Borrower nor any of its Subsidiaries is an "investment company" registered or required to be registered under the Investment Company Act of 1940 or under the "control" of an "investment company" as such terms are defined in the Investment Company Act of 1940 and shall not become such an "investment company" or under such "control".

5.1.3 Validity and Binding Effect. This Agreement and each of the other Loan Documents (i) has been duly and validly executed and delivered by the Attorney-in-Fact, and (ii) constitutes, or will constitute, legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with its terms.

5.1.4 No Conflict; Material Agreements; Consents. Neither the execution and delivery of this Agreement or the other Loan Documents by the Borrower or the Attorney-in- Fact, nor the consummation of the transactions herein or therein contemplated or compliance with the terms and provisions hereof or thereof by any of them will conflict with, constitute a

default under or result in any breach of (i) the terms and conditions of the certificate of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation, limited liability company agreement, certificate of authority to transact insurance, Subscriber's Agreements or other organizational documents of the Borrower or the Attorney-in-Fact or (ii) any Law or any material agreement or instrument or order, writ, judgment, injunction or decree to which the Borrower or the Attorney-in-Fact or any of their respective Subsidiaries is a party or by which the Borrower or the Attorney-in-Fact or any of their respective Subsidiaries is bound or to which the Borrower or the Attorney-in-Fact is subject, or result in the creation or enforcement of any Lien, charge or encumbrance whatsoever upon any property (now or hereafter acquired) of the Borrower or the Attorney-in-Fact or any of their respective Subsidiaries (other than Liens granted under the Loan Documents). There is no default under such material agreement of the Borrower (referred to above) and neither the Borrower nor any of its Subsidiaries is bound by any contractual obligation, or subject to any restriction in any organization document, or any requirement of Law which could reasonably be expected to result in a Material Adverse Change. No consent, approval, exemption, order or authorization of, or a registration or filing with, any Applicable Insurance Regulatory Authority or any other Official Body or any other Person is required by any Law or any agreement in connection with the execution, delivery and carrying out of this Agreement and the other Loan Documents.

5.1.5 Litigation. There are no actions, suits, proceedings or investigations pending or, to the knowledge of the Borrower, threatened against the Borrower or any Subsidiary of the Borrower at law or in equity before any Official Body which individually or in the aggregate could reasonably be expected to result in any Material Adverse Change. Neither the Borrower nor any Subsidiaries of the Borrower is in violation of any order, writ, injunction or any decree of any Official Body which could reasonably be expected to result in any Material Adverse Change.

5.1.6 Financial Statements.

(i) The Borrower has delivered to the Administrative Agent copies of its Annual Statement for and as of the end of the fiscal year ended December 31, 2008 (including, without limitation, the provisions made therein for Investments and the valuation thereof, reserves, policy and contract claims and statutory liabilities) as filed with the Applicable Insurance Regulatory Authority. In addition, the Borrower has delivered to the Administrative Agent copies of its Interim Statements for the fiscal year to date and as of the end of the fiscal quarter ended June 30, 2009 as filed with the Applicable Insurance Regulatory Authority (all such Annual Statements and Interim Statements being collectively referred to as the "Statements"). The Statements were compiled from the books and records maintained by the Borrower's management, are correct and complete as required by SAP and fairly represent the consolidated financial condition of the Borrower and its Subsidiaries as of the respective dates thereof and the results of operations for the fiscal periods then ended and have been prepared in accordance with SAP, consistently applied, subject (in the case of the Interim Statements) to normal year-end audit adjustments.

(ii) Neither the Borrower nor any Subsidiary of the Borrower has any liabilities, contingent or otherwise, or forward or long-term commitments that are not disclosed in the Statements or in the notes thereto, and except as disclosed therein there are no unrealized

or anticipated losses from any commitments of the Borrower or any Subsidiary of the Borrower which could reasonably be expected to cause a Material Adverse Change. Since December 31, 2008, no Material Adverse Change has occurred.

(iii) The Investments of the Borrower reflected in the Statements comply in all material respects with all applicable requirements of the Pennsylvania Department of Insurance as well as those of any other Applicable Insurance Regulatory Authority relating to Investments in respect of which the Borrower may invest its funds.

(iv) The provisions made by the Borrower in the Statements for reserves, policy and contract claims and statutory liabilities are in compliance in all material respects with the requirements of the Applicable Insurance Regulatory Authority, and have been computed in accordance with SAP.

(v) The marketable securities and short term Investments reflected in the Statements are valued at cost, amortized cost or market value, as required by applicable Law.

5.1.7 Margin Stock. Neither the Borrower nor any Subsidiaries of the Borrower engages or intends to engage principally, or as one of its important activities, in the business of extending credit for the purpose, immediately, incidentally or ultimately, of purchasing or carrying margin stock (within the meaning of Regulation U, T or X as promulgated by the Board of Governors of the Federal Reserve System). No part of the proceeds of any Loan has been or will be used, immediately, incidentally or ultimately, to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock or which is inconsistent with the provisions of the regulations of the Board of Governors of the Federal Reserve System. Neither the Borrower nor any Subsidiary of the Borrower holds or intends to hold margin stock in such amounts that more than thirty-five percent (35%) of the reasonable value of the assets of the Borrower or any Subsidiary of the Borrower are or will be represented by margin stock.

5.1.8 Full Disclosure. Neither this Agreement nor any other Loan Document, nor any certificate, statement, agreement or other documents when furnished to the Administrative Agent or any Lender in connection herewith or therewith, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein, in light of the circumstances under which they were made and taken as a whole, not misleading. There is no fact known to the Borrower which materially adversely affects the business, property, assets, financial condition, results of operations or prospects of the Borrower or any Subsidiary of the Borrower which has not been set forth in this Agreement or in the certificates, statements, agreements or other documents furnished in writing to the Administrative Agent and the Lenders prior to or at the date hereof in connection with the transactions contemplated hereby.

5.1.9 Taxes. All federal, state premium, material local and other material tax returns required to have been filed with respect to the Borrower and each Subsidiary of the Borrower have been filed, and payment or adequate provision has been made for the payment of all taxes, fees, assessments and other governmental charges which have or may become due pursuant to said returns or to assessments received, except to the extent that such taxes, fees,

assessments and other charges are being contested in good faith by appropriate proceedings diligently conducted and for which such reserves or other appropriate provisions, if any, as shall be required by SAP, shall have been made.

5.1.10 Patents, Trademarks, Copyrights, Licenses, Etc. The Borrower and each Subsidiary of the Borrower owns or possesses all the material patents, trademarks, service marks, trade names, copyrights, licenses, registrations, franchises, permits and rights necessary to own and operate its properties and to carry on its business as presently conducted and planned to be conducted by the Borrower or Subsidiary, without known possible, alleged or actual conflict with the rights of others which could reasonably be expected to result in a Material Adverse Change.

5.1.11 Liens in the Collateral. The Liens in the Collateral granted to the Administrative Agent for the benefit of the Lenders pursuant to the Pledge Agreement constitute and will continue to constitute first priority perfected Liens. All filing fees and other expenses in connection with the perfection of such Liens have been or will be paid by the Borrower.

5.1.12 Insurance. The properties of the Borrower and each of its Subsidiaries are insured pursuant to policies and other bonds which are valid and in full force and effect and which provide adequate coverage from reputable and financially sound insurers, including self-insurance to the extent customary.

5.1.13 ERISA Compliance.

(i) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state Laws. Each Plan that is intended to qualify under Section 401 (a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(ii) No ERISA Event has occurred or is reasonably expected to occur; (a) no qualified pension plan has any unfunded pension liability (i.e. excess of benefit liabilities over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan for the applicable plan year); (b) no Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (c) no Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (d) no Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

5.1.14 Environmental Matters. The Borrower is and, to the knowledge of the Borrower and each of its Subsidiaries is and has been in compliance with applicable Environmental Laws except as disclosed on Schedule 5.1.14; provided that such matters so disclosed could not reasonably be expected in the aggregate to result in a Material Adverse Change.

5.1.15 Solvency. The Borrower is Solvent. After giving effect to the transactions contemplated by this Agreement and the other Loan Documents, including all Indebtedness incurred thereby, the Liens granted by the Borrower in connection therewith and the payment of all fees related thereto, the Borrower will be Solvent.

5.1.16 Insurance Licenses. (a) The Borrower has all Insurance Licenses necessary to conduct its business, (b) no Insurance License of the Borrower is the subject of a proceeding for suspension or revocation or any similar proceedings, (c) there is no sustainable basis for such a suspension or revocation, and (d) no such suspension or revocation is threatened by any Applicable Insurance Regulatory Authority.

5.2 Updates to Schedules. Should any of the information or disclosures on any of the following Schedules attached hereto be outdated or incorrect in any material respect as of the date on which Borrower delivers its Compliance Certificate for each fiscal quarter end pursuant to Section 7.3.3 [Certificate of the Borrower], Borrower shall deliver an amended and restated form of such Schedule together with such Compliance Certificate:

Schedule 5.1.1 — Qualifications to do Business
Schedule 5.1.2 — Subsidiaries
Schedule 5.1.14 — Environmental Matters

provided, however, that Schedule 5.1.14 shall not be deemed to have been amended, modified or superseded by any such correction or update, nor shall any breach of warranty or representation resulting from the inaccuracy or incompleteness of Schedule 5.1.14 be deemed to have been cured thereby, unless and until the Required Lenders, in their sole and absolute discretion, shall accept in writing such revisions or updates to Schedule 5.1.14.

## 6. CONDITIONS OF LENDING AND ISSUANCE OF LETTERS OF CREDIT

The obligation of each Lender to make Loans and of the Issuing Lender to issue Letters of Credit hereunder is subject to the performance by the Borrower of its Obligations to be performed hereunder at or prior to the making of any such Loans or issuance of such Letters of Credit and to the satisfaction of the following further conditions:

6.1 First Loans and Letters of Credit.

6.1.1 Deliveries. On the Closing Date, the Administrative Agent shall have received each of the following in form and substance satisfactory to the Administrative Agent:

(i) A certificate of the Borrower signed by an Authorized Officer, dated the Closing Date stating that the Borrower is in compliance with its representations, warranties, covenants and conditions hereunder and no Event of Default or

Potential Default exists and no Material Adverse Change has occurred since the date of the last Annual Statement of the Borrower delivered to the Administrative Agent.

(ii) A certificate dated the Closing Date and signed by an Authorized Officer, certifying as to: (a) all action taken by the Attorney-in-Fact in connection with this Agreement and the other Loan Documents; (b) the names of the Authorized Officers authorized to sign the Loan Documents and their true signatures; (c) copies of the organizational documents of the Borrower and the Attorney-in-Fact as in effect on the Closing Date certified by the appropriate state official where such documents are filed in a state office including, in the case of the Borrower, a copy of the Subscriber's Agreements; (d) the exact legal name of the Borrower; and (e) the tax identification number of the Borrower.

(iii) A good standing certificate for the Attorney-in-Fact dated not more than sixty (60) days prior to the Closing Date, issued by the Secretary of State or other appropriate official of the Attorney-in-Fact's jurisdiction of formation and a Certificate of Authority to Transact Insurance of the Borrower from the Commonwealth of Pennsylvania Department of Insurance.

(iv) This Agreement and each of the other Loan Documents signed by an Authorized Officer and all appropriate Statements.

(v) A duly completed Valuation Statement calculated as of the Closing Date.

(vi) A written opinion of counsel for the Borrower and the Attorney-in-Fact, dated the Closing Date.

(vii) A duly completed Compliance Certificate as of the last day of the fiscal quarter of the Borrower most recently ended prior to the Closing Date, signed by an Authorized Officer.

(viii) Evidence that (a) no litigation, investigation or proceeding before or by any arbitrator or any Applicable Insurance Regulatory Authority or other Official Body shall be continuing or threatened against the Borrower or the Attorney-in-Fact or against the officers or directors of the Borrower or the Attorney-in-Fact (1) in connection with this Agreement, the other Loan Documents or any of the transactions contemplated hereby or thereby and which, in the reasonable opinion of the Administrative Agent, is deemed material or (2) which could, in the reasonable opinion of the Administrative Agent, result in a Material Adverse Change; and (b) no injunction, writ, restraining order or other order of any nature materially adverse to the Borrower or the Attorney-in-Fact or the conduct of its business shall have been issued by any Official Body.

(ix) All material consents required to effectuate the transactions contemplated hereby.

(x) Evidence that the Amended, Restated and Consolidated Loan Agreement dated January 30, 2008 among Borrower and PNC Bank and the other documents executed in connection therewith (together with all amendments, restatements,

modifications and supplements thereto) have been terminated, and all outstanding obligations thereunder have been paid and all Liens securing such obligations have been released.

(xi) (a) UCC Lien Searches with respect to the Borrower (at the state level only) in the Commonwealth of Pennsylvania and (b) judgment and tax lien searches with respect to the Borrower (at the state and county level) in Erie County, Pennsylvania and the Commonwealth of Pennsylvania with acceptable results.

(xii) Fully executed copies of the UCC-3 amendments and any other releases that may be necessary to satisfy any and all existing Liens on the assets of the Borrower that are not permitted hereunder (including payoff letters, if applicable).

(xiii) Evidence that the Borrower has received all Insurance Licenses and all other authorizations, licenses and permits necessary for the operation of the Borrower's business.

(xiv) Such other documents in connection with such transactions as the Administrative Agent or said counsel may reasonably request.

6.1.2 Payment of Fees. The Borrower shall have paid all fees payable on or before the Closing Date.

6.2 Each Loan or Letter of Credit. At the time of making any Loans or issuing any Letters of Credit and after giving effect to the proposed extensions of credit: the representations, warranties and covenants of the Borrower shall then be true in all respects (in the case of any representation, warranty or covenant containing a materiality modification) or in all material respects (in the case of any representation, warranty or covenant not containing a materiality modification) and no Event of Default or Potential Default shall have occurred and be continuing; the making of the Loans or issuance of such Letter of Credit shall not contravene any Law applicable to the Borrower or any Subsidiary of the Borrower or any of the Lenders; and the Borrower shall have delivered to the Administrative Agent a duly executed and completed Loan Request or to the Issuing Lender an application for a Letter of Credit, as the case may be.

## 7. COVENANTS

The Borrower covenants and agrees that until Payment in Full, the Borrower shall comply at all times with the following covenants:

7.1 Affirmative Covenants.

7.1.1 Preservation of Existence, Etc. The Borrower shall maintain its legal existence as a reciprocal insurance exchange domiciled in the Commonwealth of Pennsylvania. The Attorney-in-Fact shall maintain its legal existence as a corporation, limited partnership or limited liability company, as applicable in its state or organization. Each of the Borrower and the Attorney-in-Fact shall maintain its respective Insurance Licenses and its license or qualification and good standing in the Commonwealth of Pennsylvania, and the Borrower shall maintain its Insurance Licenses and its license or qualification and good standing in each other jurisdiction in which its ownership or lease of property or the nature of its business makes such license or

qualification necessary and shall cause each of its Subsidiaries to maintain its legal existence as a corporation, limited partnership or limited liability company and its license or qualification and good standing in each jurisdiction in which its ownership or lease of property or the nature of its business makes such license or qualification necessary, except as otherwise expressly permitted in Section 7.2.6 [Liquidations, Mergers, Etc.].

7.1.2 Payment of Liabilities, Including Taxes, Etc. The Borrower shall, and shall cause each of its Subsidiaries to, duly pay and discharge all liabilities to which it is subject or which are asserted against it, promptly as and when the same shall become due and payable, including all taxes, assessments and governmental charges upon it or any of its properties, assets, income or profits, prior to the date on which penalties attach thereto, except to the extent that such liabilities, including taxes, assessments or charges, are being contested in good faith and by appropriate and lawful proceedings diligently conducted and for which such reserve or other appropriate provisions, if any, as shall be required by SAP, shall have been made.

7.1.3 Maintenance of Insurance. The Borrower shall, and shall cause each of its Subsidiaries to, insure its properties and assets against loss or damage by fire and such other insurable hazards as such assets are commonly insured in such amounts as similar properties and assets are insured by prudent companies in similar circumstances carrying on similar businesses, and with reputable and financially sound insurers, including self-insurance to the extent customary.

7.1.4 Maintenance of Properties and Leases. The Borrower shall, and shall cause each of its Subsidiaries to, maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties useful or necessary to its business, and from time to time, the Borrower will make or cause to be made all appropriate repairs, renewals or replacements thereof.

7.1.5 Visitation Rights. The Borrower shall, and shall cause each of its Subsidiaries to, permit any of the officers or authorized employees or representatives of the Administrative Agent or any of the Lenders to visit and inspect any of its properties and to examine and make excerpts from its books and records and discuss its business affairs, finances and accounts with its officers, all in such detail and at such times and as often as any of the Lenders may reasonably request, provided that so long as no Event of Default has occurred and is continuing, each Lender shall provide the Borrower and the Administrative Agent with reasonable notice prior to any visit or inspection.

7.1.6 Keeping of Records and Books of Account. The Borrower shall, and shall cause each Subsidiary of the Borrower to, maintain and keep proper books of record and account which enable the Borrower and its Subsidiaries to issue financial statements in accordance with SAP and as otherwise required by applicable Laws of any Official Body having jurisdiction over the Borrower or any Subsidiary of the Borrower, and in which full, true and correct entries shall be made in all material respects of all its dealings and business and financial affairs.

7.1.7 Compliance with Laws; Use of Proceeds. The Borrower shall, and shall cause each of its Subsidiaries to, comply with all applicable Laws, including all Environmental

Laws, in all respects; provided that it shall not be deemed to be a violation of this Section 7.1.7 [Compliance with Laws; Use of Proceeds] if any failure to comply with any Law would not result in fines, penalties, remediation costs, other similar liabilities or injunctive relief which in the aggregate would constitute a Material Adverse Change. The Borrower will use the Letters of Credit and the proceeds of the Loans only in accordance with Section 2.8 [Use of Proceeds] and as permitted by applicable Law.

7.1.8 Further Assurances. The Borrower shall, from time to time, at its expense, faithfully preserve and protect the Administrative Agent's Lien on and Prior Security Interest in the Collateral as a continuing first priority perfected Lien, subject only to Permitted Liens, and shall do such other acts and things as the Administrative Agent in its reasonable discretion may deem necessary or advisable from time to time in order to preserve, perfect and protect the Liens granted under the Loan Documents and to exercise and enforce its rights and remedies thereunder, in accordance with the terms thereof, with respect to the Collateral.

7.1.9 Anti-Terrorism Laws. The Borrower is not and shall not be (i) a Person with whom any Lender is restricted from doing business under Executive Order No. 13224 or any other Anti-Terrorism Law, (ii) engaged in any business involved in making or receiving any contribution of funds, goods or services to or for the benefit of such a Person or in any transaction that evades or avoids, or has the purpose of evading or avoiding, the prohibitions set forth in any Anti-Terrorism Law, or (iii) otherwise in violation of any Anti-Terrorism Law. The Borrower shall provide to the Lenders any certifications or information that a Lender requests to confirm compliance by the Borrower with Anti-Terrorism Laws.

7.1.10 Collateral Value. The Borrower shall maintain at all times, subject to the next sentence, Collateral Value of not less than one hundred twenty-five percent (125%) of the Revolving Credit Commitments. If at any time the Collateral Value is less than one hundred twenty-five percent (125%) of the Revolving Credit Commitments (the amount of such shortage, the "Collateral Shortfall"), an Event of Default shall occur unless within three (3) Business Days of the date the Collateral Shortfall occurred no Collateral Shortfall exists as a result of (i) a change in the Collateral Value due to market fluctuations, (ii) a deposit of additional securities in the Collateral Account and/or (iii) a reduction of the Revolving Credit Commitments pursuant to Section 2.10 [Reduction of Credit Commitments].

7.1.11 Post-Closing Filings. The Borrower shall make all post-closing filings that may be required by any Applicable Insurance Regulatory Authority ("Post-Closing Filings").

7.1.12 Eligible Collateral Requirements. The Borrower shall cause the Eligible Collateral to consist of (i) at least fifty percent (50%) of investment property or other assets having an applicable rating at all times equal to or greater than Aaa or AAA, (ii) not more than fifteen percent (15%) of investment property or other assets having an applicable rating at any time less than Aa2 or AA but greater than or equal to A2 or A, and (iii) the balance of investment property or other assets having an applicable rating at all times equal to or greater than Aa2 or AA. For purposes of this Section 7.1.12, the rating of any specific investment property or other assets will be determined as follows: (i) such rating shall be based upon the higher of (a) the rating of such underlying investment property or other asset provided by Moody's and Standard & Poor's or (b) the credit enhanced rating of such investment property or other asset provided by

Moody's and Standard & Poor's; (ii) if a difference exists in the ratings of Moody's and Standard & Poor's and the difference is only one level, such rating shall be based upon the higher of Moody's and Standard & Poor's (for example if Moody's rating is Aa3 and Standard & Poor's rating is AA, Standard & Poor's rating would apply); and (iii) if a difference exists in the ratings of Moody's & Standard & Poor's and the difference is two or more levels then the rating will be based upon the lower of Moody's and Standard & Poor's (for example if Moody's rating is A2 and Standard & Poor's rating is AA-, Moody's rating would apply). Notwithstanding anything to the contrary contained herein, at no time shall more than ten percent (10%) of the underlying investment property or other assets comprising the Eligible Collateral have an unenhanced Moody's or Standard & Poor's rating less than A3 or A-.

7.1.13 Collateral Value and Delinquency Proceedings. The Collateral Value requirements set forth in Section 7.1.10 [Collateral Value] must be maintained for so long as the Borrower may borrow under this Agreement and until payment in full of the Notes, interest thereon, and all fees and other Obligations of the Borrower and expiration of all Letters of Credit under this Agreement and the other Loan Documents including, but not limited to, during any Delinquency Proceeding. In the event of a Delinquency Proceeding, the parties agree that, for purposes of Section 221.43 of the Suspension of Business-Involuntary Dissolutions Article of the Insurance Act, 40 P.S. §221.1 et seq., the value of the Collateral must be equal to at least one hundred twenty-five percent (125%) of the Revolving Credit Commitments.

7.2 Negative Covenants.

7.2.1 Indebtedness. The Borrower shall not, and shall not permit any of its Subsidiaries to, at any time create, incur, assume or suffer to exist any Indebtedness, except:

(i) Indebtedness under the Loan Documents;

(ii) Existing Indebtedness as set forth on Schedule 7.2.1 (including any extensions or renewals thereof; provided there is no increase in the amount thereof or other significant change in the terms thereof unless otherwise specified on Schedule 7.2.1);

(iii) Any Lender Provided Interest Rate Hedge; and

(iv) Any other Indebtedness not exceeding an aggregate principal amount of Five Hundred Million and 00/100 Dollars ($500,000,000.00).

7.2.2 Liens. The Borrower shall not, and shall not permit any of its Subsidiaries to, at any time create, incur, assume or suffer to exist any Lien on any of its property or assets, tangible or intangible, now owned or hereafter acquired, or agree or become liable to do so, except the following (collectively, "Permitted Liens"):

(i) Liens for taxes, assessments, or similar charges, incurred in the ordinary course of business and which are not yet due and payable;

(ii) Pledges or deposits made in the ordinary course of business to secure payment of worker's compensation, or to participate in any fund in connection with

worker's compensation, unemployment insurance, old-age pensions or other social security programs;

(iii) Liens of mechanics, materialmen, warehousemen, carriers, or other like Liens, securing obligations incurred in the ordinary course of business that are not yet due and payable and Liens of landlords securing obligations to pay lease payments that are not yet due and payable or in default;

(iv) Good-faith pledges or deposits made in the ordinary course of business to secure performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, not in excess of the aggregate amount due thereunder, or to secure statutory obligations, or surety, appeal, indemnity, performance or other similar bonds required in the ordinary course of business;

(v) Encumbrances consisting of zoning restrictions, easements or other restrictions on the use of real property, none of which materially impairs the use of such property or the value thereof, and none of which is violated in any material respect by existing or proposed structures or land use;

(vi) Liens, security interests and mortgages in favor of the Administrative Agent (for its benefit and for the benefit of the Lenders and their Affiliates) securing the Obligations (including Lender Provided Interest Rate Hedges);

(vii) Judgment Liens which do not constitute an Event of Default; and

(viii) Liens on assets (other than the Collateral or any Subsidiary Equity Interests) provided the amount of outstanding Indebtedness and other obligations secured thereby does not exceed One Hundred Fifty Million and 00/100 Dollars ($150,000,000.00) at any time.

7.2.3 Guarantees. The Borrower shall not, and shall not permit any of its Subsidiaries to, at any time, directly or indirectly, become or be liable in respect of any Guarantee, or assume, guarantee, become surety for, endorse or otherwise agree, become or remain directly or contingently liable upon or with respect to any obligation or liability of any other Person in an aggregate amount in excess of One Hundred Million and 00/100 Dollars ($100,000,000.00), except for a Guarantee of Indebtedness of the Borrower permitted hereunder.

7.2.4 Investments. The Borrower shall not make any Investments, except:

(a) Investments disclosed on Schedule 7.2.4;

(b) Investments maintained in the Borrower's investment portfolio in the ordinary course of business (including Investments in Subsidiaries and Joint Ventures, either directly or by way of purchase of another Person's interest in such Subsidiary or Joint Venture, which shall be deemed to be in the ordinary course of business), and in each case in compliance with applicable Law;

(c) Trade accounts receivables; and

(d) Acquisitions of assets or capital stock of any other Person to the extent permitted by Section 7.2.6 [Liquidations, Mergers, Consolidations, Acquisitions].

7.2.5 Dividends and Related Distributions. The Borrower shall not, and shall not permit any of its Subsidiaries to, make or pay, or agree to become or remain liable to make or pay, any dividend or other distribution of any nature (whether in cash, property, securities or otherwise) on account of or in respect of its ownership interests or on account of the purchase, redemption, retirement or acquisition of its ownership interests unless prior to and after giving effect to such dividend or distribution, no Event of Default or Potential Default shall have occurred.

7.2.6 Liquidations, Mergers, Consolidations, Acquisitions. The Borrower shall not dissolve, liquidate or wind-up its affairs. The Borrower shall not fail to have at all times an Attorney-in-Fact duly authorized to act on its behalf in accordance with applicable Law. The Borrower shall not become a party to any merger or consolidation, and shall not, and shall not permit any of the Borrower's Subsidiaries to, acquire by purchase, lease or otherwise all or substantially all of the assets or capital stock of any other Person unless (i) at the time of such transaction the Borrower is able to demonstrate pro forma compliance with Section 7.2.14 [Minimum Statutory Surplus] and Section 7.2.15 [Total Adjusted Capital to Authorized Control Level Risk Based Capital], (ii) prior to and after giving effect to such transaction, no Event of Default or Potential Default shall have occurred and (iii) after giving effect to such transaction, the Borrower shall be the surviving legal entity if it is a party to such transaction.

7.2.7 Dispositions of Assets or Subsidiaries. The Borrower shall not, and shall not permit any of its Subsidiaries to, sell, convey, assign, lease, abandon or otherwise transfer or dispose of, voluntarily or involuntarily, any of its properties or assets, tangible or intangible (including sale, assignment, discount or other disposition of accounts, contract rights, chattel paper, equipment or general intangibles with or without recourse or of capital stock, shares of beneficial interest, partnership interests or limited liability company interests of a Subsidiary of the Borrower) (each, a "Disposition"), except:

(a) Dispositions of obsolete or worn out property or property no longer useful in the business of the Borrower or any of its Subsidiaries, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of Collateral to the extent that no such Disposition results in a Collateral Shortfall at any time;

(c) Dispositions of Investments held in the Borrower's investment portfolio (including Investments in Subsidiaries and Joint Ventures, either held directly or indirectly by the Borrower, but excluding the Collateral) in the ordinary course of business;

(d) Dispositions of equipment or real property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property or (ii) the proceeds of such Disposition are promptly applied to the purchase price of such replacement property;

(e) Dispositions of property for fair market value;

(f) Leases, subleases, licenses or sublicenses of property in the ordinary course of business and which do not materially interfere with the business of the Borrower and its Subsidiaries;

(g) Transfers of property subject to casualty events upon receipt of the insurance payments with respect to such casualty events;

(h) Sales or discounts without recourse of accounts receivable arising in the ordinary course of business in connection with the compromise or collection thereof; and

(i) Dispositions by any Subsidiary of the Borrower to the Borrower or another Subsidiary of the Borrower.

7.2.8 Affiliate Transactions. The Borrower shall not, and shall not permit any of its Subsidiaries to, enter into or carry out any transaction with any Affiliates of such Person (including purchasing property or services from or selling property or services to any Affiliate of the Borrower or other Person) unless such transaction is not otherwise prohibited by this Agreement, and is entered into upon fair and reasonable terms and conditions or terms and conditions which are fully disclosed to the Administrative Agent and the Lenders, and is in accordance with all applicable Law.

7.2.9 Continuation of or Change in Business. The Borrower shall not, and shall not permit any of its Subsidiaries to, engage in any business other than the insurance business and services related to the insurance business, substantially as conducted and operated by the Borrower or Subsidiary during the present fiscal year, and the Borrower or Subsidiary shall not permit any material change in such business or services related thereto.

7.2.10 Fiscal Year. The Borrower shall not, and shall not permit any Subsidiary of the Borrower to, change its fiscal year from the twelve-month period beginning January 1 and ending December 31.

7.2.11 Issuance of Stock or Other Ownership Interests. The Borrower shall not permit any of its Subsidiaries to issue any additional shares of their capital stock or other ownership interests or any options, warrants or other rights in respect thereof, provided that the Borrower's Subsidiaries may issue shares of capital stock or other ownership interests to the Borrower or any other Subsidiary or shareholder in any Joint Venture.

7.2.12 Changes in Organizational Documents. The Borrower shall not, and shall not permit any of its Subsidiaries to, amend in any respect its certificate of incorporation (including any provisions or resolutions relating to capital stock), by-laws, certificate of limited partnership, partnership agreement, certificate of formation, limited liability company agreement or other organizational documents without providing at least thirty (30) calendar days' prior written notice to the Administrative Agent and the Lenders and, in the event such change would be adverse to the Lenders as determined by the Administrative Agent in its sole but reasonable discretion, obtaining the prior written consent of the Required Lenders.

7.2.13 Negative Pledges. The Borrower shall not directly or indirectly enter into or assume or become bound by, or permit any Subsidiary to enter into or assume or become bound by, any agreement (other than this Agreement and the other Loan Documents), or any

provision of any certificate or article of incorporation, bylaws, partnership agreement, operating agreement or other organizational formation or governing document prohibiting the creation or assumption of any Lien or encumbrance upon Eligible Collateral in the Borrower's investment portfolio, whether now owned or hereafter created or acquired, which prohibits the Borrower's ability to comply with this Agreement or any of the other Loan Documents; provided that the foregoing shall not apply to (i) restrictions and conditions imposed by any Law or by any Loan Document, (ii) restrictions or conditions imposed by any agreement relating to secured Indebtedness or other obligations permitted by this Agreement but only to the extent such restriction or condition is limited to the specific assets subject to a Permitted Lien, or (iii) customary provisions in leases or other agreements restricting assignment thereof.

7.2.14 Minimum Statutory Surplus. As of September 30, 2009 and the end of each fiscal quarter thereafter, the Borrower shall not permit the Borrower Statutory Surplus to be less than an amount equal to the sum of (i) seventy percent (70%) of $3,915,000,000.00, plus (ii) fifty percent (50%) of Borrower Statutory Net Income on a cumulative basis for the fiscal quarter ended September 30, 2009 and for each succeeding fiscal quarter thereafter.

7.2.15 Total Adjusted Capital to Authorized Control Level Risk Based Capital. As of September 30, 2009 and the end of each fiscal quarter thereafter, the Borrower shall not permit the ratio (expressed as a percentage) of Total Adjusted Capital to Authorized Control Level Risk Based Capital to be less than four hundred fifty percent (450%).

7.2.16 Management Fee. The Borrower shall not pay management fees to the Attorney-in-Fact or any other Person in excess of twenty-five percent (25%) of the direct written premiums of the Erie Property & Casualty Insurance Group.

7.2.17 Successor Attorney-in-Fact. The Borrower shall not make any change in its Attorney-in-Fact unless not less than thirty (30) days prior written notice of its intention to appoint a successor Attorney-in-Fact is given to the Administrative Agent, which successor Attorney-in-Fact must be acceptable to the Administrative Agent in its sole but reasonable discretion.

7.3 Reporting Requirements. The Borrower will furnish or cause to be furnished to the Administrative Agent;

7.3.1 Quarterly Financial Statements. As soon as available and in any event within forty-five (45) calendar days after the end of each of the first three fiscal quarters in each fiscal year, Interim Statements of the Borrower, as filed with the Applicable Insurance Regulatory Authority as of the end of such fiscal quarter for the fiscal quarter then ended and the fiscal year through that date, all in reasonable detail and certified (subject to normal year-end audit adjustments) by an Authorized Officer of the Borrower as having been prepared in accordance with SAP, consistently applied, and setting forth in comparative form the respective Interim Statements for the corresponding date and period in the previous fiscal year.

7.3.2 Annual Financial Statements. As soon as available and in any event within ninety (90) days after the end of each fiscal year of the Borrower, Annual Statements of the Borrower consisting of a consolidated and consolidating balance sheet as of the end of such

fiscal year, all in reasonable detail and setting forth in comparative form the Annual Statements as of the end of and for the preceding fiscal year accompanied by or including the opinion or statement of the Borrower's actuary as required to be filed with such Annual Statements, in form and substance reasonably acceptable to the Administrative Agent.

7.3.3 Certificate of the Borrower. Concurrently with the delivery of the Statements of the Borrower furnished to the Administrative Agent pursuant to Section 7.3.1 [Quarterly Financial Statements] and Section 7.3.2 [Annual Financial Statements], a certificate (each, a "Compliance Certificate") of the Borrower signed by an Authorized Officer (for purposes of this Section 7.3.3, such Authorized Officer shall be limited to the Chief Executive Officer, President or Chief Financial Officer) of the Borrower, in the form of Exhibit 7.3.3.

7.3.4 Department of Insurance Certificate of Compliance. Concurrently with the delivery of the Annual Statements of the Borrower furnished to the Administrative Agent pursuant to Section 7.3.2 [Annual Financial Statements], the Borrower's certificate of compliance procured annually from the Commissioner.

7.3.5 Valuation Statements. As soon as available and in any event within twenty (20) days after the end of each month, or more frequently if requested by the Administrative Agent, in its reasonable discretion, valuation statements from the custodian of the Collateral, in form and substance reasonably acceptable to the Administrative Agent (each, a "Valuation Statement").

7.3.6 Certificates; Other Information.

(a) within fifteen (15) days after receipt by the Borrower, any final Report on Examination issued by the Applicable Insurance Regulatory Authority or the NAIC that results in material adjustments to the Statements;

(b) within fifteen (15) days after receipt by the Borrower, a copy of any "Statement of Actuarial Opinion" and "Management Discussion and Analysis" for the Borrower which is required to be provided to the Applicable Insurance Regulatory Authority as to the adequacy of loss reserves of the Borrower;

(c) within fifteen (15) days of receipt, a copy of any financial examination reports by any Applicable Insurance Regulatory Authority with respect to the Borrower relating to the insurance business of the Borrower (when, and if, prepared);

(d) within five (5) Business Days of such notice, notice of actual suspension, termination or revocation of any material Insurance License of the Borrower by any Applicable Insurance Regulatory Authority;

(e) promptly upon notice thereof, any change in the A.M. Best Rating financial strength rating of the Borrower;

(f) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower or any Subsidiary, or compliance with the terms of

the Loan Documents, as the Administrative Agent or any Lender may from time to time reasonably request; and

(g) promptly after filing, a copy of the Post-Closing Filings, if any.

7.3.7 Notices.

7.3.7.1 Default. Promptly after any officer of the Borrower has learned of the occurrence of an Event of Default or Potential Default, a certificate signed by an Authorized Officer setting forth the details of such Event of Default or Potential Default and the action which the Borrower proposes to take with respect thereto.

7.3.7.2 Litigation. Promptly after the commencement thereof, notice of all actions, suits, proceedings or investigations before or by any Official Body or any other Person against the Borrower or any Subsidiary of the Borrower which relate to the Collateral, involve a claim or series of claims in excess of Fifty Million and 00/100 Dollars ($50,000,000.00) or which if adversely determined would constitute a Material Adverse Change.

7.3.7.3 Organizational Documents. Within the time limits set forth in Section 7.2.12 [Changes in Organizational Documents], any amendment to the organizational documents of the Borrower.

7.3.7.4 Erroneous Financial Information. Immediately in the event that the Borrower or its accountants conclude or advise that any previously issued financial statement, audit report or interim review should no longer be relied upon or that disclosure should be made or action should be taken to prevent future reliance, notice thereof.

7.3.7.5 ERISA Event. Immediately upon the occurrence of any ERISA Event, notice thereof.

7.3.7.6 Other Reports. Promptly upon request, such other reports and information as the Administrative Agent or any of the Lenders may from time to time reasonably request.

## 8. DEFAULT

8.1 Events of Default. An Event of Default shall mean the occurrence or existence of any one or more of the following events or conditions (whatever the reason therefor and whether voluntary, involuntary or effected by operation of Law):

8.1.1 Payments Under Loan Documents.

(i) The Borrower shall fail to pay any principal of any Loan (including scheduled installments, mandatory prepayments or the payment due at maturity), Reimbursement Obligation or any interest on any Loan, Reimbursement Obligation or any other amount owing hereunder or under the other Loan Documents on the date on which such principal, interest or other amount becomes due in accordance with the terms hereof;

(ii) The Borrower shall fail to pay any other Obligation within five (5) days of the date on which such other Obligation becomes due in accordance with the terms hereof;

8.1.2 Breach of Warranty. Any representation or warranty made at any time by the Borrower herein or by the Borrower in any other Loan Document, or in any certificate, other instrument or statement furnished pursuant to the provisions hereof or thereof, shall prove to have been false or misleading in any material respect as of the time it was made or furnished;

8.1.3 Breach of Negative Covenants or Visitation Rights. The Borrower shall default in the observance or performance of any covenant contained in Section 7.1.1 [Preservation of Existence, Etc.], Section 7.1.5 [Visitation Rights], Section 7.1.7 [Compliance with Laws; Use of Proceeds], Section 7.1.10 [Collateral Value] or Section 7.2 [Negative Covenants];

8.1.4 Breach of Other Covenants. The Borrower shall default in the observance or performance of any other covenant, condition or provision hereof or of any other Loan Document and such default shall continue unremedied for a period of twenty (20) Business Days;

8.1.5 Defaults in Other Agreements or Indebtedness. A default or event of default shall occur at any time under the terms of any other agreement involving borrowed money or the extension of credit or any other Indebtedness under which the Borrower or any Subsidiary of the Borrower may be obligated as a borrower or guarantor in excess of Fifty Million and 00/100 Dollars ($50,000,000.00) in the aggregate, and such breach, default or event of default consists of the failure to pay (beyond any period of grace permitted with respect thereto, whether waived or not) any Indebtedness when due (whether at stated maturity, by acceleration or otherwise) or if such breach or default permits or causes the acceleration of any Indebtedness (whether or not such right shall have been waived) or the termination of any commitment to lend;

8.1.6 Final Judgments or Orders. Any final judgments or orders for the payment of money in excess of Fifty Million and 00/100 Dollars ($50,000,000.00) in the aggregate shall be entered against the Borrower by a court having jurisdiction in the premises, which judgment is not discharged, vacated, bonded or stayed pending appeal within a period of thirty (30) days from the date of entry;

8.1.7 Loan Document Unenforceable. Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the party executing the same or such party's successors and assigns (as permitted under the Loan Documents) in accordance with the respective terms thereof or shall in any way be terminated (except in accordance with its terms) or become or be declared ineffective or inoperative or shall in any way be challenged or contested or cease to give or provide the respective Liens, security interests, rights, titles, interests, remedies, powers or privileges intended to be created thereby;

8.1.8 Proceedings Against Assets. Any assets (other than the Collateral) valued in excess of Ten Million and 00/100 Dollars ($10,000,000.00) or the Collateral of the Borrower

or any of its Subsidiaries are attached, seized, levied upon or subjected to a writ or distress warrant; or such come within the possession of the Commissioner (except as set forth in Section 8.2.2 [Bankruptcy, Insolvency or Reorganization Proceedings]) or any other receiver, trustee, custodian or assignee for the benefit of creditors and the same is not cured within thirty (30) days thereafter;

8.1.9 Events Relating to Plans and Benefit Arrangements. An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of Ten Million and 00/100 Dollars ($10,000,000.00), or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of Ten Million and 00/100 Dollars ($10,000,000.00);

8.1.10 Change of Control. Within a period of twelve (12) consecutive calendar months, individuals who were directors of the Attorney-in-Fact on the first day of such period, or directors approved by them, shall cease to constitute a majority of the board of directors of the Attorney-in-Fact;

8.1.11 Relief Proceedings.

(i) A Relief Proceeding shall have been instituted against the Borrower or any Subsidiary of the Borrower and such Relief Proceeding shall remain undismissed or unstayed and in effect for a period of thirty (30) consecutive days or such court shall enter a decree or order granting any of the relief sought in such Relief Proceeding, (ii) the Borrower or any Subsidiary of the Borrower institutes, or takes any action in furtherance of, a Relief Proceeding, or (iii) the Borrower or any Subsidiary of the Borrower ceases to be solvent or admits in writing its inability to pay its debts as they mature or ceases operation of its present business; and

8.1.12 Revocation of Certificate of Compliance. The Borrower’s certificate of compliance shall have been revoked by the Commissioner.

8.2 Consequences of Event of Default.

8.2.1 Events of Default Other Than Bankruptcy, Insolvency or Reorganization Proceedings. If an Event of Default specified under Sections 8.1.1 [Payments Under Loan Documents] through 8.1.10 [Change of Control] and 8.1.12 [Revocation of Certificate of Compliance] shall occur and be continuing, the Lenders and the Administrative Agent shall be under no further obligation to make Loans and the Issuing Lender shall be under no obligation to issue Letters of Credit and the Administrative Agent may, and upon the request of the Required Lenders, shall (i) by written notice to the Borrower, declare the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other Indebtedness of the Borrower to the Lenders hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Administrative Agent for the benefit of each Lender without presentment, demand, protest or any

other notice of any kind, all of which are hereby expressly waived, and (ii) require the Borrower to, and the Borrower shall thereupon, deposit in a non-interest-bearing account with the Administrative Agent, as cash collateral for its Obligations under the Loan Documents, an amount equal to the maximum amount currently or at any time thereafter available to be drawn on all outstanding Letters of Credit, and the Borrower hereby pledges to the Administrative Agent and the Lenders, and grants to the Administrative Agent and the Lenders a security interest in, all such cash as security for such Obligations; and

8.2.2 Bankruptcy, Insolvency or Reorganization Proceedings. If an Event of Default specified under Section 8.1.12 [Relief Proceedings] shall occur, the Lenders shall be under no further obligations to make Loans hereunder and the Issuing Lender shall be under no obligation to issue Letters of Credit and the unpaid principal amount of the Loans then outstanding and all interest accrued thereon, any unpaid fees and all other Indebtedness of the Borrower to the Lenders hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived; and

8.2.3 Set-off. If an Event of Default shall have occurred and be continuing, each Lender, the Issuing Lender, and each of their respective Affiliates and any participant of such Lender or Affiliate which has agreed in writing to be bound by the provisions of Section 4.3 [Sharing of Payments by Lenders] is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender, the Issuing Lender or any such Affiliate or participant to or for the credit or the account of the Borrower against any and all of the Obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document to such Lender, the Issuing Lender, Affiliate or participant, irrespective of whether or not such Lender, Issuing Lender, Affiliate or participant shall have made any demand under this Agreement or any other Loan Document and although such Obligations of the Borrower or the Borrower may be contingent or unmatured or are owed to a branch or office of such Lender or the Issuing Lender different from the branch or office holding such deposit or obligated on such Indebtedness. The rights of each Lender, the Issuing Lender and their respective Affiliates and participants under this Section 8.2.3 [Set-Off] are in addition to other rights and remedies (including other rights of setoff) that such Lender, the Issuing Lender or their respective Affiliates and participants may have. Each Lender and the Issuing Lender agrees to notify the Borrower and the Administrative Agent promptly after any such setoff and application; provided that the failure to give such notice shall not affect the validity of such setoff and application; and

8.2.4 Suits, Actions, Proceedings. If an Event of Default shall occur and be continuing, and whether or not the Administrative Agent shall have accelerated the maturity of the Loans pursuant to any of the foregoing provisions of this Section 8.2 [Consequences of an Event of Default], the Administrative Agent or any Lender, if owed any amount with respect to the Loans, may proceed to protect and enforce its rights by suit in equity, action at law and/or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement or the other Loan Documents, including as permitted by applicable Law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have

become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Administrative Agent or such Lender; and

8.2.5 Application of Proceeds. From and after the date on which the Administrative Agent has taken any action pursuant to this Section 8.2 [Consequences of an Event of Default] and until all Obligations of the Borrower have been paid in full, any and all proceeds received by the Administrative Agent from any sale or other disposition of the Collateral, or any part thereof, or the exercise of any other remedy by the Administrative Agent, shall be applied as follows:

(i) first, to reimburse the Administrative Agent and the Lenders for out-of-pocket costs, expenses and disbursements, including reasonable attorneys and paralegals fees and legal expenses, incurred by the Administrative Agent or the Lenders in connection with realizing on the Collateral or collection of any Obligations of the Borrower under any of the Loan Documents, including advances made by the Lenders or any one of them or the Administrative Agent for the reasonable maintenance, preservation, protection or enforcement of, or realization upon, the Collateral, including advances for taxes, insurance, repairs and the like and reasonable expenses incurred to sell or otherwise realize on, or prepare for sale or other realization on, any of the Collateral;

(ii) second, to the repayment of all Obligations then due and unpaid of the Borrower to the Lenders or their Affiliates incurred under this Agreement or any of the other Loan Documents, whether of principal, interest, fees, expenses or otherwise and to cash collateralize the Letter of Credit Obligations, in such manner as the Administrative Agent may determine in its discretion;

(iii) third, to repayment of all Obligations then due and unpaid of the Borrower to the Lender or their Affiliates incurred under any agreements evidencing any Lender Provided Interest Rate Hedge, whether of fees, expenses or otherwise; and

(iv) the balance, if any, as required by Law.

## 9. THE ADMINISTRATIVE AGENT

9.1 Appointment and Authority. Each of the Lenders and the Issuing Lender hereby irrevocably appoints PNC Bank to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Section 9 [The Administrative Agent] are solely for the benefit of the Administrative Agent, the Lenders and the Issuing Lender, and the Borrower shall not have rights as a third party beneficiary of any of such provisions.

9.2 Rights as a Lender. The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term “Lender” or “Lenders” shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity.

Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

9.3 Exculpatory Provisions. The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Potential Default or Event of Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents); provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable Law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 10.1 [Modifications, Amendments or Waivers] and 8.2 [Consequences of Event of Default]) or (ii) in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Potential Default or Event of Default unless and until notice describing such Potential Default or Event of Default is given to the Administrative Agent by the Borrower, a Lender or the Issuing Lender.

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Potential Default or Event of Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article 6 [Conditions of Lending and Issuance of Letters of Credit] or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

9.4 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or the Issuing Lender, the Administrative Agent may presume that such condition is satisfactory to such Lender or the Issuing Lender unless the Administrative Agent shall have received notice to the contrary from such Lender or the Issuing Lender prior to the making of such Loan or the issuance of such Letter of Credit. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

9.5 Delegation of Duties. The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Section 9 shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

9.6 Resignation of Administrative Agent. The Administrative Agent may at any time give notice of its resignation to the Lenders, the Issuing Lender and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, with approval from the Borrower (so long as no Event of Default has occurred and is continuing), to appoint a successor, such approval not to be unreasonably withheld or delayed. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may on behalf of the Lenders and the Issuing Lender, appoint a successor Administrative Agent meeting the qualifications set forth above; provided that if the Administrative Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (i) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Administrative Agent on behalf of the Lenders or the Issuing Lender under any of the Loan Documents, the retiring Administrative Agent shall continue to hold such collateral security until such time as a successor Administrative Agent is appointed) and (ii) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender and the Issuing Lender directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this Section 9.6 [Resignation of Administrative Agent]. Upon

the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent, and the retiring Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section 9 [The Administrative Agent]). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Section 9 [The Administrative Agent] and Section 10.3 [Expenses; Indemnity; Damage Waiver] shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

If PNC Bank resigns as Administrative Agent under this Section 9.6 [Resignation of Administrative Agent], PNC Bank shall also resign as an Issuing Lender. Upon the appointment of a successor Administrative Agent hereunder, such successor shall (i) succeed to all of the rights, powers, privileges and duties of PNC Bank as the retiring Issuing Lender and Administrative Agent and PNC Bank shall be discharged from all of its respective duties and obligations as Issuing Lender and Administrative Agent under the Loan Documents, and (ii) issue letters of credit in substitution for the Letters of Credit issued by PNC Bank, if any, outstanding at the time of such succession or make other arrangement satisfactory to PNC Bank to effectively assume the obligations of PNC Bank with respect to such Letters of Credit.

9.7 Non-Reliance on Administrative Agent and Other Lenders. Each Lender and the Issuing Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and the Issuing Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

9.8 No Other Duties, etc. Anything herein to the contrary notwithstanding, none of the co-syndication agents or lead arranger listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent, a Lender or the Issuing Lender hereunder.

9.9 Administrative Agent's Fee. The Borrower shall pay to the Administrative Agent a nonrefundable fee (the "Administrative Agent's Fee") under the terms of a letter (the "Administrative Agent's Letter") between the Borrower and Administrative Agent, as amended from time to time.

9.10 Authorization to Release Collateral. The Lenders and Issuing Lenders authorize the Administrative Agent to release any Collateral consisting of assets or equity interests sold or

otherwise disposed of in a sale or other disposition or transfer permitted under Section 7.2.7 [Disposition of Assets or Subsidiaries].

9.11 No Reliance on Administrative Agents Customer Identification Program. Each Lender acknowledges and agrees that neither such Lender, nor any of its Affiliates, participants or assignees, may rely on the Administrative Agent to carry out such Lender's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA Patriot Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "CIP Regulations"), or any other Anti-Terrorism Law, including any programs involving any of the following items relating to or in connection with the Borrower, its Affiliates or its agents, the Loan Documents or the transactions hereunder or contemplated hereby: (i) any identity verification procedures, (ii) any recordkeeping, (iii) comparisons with government lists, (iv) customer notices or (v) other procedures required under the CIP Regulations or such other Laws.

## 10. MISCELLANEOUS

10.1 Modifications, Amendments or Waivers. With the written consent of the Required Lenders, the Administrative Agent, acting on behalf of all the Lenders, and the Borrower, on behalf of the Borrower, may from time to time enter into written agreements amending or changing any provision of this Agreement or any other Loan Document or the rights of the Lenders or the Borrower hereunder or thereunder, or may grant written waivers or consents hereunder or thereunder. Any such agreement, waiver or consent made with such written consent shall be effective to bind all the Lenders and the Borrower; provided, that no such agreement, waiver or consent may be made which will:

10.1.1 Increase of Commitment. Increase the amount of the Revolving Credit Commitment of any Lender hereunder without the consent of such Lender;

10.1.2 Extension of Payment; Reduction of Principal Interest or Fees; Modification of Terms of Payment. Whether or not any Loans are outstanding, extend the Expiration Date or the time for payment of principal or interest of any Loan (excluding the due date of any mandatory prepayment of a Loan), the Commitment Fee or any other fee payable to any Lender, or reduce the principal amount of or the rate of interest borne by any Loan or reduce the Commitment Fee or any other fee payable to any Lender, without the consent of each Lender directly affected thereby;

10.1.3 Release of Collateral or Borrower. Release (i) any Collateral that would result in a Collateral Shortfall, (ii) the Borrower from its Obligations under this Agreement without the consent of all of the Lenders (other than Defaulting Lenders) or (iii) any Person who may Guarantee the Obligations without the consent of all of the Lenders (other than the Defaulting Lenders); or

10.1.4 Miscellaneous. Amend Section 4.2 [Pro Rata Treatment of Lenders], Section 7.1.10 [Collateral Value], Section 8.2.5 [Application of Proceeds], Section 9.3 [Exculpatory Provisions, Etc.], Section 4.3 [Sharing of Payments by Lenders] or this

Section 10.1 [Modifications, Amendments or Waivers], alter the definition of Eligible Collateral, alter any provision regarding the pro rata treatment of the Lenders or requiring all Lenders to authorize the taking of any action or reduce any percentage specified in the definition of Required Lenders, or consent to a subordinate Lien with respect to the Collateral, in each case without the consent of all of the Lenders (other than Defaulting Lenders);

provided that no agreement, waiver or consent which would modify the interests, rights or obligations of the Administrative Agent or the Issuing Lender without the written consent of such Administrative Agent or Issuing Lender, as applicable, and provided, further that, if in connection with any proposed waiver, amendment or modification referred to in Sections 10.1.1 [Increase of Commitment] through 10.1.4 [Miscellaneous] above, the consent of the Required Lenders is obtained but the consent of one (1) or more of such other Lenders (other than Defaulting Lenders) whose consent is required is not obtained (each, a "Non-Consenting Lender"), then the Borrower shall have the right to replace any such Non-Consenting Lender with one (1) or more replacement Lenders pursuant to Section 4.6.2 [Replacement of a Lender].

10.2 No Implied Waivers; Cumulative Remedies. No course of dealing and no delay or failure of the Administrative Agent or any Lender in exercising any right, power, remedy or privilege under this Agreement or any other Loan Document shall affect any other or future exercise thereof or operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further exercise thereof or of any other right, power, remedy or privilege. The rights and remedies of the Administrative Agent and the Lenders under this Agreement and any other Loan Documents are cumulative and not exclusive of any rights or remedies which they would otherwise have.

10.3 Expenses; Indemnity; Damage Waiver.

10.3.1 Costs and Expenses. The Borrower shall pay (i) all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent or PNC Capital Markets LLC (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent and PNC Capital Markets LLC), and shall pay all reasonable and documented fees and time charges and disbursements for attorneys who may be employees of the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable and documented out-of-pocket expenses incurred by the Issuing Lender in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder, and (iii) all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent, any Lender or the Issuing Lender (including the fees, charges and disbursements of any counsel for the Administrative Agent, any Lender or the Issuing Lender), and shall pay all reasonable and documented fees and time charges for attorneys who may be employees of the Administrative Agent, any Lender or the Issuing Lender, in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made or Letters of Credit issued hereunder, including all such

reasonable and documented out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

10.3.2 Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent (and any sub-agent thereof), each Lender and the Issuing Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), and shall indemnify and hold harmless each Indemnitee from all fees and time charges and disbursements for attorneys who may be employees of any Indemnitee, incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the Issuing Lender to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) breach of representations, warranties or covenants of the Borrower under the Loan Documents, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, including any such items or losses relating to or arising under Environmental Laws or pertaining to environmental matters, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower, and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by the Borrower against an Indemnitee for breach in bad faith of such Indemnitees obligations hereunder or under any other Loan Document, if the Borrower has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

10.3.3 Reimbursement by Lenders. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Section 10.3.1 [Costs and Expenses] or Section 10.3.2 [Indemnification by the Borrower] to be paid by it to the Administrative Agent (or any sub-agent thereof), the Issuing Lender or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), the Issuing Lender or such Related Party, as the case may be, such Lender's Ratable Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) or the Issuing Lender in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) or Issuing Lender in connection with such capacity.

10.3.4 Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable Law, the Borrower shall not assert, and hereby waives, any claim against any

Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in Section 10.3.2 [Indemnification by the Borrower] shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

10.3.5 Payments. All amounts due under this Section shall be payable not later than ten (10) days after demand therefor.

10.4 Holidays. Whenever payment of a Loan to be made or taken hereunder shall be due on a day which is not a Business Day such payment shall be due on the next Business Day (except as provided in Section 3.2 [Interest Periods]) and such extension of time shall be included in computing interest and fees, except that the Loans shall be due on the Business Day preceding the Expiration Date if the Expiration Date is not a Business Day. Whenever any payment or action to be made or taken hereunder (other than payment of the Loans) shall be stated to be due on a day which is not a Business Day, such payment or action shall be made or taken on the next following Business Day, and such extension of time shall not be included in computing interest or fees, if any, in connection with such payment or action.

10.5 Notices; Effectiveness; Electronic Communication.

10.5.1 Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in Section 10.5.2 [Electronic Communications]), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier (i) if to a Lender, to it at its address set forth in its administrative questionnaire, or (ii) if to any other Person, to it at its address set forth on Schedule 1.1 (B).

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices delivered through electronic communications to the extent provided in Section 10.5.2 [Electronic Communications], shall be effective as provided in such Section 10.5 [Notices; Effectiveness; Electronic Communication].

10.5.2 Electronic Communications. Notices and other communications to the Lenders and the Issuing Lender hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices to any Lender or the Issuing Lender if such Lender or the Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic

communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications. Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement); provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

10.5.3 Change of Address, Etc. Any party hereto may change its address or telecopier number for notices and other communications hereunder by notice to the other parties hereto.

10.6 Severability. The provisions of this Agreement are intended to be severable. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

10.7 Duration; Survival. All representations and warranties of the Borrower contained herein or made in connection herewith shall survive the execution and delivery of this Agreement, the completion of the transactions hereunder and Payment In Full. All covenants and agreements of the Borrower contained herein relating to the payment of principal, interest, premiums, additional compensation or expenses and indemnification, including those set forth in the Notes, Section 4 [Payments] and Section 10.3 [Expenses; Indemnity; Damage Waiver], shall survive Payment in Full. All other covenants and agreements of the Borrower shall continue in full force and effect from and after the date hereof and until Payment in Full.

10.8 Successors and Assigns.

10.8.1 Successors and Assigns Generally. The provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of Section 10.8.2 [Assignments by Lenders], (ii) by way of participation in accordance with the provisions of Section 10.8.4 [Participations], or (iii) by way of pledge or assignment of a security interest subject to the restrictions of Section 10.8.6 [Certain Pledges; Successors and Assigns Generally] (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby,

Participants to the extent provided in Section 10.8.4 [Participations] and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

10.8.2 Assignments by Lenders. Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in clause (i)(A) of this Section 10.8.2 [Assignments by Lenders], the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the applicable Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption Agreement with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption Agreement, as of the Trade Date) shall not be less than Five Million and 00/100 Dollars ($5,000,000.00), in the case of any assignment in respect of the Revolving Credit Commitment of the assigning Lender, unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents.

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loan or the Commitment assigned.

(iii) Required Consents. No consent shall be required for any assignment except for the consent of the Administrative Agent (which shall not be unreasonably withheld or delayed) and:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (x) an Event of Default has occurred and is continuing at the time of such assignment or (y) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Issuing Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding).

(iv) Assignment and Assumption Agreement. The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and

Assumption Agreement, together with a processing and recordation fee of Three Thousand Five Hundred and 00/100 Dollars ($3,500.00), and the assignee, if it is not a Lender, shall deliver to the Administrative Agent an administrative questionnaire provided by the Administrative Agent.

(v) No Assignment to the Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to Section 10.8.3 [Register], from and after the effective date specified in each Assignment and Assumption Agreement, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption Agreement, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption Agreement, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption Agreement covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Section 3.4 [LIBOR Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available], Section 4.7 [Increased Costs], and Section 10.3 [Expenses, Indemnity; Damage Waiver] with respect to facts and circumstances occurring prior to the effective date of such assignment. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 10.8.2 [Assignments by Lenders] shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 10.8.4 [Participations].

10.8.3 Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain a record of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans owing to, each Lender pursuant to the terms hereof from time to time. Such register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is in such register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. Such register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

10.8.4 Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lenders rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Lenders and the Issuing Lender shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver with respect to Section 10.1.1 [Increase of Commitment, Etc.], Section 10.1.2 [Extension of Payment, Etc.], or Section 10.1.3 [Release of Collateral or Borrower]). Subject to Section 10.8.5 [Limitations upon Participant Rights Successors and Assigns Generally], the Borrower agrees that each Participant shall be entitled to the benefits of Section 3.4 [LIBOR Rate Unascertainable; Illegality; Increased Costs; Deposits Not Available] and Section 4.7 [Increased Costs] to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 10.8.2 [Assignments by Lenders]. To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 8.2.3 [Setoff] as though it were a Lender; provided such Participant agrees to be subject to Section 4.3 [Sharing of Payments by Lenders] as though it were a Lender.

10.8.5 Limitations upon Participant Rights Successors and Assigns Generally. A Participant shall not be entitled to receive any greater payment under Section 4.7 [Increased Costs], Section 4.8 [Taxes] or Section 10.3 [Expenses; Indemnity; Damage Waiver] than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 4.8 [Taxes] unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 4.8.5 [Status of Lenders] as though it were a Lender.

10.8.6 Certain Pledges; Successors and Assigns Generally. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

10.9 Confidentiality.

10.9.1 General. Each of the Administrative Agent, the Lenders and the Issuing Lender agrees to maintain the confidentiality of the Information, except that Information may be disclosed (i) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and other representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (ii) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (iii) to the extent required by applicable Laws or regulations or by any subpoena or similar legal process, (iv) to any other party hereto, (v) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (vi) subject to an agreement containing provisions substantially the same as those of this Section 10.9.1 [General],

to (A) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (B) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (vii) with the consent of the Borrower or (viii) to the extent such Information (A) becomes publicly available other than as a result of a breach of this Section 10.9.1 [General] or (B) becomes available to the Administrative Agent, any Lender, the Issuing Lender or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower. Any Person required to maintain the confidentiality of Information as provided in this Section 10.9.1 [General] shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

10.9.2 Sharing Information With Affiliates of the Lenders. The Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Affiliates (in connection with this Agreement or otherwise) by any Lender or by one or more Subsidiaries or Affiliates of such Lender and the Borrower hereby authorizes each Lender to share any information delivered to such Lender by the Borrower and its Subsidiaries pursuant to this Agreement to any such Subsidiary or Affiliate subject to the provisions of Section 10.9.1 [General].

10.10 Counterparts; Integration; Effectiveness.

10.10.1 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents, and any separate letter agreements with respect to fees payable to the Administrative Agent, constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof including any prior confidentiality agreements and commitments. Except as provided in Section 6 [Conditions of Lending and Issuance of Letters of Credit], this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

10.11 CHOICE OF LAW; SUBMISSION TO JURISDICTION; WAIVER OF VENUE; SERVICE OF PROCESS; WAIVER OF JURY TRIAL.

10.11.1 Governing Law. This Agreement shall be deemed to be a contract under the Laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles. Each Standby Letter of Credit issued under this Agreement shall be subject either to the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce (the "ICC") at the time of issuance ("UCP") or the rules of the International Standby Practices (ICC Publication Number 590) ("ISP98"), as determined by the Issuing Lender, to the extent not inconsistent therewith, the Laws of the Commonwealth of Pennsylvania without regard to is conflict of laws principles.

10.11.2 SUBMISSION TO JURISDICTION. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE COMMONWEALTH OF PENNSYLVANIA SITTING IN ALLEGHENY COUNTY AND OF THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF PENNSYLVANIA, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH PENNSYLVANIA STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER OR THE ISSUING LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

10.11.3 WAIVER OF VENUE. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN THIS SECTION 10.11 [CHOICE OF LAW, ETC.]. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT AND AGREES NOT ASSERT ANY SUCH DEFENSE.

10.11.4 SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.5 [NOTICES; EFFECTIVENESS; ELECTRONIC COMMUNICATION]. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

10.11.5 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO

REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.12 USA Patriot Act Notice. Each Lender that is subject to the USA Patriot Act and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies Borrower that pursuant to the requirements of the USA Patriot Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of Borrower and other information that will allow such Lender or Administrative Agent, as applicable, to identify the Borrower in accordance with the USA Patriot Act.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Agreement as of the day and year first above written as a document under seal.

**BORROWER:**

WITNESS:

/s/ Brian W. Bolash

Erie Insurance Exchange

By: Erie Indemnity Company,
a Pennsylvania corporation, its Attomey-in-Fact

By: /s/ Douglas F. Zeigler (SEAL)
Name: Douglas F. Zeigler
Title: Senior Vice President Treasurer and Chief Investment Officer

**ADMINISTRATIVE AGENT AND LENDERS:**

WITNESS:

**PNC BANK, NATIONAL ASSOCIATION,**
as a Lender and as Administrative Agent

By: /s/ James F. Stevenson
Name: James F. Stevenson
Title: Senior Vice President

WITNESS:

_____

**JPMORGAN CHASE BANK, N.A,**
as a Lender

By: /s/ Eugene M. Kennedy
Name: Eugene M. Kennedy
Title: Vice President

**WELLS FARGO BANK, NATIONAL ASSOCIATION**,
as a Lender

By: /s/ David Bendel
Name: David Bendel
Title: Vice President

**BANK OF AMERICA, N.A.,** as a Lender

By: /s/ James H. Harper
Name: James H. Harper
Title: Vice President

**U.S. BANK NATIONAL ASSOCIATION**,
as a Lender

By: /s/ Ginger So
Name: Ginger So
Title: Vice President

**THE BANK OF NEW YORK MELLON,** as a Leader

By: /s/ Heather Lindstrom
Name: Heather Lindstrom
Title: Managing Director

**SCHEDULE l.l(A)**

**PRICING GRID —**
**VARIABLE PRICING AND FEES BASED ON**
**BORROWER FINANCIAL STRENGTH RATING**
**(pricing expressed in basis points)**

| Level | Financial Strength Rating | Letter of Credit Fee | Revolving Credit Base Rate Spread | Revolving Credit LIBOR Rate Spread |
|---|---|---|---|---|
| I | A+ or above | 150 | 50 | 150 |
| II | A | 175 | 75 | 175 |
| III | Lower than A | 200 | 100 | 200 |

For purposes of determining the Applicable Margin and the Applicable Letter of Credit Fee Rate:

(a) As of the Closing Date, the Applicable Margin and the Applicable Letter of Credit Fee Rate shall be calculated based upon Level I pricing as set forth above.

(b) The Applicable Margin and the Applicable Letter of Credit Fee Rate shall be based on the Borrower's Financial Strength Rating, which will be recomputed as of December 31, 2009, and the end of each fiscal quarter ending thereafter based on the Borrower's Financial Strength as of such quarter end. Any increase or decrease in the Applicable Margin or the Applicable Letter of Credit Fee Rate computed as of a quarter end shall be effective on the first day of the immediately succeeding fiscal quarter.

**SCHEDULE l.l(B)**

**COMMITMENTS OF LENDERS AND ADDRESSES FOR NOTICES**



**Part 1-Commitments of Lenders and Addresses for Notices to Lenders**

| Lender | Amount of Commitment for Revolving Credit Loans | Commitment | Ratable Share |
|---|---|---|---|
| **Name:**<br>PNC Bank, National Association<br>**Address:**<br>PNC Bank, National Association<br>901 State Street<br>4th Floor, Corporate Banking<br>Erie, PA 16501<br>**Attention:**<br>James F. Stevenson, Senior Vice President<br>**Telephone:**<br>814-871-9383<br>**Telecopy:**<br>814-871-9432 | $ 55,000,000.00 | $ 55,000,000.00 | 27.50% |
| **Name:**<br>JP Morgan Chase Bank, N.A.<br>**Address:**<br>JP Morgan Chase Bank, N.A.<br>270 Park Avenue - 41st Fl.<br>New York, NY 10017<br>**Attention:**<br>Gene M. Kennedy III<br>**Telephone:**<br>212-270-1903<br>**Telecopy:**<br>646-534-2239 | $ 35,000,000.00 | $ 35,000,000.00 | 17.50% |

| Lender | Amount of Commitment for Revolving Credit Loans | Commitment | Ratable Share |
|---|---|---|---|
| **Name:**<br>Wells Fargo Bank, National Association<br>**Address:**<br>Wells Fargo Bank, National Association<br>230 W. Monroe Street<br>Chicago, IL 60606<br>**Attention:**<br>Thomas Doddridge<br>**Telephone:**<br>312-781-0722<br>**Telecopy:**<br>312-845-8606 | $ 25,000,000.00 | $ 25,000,000.00 | 12.50% |
| **Name:**<br>Bank of America, N.A.<br>**Address:**<br>901 Main Street - 64th Floor<br>Dallas, TX 75202<br>**Attention:**<br>James H. Harper<br>**Telephone:**<br>214-209-9048<br>**Telecopy:**<br>214-209-3742 | $ 35,000,000.00 | $ 35,000,000.00 | 17.50% |
| **Name:**<br>U.S. Bank National Association<br>**Address:**<br>461 Fifth Avenue<br>New York, NY 10017<br>**Attention:**<br>David Albanesi<br>**Telephone:**<br>646-935-4585<br>**Telecopy:**<br>646 935 4533 | $ 25,000,000.00 | $ 25,000,000.00 | 12.50% |

[01044074]

| Lender | Amount of Commitment for Revolving Credit Loans | Commitment | Ratable Share |
|---|---|---|---|
| **Name:** | | | |
| Bank of New York Mellon | | | |
| **Address:** | | | |
| Bank of New York Mellon | | | |
| One Wall Street | | | |
| New York, NY 10286 | | | |
| **Attention:** | | | |
| Brian K. Brown | | | |
| **Telephone:** | | | |
| 315-765-4503 | | | |
| **Telecopy:** | | | |
| 315-765-4783 | $ 25,000,000.00 | $ 25,000,000.00 | 12.50% |
| **TOTAL** | **$ 200,000,000.00** | **$ 200,000,000.00** | **100.00%** |

**SCHEDULE l.l(B)**

**COMMITMENTS OF LENDERS AND ADDRESSES FOR NOTICES**

(Page 4 of 4)

**Part 2 - Addresses for Notices to the Administrative Agent and the Borrower:**

**ADMINISTRATIVE AGENT:**

**Name:**
PNC Bank, National Association
**Address:**
Firstside Center
500 First Avenue, 4th Floor
Pittsburgh, Pennsylvania 15219
**Attention:**
Rini Davis, Assistant Vice President
**Telephone:**
412-762-7638
**Telecopy:**
412-705-2006

**BORROWER:**

**Name:**
Erie Insurance Exchange
**Address:**
100 Erie Insurance Place
Erie, Pennsylvania 16530
**Attention:**
Brian W. Bolash
**Telephone:**
814-870-4747
**Telecopy:**
814-870-2010

[01044074]

**Exhibit 10.2**

**REVOLVING CREDIT NOTE**

$35,000,000.00

Pittsburgh, Pennsylvania
September 30, 2009

FOR VALUE RECEIVED, the undersigned, Erie Insurance Exchange, a reciprocal or inter-insurance exchange domiciled in the Commonwealth of Pennsylvania, acting by and through Erie Indemnity Company, a Pennsylvania corporation, its attorney-in-fact (the "Borrower"), hereby promises to pay to the order of Bank of America, N.A. ("BOA"), the lesser of (i) the principal sum of Thirty-Five Million and 00/100 Dollars ($35,000,000.00) or (ii) the aggregate unpaid principal balance of all Revolving Credit Loans made by BOA to the Borrower pursuant to Section 2.1.1 [Revolving Credit Loans] of the Credit Agreement, dated of even date herewith (as may be amended, modified, supplemented or restated from time to time, the "Credit Agreement"), by and among the Borrower, the Lenders party thereto, and PNC Bank, National Association, as administrative agent for the Lenders (the "Administrative Agent"), payable on the Expiration Date or as otherwise provided in the Credit Agreement. All capitalized terms used herein shall, unless otherwise defined herein, have the same meanings given to such terms in the Credit Agreement.

The Borrower shall pay interest on the unpaid principal balance hereof from time to time outstanding from the date hereof at the rate per annum specified by the Borrower pursuant to Section 3.1 [Interest Rate Options] of, or as otherwise provided in, the Credit Agreement.

Upon the occurrence of an Event of Default which is continuing, the Borrower shall pay interest on the entire principal amount of the then outstanding Revolving Credit Loans evidenced by this Revolving Credit Note at a rate per annum specified by Section 3.3 [Interest After Default] of, or as otherwise provided in, the Credit Agreement. Such interest rate will accrue before and after any judgment has been entered.

Subject to the provisions of the Credit Agreement, interest on this Revolving Credit Note will be payable on the dates set forth in Section 4.5 [Interest Payment Dates] of the Credit Agreement and on the Expiration Date.

Subject to the provisions of the Credit Agreement, if any payment or action to be made or taken hereunder shall be stated to be or become due on a day which is not a Business Day, such payment or action shall be made or taken on the next following Business Day and such extension of time shall be included in computing interest or fees, if any, in connection with such payment or action.

Subject to the provisions of the Credit Agreement, payments of both principal and interest shall be made without setoff, counterclaim or other deduction of any nature at the office of the Administrative Agent located at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222, in lawful money of the United States of America in immediately available funds.

This Revolving Credit Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement and the other Loan Documents, including the representations,

warranties, covenants, conditions and Liens contained or granted therein. The Credit Agreement among other things contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayment in certain circumstances, on account of principal hereof prior to maturity upon the terms and conditions therein specified.

The Borrower waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Revolving Credit Note.

**THE BORROWER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS REVOLVING CREDIT NOTE (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). THE BORROWER (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR THE APPLICABLE LENDER TO ACCEPT THIS REVOLVING CREDIT NOTE AND MAKE THE REVOLVING CREDIT LOANS.**

This Revolving Credit Note shall bind the Borrower and its successors and assigns, and the benefits hereof shall inure to the benefit of the Administrative Agent and the Lenders and their respective successors and assigns. All references herein to the “Borrower”, the “Administrative Agent” and the “Lenders” shall be deemed to apply to the Borrower, the Administrative Agent and the Lenders, respectively, and their respective successors and assigns.

This Revolving Credit Note and any other documents delivered in connection herewith and the rights and obligations of the parties hereto and thereto shall for all purposes be governed by and construed and enforced in accordance with the internal Laws of the Commonwealth of Pennsylvania without giving effect to its conflicts of law principles.

BOA may at any time pledge all or a portion of its rights under the Loan Documents including any portion of this Revolving Credit Note to any of the twelve (12) Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. § 341. No such pledge or enforcement thereof shall release BOA from its obligations under any of the Loan Documents.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, and intending to be legally bound, the undersigned has executed this Revolving Credit Note on the day and year first above written, with the intention that it constitute a sealed instrument.

**BORROWER:**

WITNESS:

Erie Insurance Exchange

By: Erie Indemnity Company, a Pennsylvania corporation, its Attorney-in-Fact

/s/ Brian W.Bolash

By: /s/ Douglas F. Ziegler (SEAL)

Name: Douglas F. Ziegler

Title: Senior Vice President, Treasurer and Chief Investment Officer

**Exhibit 10.3**

**SWING NOTE**

$25,000,000.00

Pittsburgh, Pennsylvania
September 30, 2009

FOR VALUE RECEIVED, the undersigned, Erie Insurance Exchange, a reciprocal or inter-insurance exchange domiciled in the Commonwealth of Pennsylvania, acting by and through Erie Indemnity Company, a Pennsylvania corporation, its attorney-in-fact (the "Borrower"), hereby promises to pay to the order of PNC Bank, National Association ("PNC Bank") the lesser of (i) the principal sum of Twenty-Five Million and 00/100 Dollars ($25,000,000.00) or (ii) the aggregate unpaid principal balance of all Swing Loans made by the Bank to the Borrower pursuant to Section 2.1.2 [Swing Loan Commitment] of the Credit Agreement dated of even date herewith (as may be amended, modified, supplemented or restated from time to time, the "Credit Agreement"), by and among the Borrower, the Lenders party thereto and PNC Bank, as administrative agent for the Lenders (the "Administrative Agent"), payable in accordance with the terms of the Credit Agreement. All capitalized terms used herein shall, unless otherwise defined herein, have the same meanings given to such terms in the Credit Agreement.

The Borrower shall pay interest on the unpaid principal balance hereof from time to time outstanding from the date hereof at the rate per annum specified by the Borrower pursuant to Section 3.1 [Interest Rate Options] of, or as otherwise provided in, the Credit Agreement.

Upon the occurrence of an Event of Default which is continuing, the Borrower shall pay interest on the entire principal amount of the then outstanding Swing Loans evidenced by this Swing Note at a rate per annum specified by Section 3.3 [Interest After Default] of, or as otherwise provided in, the Credit Agreement. Such interest rate will accrue before and after any judgment has been entered.

Subject to the provisions of the Credit Agreement, interest on this Swing Note will be payable on the dates set forth in Section 4.5 [Interest Payment Dates] of the Credit Agreement and on the Expiration Date.

Subject to the provisions of the Credit Agreement, if any payment or action to be made or taken hereunder shall be stated to be or become due on a day which is not a Business Day, such payment or action shall be made or taken on the next following Business Day and such extension of time shall be included in computing interest or fees, if any, in connection with such payment or action.

Subject to the provisions of the Credit Agreement, payments of both principal and interest shall be made without setoff, counterclaim or other deduction of any nature at the office of the Administrative Agent located at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222, in lawful money of the United States of America in immediately available funds.

This Swing Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement and the other Loan Documents, including the representations, warranties, covenants, conditions and Liens contained or granted therein. The Credit Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayment in certain circumstances, on account of principal hereof prior to maturity upon the terms and conditions therein specified.

The Borrower waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Swing Note.

**THE BORROWER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS SWING NOTE (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). THE BORROWER (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR PNC BANK TO ACCEPT THIS SWING NOTE AND MAKE THE SWING LOANS.**

This Swing Note shall bind the Borrower and its successors and assigns, and the benefits hereof shall inure to the benefit of the Administrative Agent and the Lenders and their respective successors and assigns. All references herein to the “Borrower”, the “Administrative Agent” and the “Lenders” shall be deemed to apply to the Borrower, the Administrative Agent and the Lenders, respectively, and their respective successors and assigns.

This Swing Note and any other documents delivered in connection herewith and the rights and obligations of the parties hereto and thereto shall for all purposes be governed by, and construed and enforced in accordance with, the internal Laws of the Commonwealth of Pennsylvania without giving effect to its conflicts of law principles.

PNC Bank may at any time pledge all or a portion of its rights under the Loan Documents including any portion of this Swing Note to any of the twelve (12) Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. § 341. No such pledge or enforcement thereof shall release PNC Bank from its obligations under any of the Loan Documents.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, and intending to be legally bound, the undersigned has executed this Swing Note on the day and year first above written, with the intention that it constitute a sealed instrument.

**BORROWER**

WITNESS:

Erie Insurance Exchange

/s/ Brian W. Bolash

By: Erie Indemnity Company, a Pennsylvania corporation, its Attorney-in-Fact

By: /s/ Douglas F. Ziegler (SEAL)
Name: Douglas F. Ziegler
Title: Senior Vice President, Treasurer and Chief Investment Officer

**Exhibit 10.4**

PNCBANK

**Notification and Control Agreement**
**(Trust, Custody or Brokerage Accounts)**

**THIS NOTIFICATION AND CONTROL AGREEMENT** (the **"Agreement")** is made this 30th day of September, 2009, by and among **ERIE INDEMNITY COMPANY AS ATTORNEY IN FACT FOR ERIE INSURANCE EXCHANGE** (the **"Pledgor"), THE BANK OF NEW YORK MELLON**, in its capacity as custodian (the **"Custodian")** and **PNC BANK, NATIONAL ASSOCIATION**, with an office at One PNC Plaza, 249 Fifth Avenue, Pennsylvania 15222, in its capacity as administrative agent for itself and certain other lenders (the **"Secured Party")**.

The Pledgor has granted to the Secured Party (as administrative agent for itself and certain other lenders), a security interest in certain of the investment property held in its securities account No. EIRF 1221052 maintained with the Custodian (the **"Account")**, all financial assets now or hereafter credited to the Account, and all additions, substitutions, replacements, proceeds, income, dividends and distributions thereon (collectively, the **"Collateral")**, pursuant to, and more particularly described in, a Pledge Agreement dated of even date herewith (as amended, restated or otherwise modified from time to time, the **"Pledge Agreement")** from the Pledgor to the Secured Party. The Custodian is in possession of the Collateral pursuant to a certain Custody Agreement dated February 25, 2004 (as amended, restated or otherwise modified from time to time, the **"Custodian Agreement")**. Pursuant to the Pledge Agreement, the Secured Party has required the execution and delivery of this Agreement.

NOW, THEREFORE, for valuable consideration and intending to be legally bound, the parties hereto agree and acknowledge as follows:

1**. Possession of Collateral; the Account**. The Custodian acknowledges that: (a) the Collateral is in its possession or in possession of a subcustodian or clearing corporation, (b) the Pledgor's interest in the Collateral appears on the Custodian's books and records, (c) Exhibit A attached hereto and incorporated herein by reference, is a complete and accurate statement of the Account and the financial assets carried therein and any free credit balance thereunder as of the date thereof, (d) Exhibit A does not reflect any financial assets that are registered in the name of the Pledgor, payable to its order, or specifically endorsed to it, which have not been endorsed to the Custodian or in blank, (e) the security entitlements arising out of the financial assets carried in the Account and such free credit balance are valid and legally binding obligations of the Custodian, and (f) except for the claims and interest of the Secured Party and the Pledgor in the Collateral (subject to any claim in favor of the Custodian permitted under Section 9), the Custodian does not know of any claim to or interest in the Collateral. The Custodian will treat all property deposited or credited to the Account as financial assets under Article 8 of the Uniform Commercial Code (as adopted and enacted and in effect from time to time in the State where the Secured Party's office indicated above is located) **("UCC")**.

2. **Notice of Security Interest**. The Custodian acknowledges that this Agreement constitutes written notification to the Custodian, pursuant to Articles 8 and 9 of the UCC and

applicable federal regulations for the Federal Reserve Book Entry System, of the Secured Party's security interest in the Collateral. The Pledgor, Secured Party and Custodian are also entering into this Agreement to provide for the Secured Party's control of the Collateral and to perfect, and confirm the priority of, the Secured Party's security interest in the Collateral. The Custodian agrees to promptly make all necessary entries or notations in its books and records to reflect the Secured Party's security interest in the Collateral. Notwithstanding the foregoing, the Custodian makes no representation or warranty, and shall have no responsibility or liability, with respect to the effectiveness of this Agreement in perfecting such security interest.

3. **Control**. The Custodian, without further consent from the Pledgor, hereby agrees to comply with all entitlement orders, instructions, and directions of any kind originated by Secured Party concerning the Collateral, to liquidate the Collateral as and to the extent directed by the Secured Party and to pay over to the Secured Party all proceeds therefrom to the extent necessary to satisfy the Pledgor's obligations, without any setoff or deduction.

4. **Trading And Withdrawals**. Prior to receipt by the Custodian of a notice from the Secured Party that the Secured Party is exercising exclusive control over the Collateral (a **"Notice of Exclusive Control")**, the Pledgor shall have the right at any time and from time to time to purchase and sell securities included in the Collateral and receive for its own account all cash dividends and interest on the Collateral, provided that the Custodian retains all the Collateral including substitutions and proceeds from the sale of securities in the Account. The Custodian will not comply with any entitlement order originated by the Pledgor that would require the Custodian to make a free delivery to the Pledgor or any other person. Upon the Custodian's receipt of a Notice of Exclusive Control, Custodian will cease (a) complying with entitlement orders or other directions concerning the Collateral originated by the Pledgor, and (b) distributing interest and dividends on the Collateral to the Pledgor.

5. **Custodian Agreement and Notices of Adverse Claims**. The Custodian shall simultaneously send to the Secured Party copies of all notices given and monthly statements rendered pursuant to the Custodian Agreement and shall notify the Secured Party of the termination of the Custodian Agreement. In addition, if any person asserts any lien, encumbrance or adverse claim against the Collateral or in any financial asset carried therein, the Custodian will promptly notify the Secured Party and the Pledgor thereof to the extent the Custodian has received notice of such assertion of such lien, encumbrance or adverse claim. Notwithstanding anything contained in the Custodian Agreement, so long as the Pledge Agreement remains in effect, neither the Pledgor nor the Custodian shall terminate the Custodian Agreement without thirty (30) days' prior written notice to the other party and the Secured Party. In the event of any conflict between the provisions of this Agreement and the Custodian Agreement, the provisions hereof shall control. Regardless of any provision in the Custodian Agreement, the State where the Secured Party's office indicated above is located shall be deemed to be the Custodian's jurisdiction solely for the purposes of this Agreement and the perfection and priority of the Secured Party's security interest in the Collateral. In the event the Custodian no longer serves as custodian for the Collateral, the Collateral shall be transferred (i) to a successor custodian satisfactory to the Secured Party, provided that prior to such transfer, such successor custodian executes an agreement that is in all material respects the same as this Agreement, or (ii) if no satisfactory successor has been designated, then as directed by the Secured Party.

6. **Indemnity**.

(a) The Pledgor shall indemnify, and hold the Custodian harmless from any and all losses, claims, damages, liabilities, expenses and fees, including reasonable attorneys' fees, resulting from the execution of or performance under this Agreement and the delivery by the Custodian of all or any part of the Collateral to the Secured Party pursuant to this Agreement, unless such losses, claims, damages, liabilities, expenses or fees are attributable to the Custodian's gross negligence or willful misconduct. This indemnification shall survive the termination of this Agreement.

(b) The Secured Party shall indemnify and hold the Custodian harmless from and against any and all losses, claims, damages, liabilities, expenses and fees (including reasonable attorneys' fees) arising out of the Custodian's compliance with any instructions from the Secured Party with respect to the Collateral unless such losses, claims, damages, liabilities, expenses or fees are attributable to the Custodian's gross negligence or willful misconduct. This indemnification shall survive the termination of this Agreement.

7. **Protection of Custodian.** Except as required by Paragraph 3 hereof, the Custodian shall have no duty to require any cash or securities to be delivered to it or to determine that the amount, value and form of assets constituting Collateral comply with any applicable requirements. The Custodian may hold the securities in bearer, nominee, federal reserve book entry, or other form and in any securities depository or UCC clearing corporation, with or without indicating that the securities are subject to a security interest; provided, however, that all Collateral shall be identified on the Custodian's books and records as subject to the Secured Party's security interests and shall be in a form that permits transfer to the Secured Party without additional authorization or consent of the Pledgor The Custodian may rely and shall be protected in acting-upon any notice, instruction, or other communication which it reasonably believes to be genuine and authorized. As between the Pledgor and the Custodian, the terms of the Custodian Agreement shall apply with respect to any losses or liabilities or fees, costs or expenses of such parties arising out of matters covered by this Agreement. The Custodian shall have no responsibility or liability to the Secured Party for making trades of financial assets held in the Account at the direction of the Pledgor, or the Pledgor's authorized representatives, or (except as otherwise provided in Paragraph 4 hereof) complying with entitlement orders concerning the Account from the Pledgor, or the Pledgor's authorized representatives, that are received by the Custodian before the Custodian receives a Notification of Exclusive Control. The Custodian shall have no duty to investigate or make any determination as to whether a default exists under any agreement between the Pledgor and the Secured Party and shall comply with a Notice of Exclusive Control even if it believes that no such default exists. The Pledgor agrees that the Custodian will not be liable to the Pledgor for complying with entitlement orders originated by the Secured Party, unless the Custodian (i) takes the action after it is served with an injunction or other legal process enjoining it from doing so issued by a court of competent jurisdiction and has had a reasonable opportunity to act on the injunction or other legal process, or (ii) acts in collusion with the Secured Party in violating the Pledgor's rights. The Custodian shall have no liability to any party for any incidental, punitive or consequential damages resulting from any breach by the Custodian of its obligations hereunder.

The Custodian will be excused from failing to act or delay in acting, and no such failure or delay shall constitute a breach of this Agreement or otherwise give rise to any liability of the Custodian, if (i) such failure or delay is caused by circumstances beyond the Custodian's reasonable control, including but not limited to legal constraint, emergency conditions, action or inaction of governmental, civil or military authority, fire, strike, lockout or other labor dispute, war, riot, theft, flood, earthquake or other natural disaster, breakdown of public or private or common carrier communications or transmission facilities or equipment failure, or (ii) such failure or delay resulted from the Custodian's reasonable belief that the action would have violated any guideline, rule or regulation of any governmental authority.

8. **Termination/Release of Collateral.** This Agreement shall terminate automatically upon receipt by the Custodian of written notice executed by two officers of the Secured Party holding titles of Vice President or higher that (a) all of the obligations secured by Collateral have been satisfied, or (b) all of the Collateral may be released, whichever is sooner, and the Custodian shall thereafter be relieved of all duties and obligations hereunder. In addition, any notice from the Secured Party relating to release of all or any portion of the Collateral not permitted by this Agreement without the consent of the Secured Party shall be effective only if executed by two officers of the Secured Party holding titles of Vice President or higher.

9. **Waiver and Subordination of Rights.** The Custodian hereby waives its right to setoff any obligations of the Pledgor to the Custodian against any or all cash, securities, financial assets and other investment property held by the Custodian as Collateral, and hereby subordinates in favor of the Secured Party any and all liens, encumbrances, claims or security interests which the Custodian may have against the Collateral, either now or in the future, except that the Custodian will retain its prior lien on the property held as Collateral only to secure payment for property purchased for Collateral and normal commissions and fees, including overdraft fees, relating to the property held as Collateral. The Custodian will not agree with any third party that the Custodian will comply (and the Custodian will not comply) with any entitlement orders, instructions or directions of any kind concerning the Collateral originated by such third party without the Secured Party's prior written consent. Except for the claims and interests of the Secured Party and the Pledgor in the Collateral, the Custodian does not know of any claim to or interest in the Collateral. The Custodian will use reasonable efforts to promptly notify the Secured Party and the Pledgor if any other person claims that it has a property interest in any of the Collateral.

10. **Tax Reporting.** All items of income, gain, expense and loss recognized in the Account shall be reported to the Internal Revenue Service and all state and local taxing authorities by and under the name and taxpayer identifications numbers of the Pledgor.

11. **Expenses.** The Pledgor shall pay all fees, costs and expenses (including reasonable fees and expenses of internal or external counsel) of enforcing any of the Secured Party's rights and remedies upon any breach (by the Custodian or the Pledgor) of any of the provisions of this Agreement.

12. **Notices.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder **("Notices")** must be in writing and will be

effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth below, or to such other address as any party may give to the others for such purpose in accordance with this section.

13. **Changes in Writing.** No modification, amendment or waiver of, or consent to any departure by any party from, any provision of this Agreement will be effective unless made in a writing signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Pledgor in any case will entitle the Pledgor to any other or further notice or demand in the same, similar or other circumstance.

14. **Entire Agreement.** This Agreement (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral; among the parties with respect to the subject matter hereof.

15. **Counterparts.** This Agreement may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Agreement by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

16. **Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Pledgor may not assign this Agreement in whole or in part without the Secured Party's prior written consent and the Secured Party at any time may assign this Agreement in whole or in part.

17. **Governing Law and Jurisdiction.** This Agreement has been delivered to and accepted by the Secured Party and will be deemed to be made in the State where the Secured Party's office indicated above is located. **THIS AGREEMENT WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE WHERE THE SECURED PARTY'S OFFICE INDICATED ABOVE IS LOCATED, EXCLUDING ITS CONFLICT OF LAWS RULES.** Each of the parties hereby irrevocably consents to the exclusive jurisdiction and venue of any state or federal court located within the county where the Secured Party's office indicated above is located.

18. **Representations.** Each party hereby represents and warrants that the individual executing this Agreement on its behalf has the requisite power and authority to do so and to bind it to the terms of this Agreement.

19. **WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. EACH PARTY HERETO ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.**

[INTENTIONALLY LEFT BLANK]

WITNESS the due execution hereof as a document under seal, on the date first written above.

**Pledgor's Address for Notices:**

100 Erie Insurance Place
Erie, PA 16530
Attention: Brian W. Bolash
Facsimile Number: (814) 870-2010

**PLEDGOR:**

**ERIE INSURANCE EXCHANGE**

By: Erie Indemnity Company, Attorney-in-Fact

By: /s/ Douglas F. Ziegler
Print Name: Douglas F. Ziegler
Title: Senior Vice President, Treasurer and
Chief Investment Officer

**Secured Party's Address for Notices:**

901 State Street
P.O. Box 8480
Erie, PA 16553
Attention: James F. Stevenson, Vice President
Facsimile Number: (814) 871-9432

**SECURED PARTY:**

**PNC BANK, NATIONAL ASSOCIATION**

By: _____
Print Name:
Title:

WITNESS the due execution hereof as a document under seal, on the date first written above.

**Pledgor's Address for Notices:**

100 Erie Insurance Place
Erie, PA 16530
Attention: _____
Facsimile Number: _____

**PLEDGOR:**

**ERIE INSURANCE EXCHANGE**

By: Erie Indemnity Company, Attorney-in-Fact

By: _____
Print Name:
Title:

**Secured Party's Address for Notices:**

901 State Street
4th Floor, Corporate Banking
Erie, PA 16501
Attention: James F. Stevenson,
Senior Vice President
Facsimile Number: (814) 871-9432

**SECURED PARTY:**

**PNC BANK, NATIONAL ASSOCIATION**

By: /s/ James F. Stevenson
Print Name: James F. Stevenson
Title: Senior Vice President

**Custodian's Address for Notices:**

One Mellon Center
Pittsburgh, PA 15258
Attention: Julie Bour
Facsimile Number: 412-234-8725

**CUSTODIAN:**

**THE BANK OF NEW YORK MELLON**

By: /s/ Dawn V. Robertson
Print Name: Dawn V. Robertson
Title: Vice President

EXHIBIT A

ACCOUNT STATEMENT

**Exhibit 10.5**

PNCBANK

**Pledge Agreement**
**(Stocks, Bonds and Commercial Paper)**

**THIS PLEDGE AGREEMENT,** dated as of this 30th day of September, 2009 (the **"Pledge Agreement"),** is made by **ERIE INDEMNITY COMPANY AS ATTORNEY IN FACT FOR ERIE INSURANCE EXCHANGE** (the **"Pledgor"),** with an address at 100 Erie Insurance Place, Erie, Pennsylvania 16530, in favor of **PNC BANK, NATIONAL ASSOCIATION ("PNC"),** as administrative agent for itself and certain other Lenders (as hereinafter defined) (in such capacity, the **"Secured Party"),** with an address at 901 State Street, P.O. Box 8480, Erie, Pennsylvania 16553 **("Pledge Agreement")**.

**1. Pledge.** In order to induce the Secured Party and the other Lenders to extend the Obligations (as defined below), the Pledgor hereby grants a security interest in and pledges to the Secured Party (as administrative agent for itself and the other Lenders) all of the Pledgor's right, title and interest in and to the investment property and other assets of the Pledgor in the following investment account and all security entitlements of the Pledgor with respect thereto, whether now owned or hereafter acquired, together with all additions, substitutions, replacements and proceeds thereof and all income, interest, dividends and other distributions thereon (collectively, the **"Collateral")**. Account No.: EIRF 1221052; Name: Erie Insurance Exchange Collateral Account; Custodian: The Bank of New York Mellon; Custodian's Address: One Mellon Center, Pittsburgh, Pennsylvania 15258, which investment account contains as of the Closing Date the investment property and other assets set forth in Exhibit A attached hereto and made a part hereof. If the Collateral includes certificated securities, documents or instruments, such certificates are herewith delivered to the Secured Party accompanied by duly executed blank stock or bond powers or assignments as applicable. The Pledgor hereby authorizes the transfer of possession of all certificates, instruments, documents and other evidence of the Collateral to the Secured Party.

**2. Obligations Secured.** Reference is hereby made to that certain Credit Agreement, dated of even date herewith, by and among the Pledgor, PNC and various other financial institutions from time to time party thereto (PNC and such other financial institutions are each, a **"Lender"** and collectively, the **"Lenders")**, and the Secured Party (as amended, restated, modified or supplemented from time to time, the **"Credit Agreement"**; unless otherwise defined herein, terms defined in the Credit Agreement shall have such defined meaning when used herein). The Collateral secures payment of the Obligations in accordance with the terms of the Obligations and of the Credit Agreement and the full and timely payment and performance of the obligations of the Pledgor under this Pledge Agreement, and the Loan Parties under the Credit Agreement and the other Loan Documents (hereinafter referred to collectively as the **"Obligations")**.

**3. Representations and Warranties.** The Pledgor represents and warrants to the Secured Party as follows:

3.1 This Pledge Agreement and the Control Agreement (as hereinafter defined) have been duly executed and delivered by the Pledgor, constitute valid and legally binding obligations and are enforceable in accordance with their respective terms against the Pledgor.

3.2 The execution, delivery and performance of this Pledge Agreement, the grant of the security interest in the Collateral hereunder and the consummation of the transactions contemplated hereby will not, with or without the giving of notice or the lapse of time, (i) violate any law applicable to the Pledgor; (ii) violate any judgment, writ, injunction or order of any court or Official Body applicable to the Pledgor; (iii) violate or result in the breach of any agreement to which the Pledgor is a party or by which any of its properties, including the Collateral, is bound; nor (iv) violate any restriction on the transfer of any of the Collateral.

3.3 There are no restrictions on the pledge or transfer of any of the Collateral.

3.4 The Pledgor is the legal owner of the Collateral, which is registered in the name of the Pledgor, the Custodian (as hereinafter defined) or a nominee.

3.5 The Collateral is free and clear of any security interests, pledges, liens, encumbrances, charges, agreements, claims or other arrangements or restrictions of any kind, except as referenced in Section 3.3 above; and the Pledgor will not incur, create, assume or permit to exist any pledge, security interest, lien, charge or other encumbrance of any nature whatsoever on any of the Collateral or assign, pledge or otherwise encumber any right to receive income from the Collateral, other than in favor of the Secured Party.

3.6 The Pledgor has the right to transfer the Collateral free of any encumbrances and the Pledgor will defend the Pledgor's title to the Collateral against the claims of all Persons, and any registration with, or consent or approval of, or other action by, any federal, state or other governmental authority or regulatory body which was or is necessary for the validity of the pledge of and grant of the security interest in the Collateral has been obtained.

3.7 The pledge of and grant of the security interest in the Collateral is effective to vest in the Secured Party a valid and perfected first priority security interest, superior to the rights of any other person, in and to the Collateral as set forth herein.

3.8 None of the information, documents, or financial statements that have been furnished by the Pledgor to the Secured Party in connection with the transactions contemplated by this Pledge Agreement or the other Loan Documents contains, as of the date furnished, any untrue statement of material fact or omits any material fact required to be stated hereby or thereby to make such statements not misleading.

3.9 The Collateral described in Exhibit A is a complete and accurate list of the securities and other investment property and assets maintained in the Collateral Account as of the Closing Date.

**4. Covenants.**

4.1 The Pledgor agrees to maintain Collateral Value in accordance with Section 7.1.10 of the Credit Agreement.

4.2 The Pledgor agrees that Eligible Collateral maintained in the Collateral Account shall consist of investment property and other assets in accordance with Section 7.1.12 of the Credit Agreement.

4.3 The Pledgor agrees that upon the making of any trades or withdrawals with respect to the assets maintained in the Collateral Account in accordance with the provisions of this Pledge Agreement, the Pledgor shall immediately provide the Secured Party with an updated Exhibit A to this Pledge Agreement.

4.4 If all or part of the Collateral constitutes "margin stock" within the meaning of Regulation U of the Federal Reserve Board, the Pledgor agrees to execute and deliver Form U-l to the Secured Party and, unless otherwise agreed in writing between the Pledgor and the Secured Party, no part of the proceeds of the Obligations may be used to purchase or carry margin stock.

4.5 Pledgor agrees not to invoke, and hereby waives its rights under, any statute under any state or federal law which permits the recharacterization of any portion of the Collateral to be interest or income.

**5. Default.**

5.1 If any of the following occur and are continuing (each an **"Event of Default")**: (i) any Event of Default (as defined in the Credit Agreement), (ii) the failure of the Secured Party to have a perfected first priority security interest in the Collateral, (iii) any restriction is imposed on the pledge or transfer of any of the Collateral after the date of this Pledge Agreement without the Secured Party's prior written consent, or (iv) the breach of the Control Agreement (referred to in Section 8 below), or receipt of notice of termination of the Control Agreement if no successor custodian acceptable to the Secured Party has executed a Control Agreement in form and substance acceptable to the Secured Party on or before ten (10) days prior to the effective date of the termination, then the Secured Party is authorized in its discretion to declare any or all of the Obligations to be immediately due and payable without demand or notice, which are expressly waived, and may exercise any one or more of the rights and remedies granted pursuant to this Pledge Agreement or given to a secured party under the Uniform Commercial Code of the applicable state, as it may be amended from time to time, or otherwise at law or in equity, including without limitation the right to issue a Notice of Exclusive Control (as defined in the Control Agreement) to the Custodian, and/or to sell or otherwise dispose of any or all of the Collateral at public or private sale, with or without advertisement thereof upon such terms and conditions as it may deem advisable and at such prices as it may deem best.

5.2 (a) At any bona fide public sale, and to the extent permitted by law, at any private sale, the Secured Party shall be free to purchase all or any part of the Collateral, free of any right or equity of redemption in the Pledgor, which right or equity is hereby waived and released. Any such sale may be on cash or credit. The Secured Party shall be authorized at any

such sale (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral for their own account in compliance with Regulation D of the Securities Act of 1933 (the **"Act")** or any other applicable exemption available under such Act. The Secured Party will not be obligated to make any sale if it determines not to do so, regardless of the fact that notice of the sale may have been given. The Secured Party may adjourn any sale and sell at the time and place to which the sale is adjourned. If the Collateral is customarily sold on a recognized market or threatens to decline speedily in value, the Secured Party may sell such Collateral at any time without giving prior notice to the Pledgor. Whenever notice is otherwise required by law to be sent by the Secured Party to the Pledgor of any sale or other disposition of the Collateral, ten (10) days written notice sent to the Pledgor at its address specified above will be reasonable.

(b) The Pledgor recognizes that the Secured Party may be unable to effect or cause to be effected a public sale of the Collateral by reason of certain prohibitions contained in the Act, so that the Secured Party may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire the Collateral for their own account, for investment and without a view to the distribution or resale thereof. The Pledgor understands that private sales so made may be at prices and on other terms less favorable to the seller than if the Collateral were sold at public sales, and agrees that the Secured Party has no obligation to delay or agree to delay the sale of any of the Collateral for the period of time necessary to permit the issuer of the securities which are part of the Collateral (even if the issuer would agree), to register such securities for sale under the Act. The Pledgor agrees that private sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner.

5.3 The net proceeds arising from the disposition of the Collateral after deducting expenses incurred by the Secured Party will be applied to the Obligations in the order determined by the Secured Party. If any excess remains after the discharge of all of the Obligations, the same will be paid to the Pledgor. If after exhausting all of the Collateral there is a deficiency, the Pledgor will be liable therefor to the Secured Party; provided, however, that nothing contained herein will obligate the Secured Party to proceed against the Pledgor or any other party obligated under the Obligations or against any other collateral for the Obligations prior to proceeding against the Collateral.

5.4 If any demand is made at any time upon the Secured Party for the repayment or recovery of any amount received by it in payment or on account of any of the Obligations and if the Secured Party repays all or any part of such amount by reason of any judgment, decree or order of any court or administrative body or by reason of any settlement or compromise of any such demand, the Pledgor will be and remain liable for the amounts so repaid or recovered to the same extent as if such amount had never been originally received by the Secured Party. The provisions of this section will be and remain effective notwithstanding the release of any of the Collateral by the Secured Party in reliance upon such payment (in which case the Pledgor's liability will be limited to an amount equal to the fair market value of the Collateral determined as of the date such Collateral was released) and any such release will be without prejudice to the Secured Party's rights hereunder and will be deemed to have been conditioned upon such payment having become final and irrevocable. This Section shall survive the termination of this Pledge Agreement.

**6. Voting Rights and Transfer.** Prior to the occurrence of an Event of Default which is continuing, the Pledgor will have the right to exercise all voting rights with respect to the Collateral. At any time after the occurrence of an Event of Default which is continuing, the Secured Party may transfer any or all of the Collateral into its name or that of its nominee and may exercise all voting rights with respect to the Collateral to the exclusion of the Pledgor, but no such transfer shall constitute a taking of such Collateral in satisfaction of any or all of the Obligations unless the Secured Party expressly so indicates by written notice to the Pledgor.

**7. Dividends, Interest and Premiums.** The Pledgor will have the right to receive all cash dividends, interest and premiums declared and paid on the Collateral prior to the occurrence of any Event of Default which is continuing. In the event any additional shares are issued to the Pledgor as a stock dividend or in lieu of interest on any of the Collateral, as a result of any split of any of the Collateral, by reclassification or otherwise, any certificates evidencing any such additional shares will be immediately delivered to the Secured Party and such shares will be subject to this Pledge Agreement and a part of the Collateral to the same extent as the original Collateral. At any time after the occurrence of an Event of Default which is continuing, the Secured Party shall be entitled to receive all cash or stock dividends, interest and premiums declared or paid on the Collateral, all of which shall be subject to the Secured Party's rights under Section 5 above.

**8. Securities Account.** If the Collateral includes securities or any other financial or other asset maintained in a securities account, then the Pledgor agrees to cause the securities intermediary on whose books and records the ownership interest of the Pledgor in the Collateral appears (the **"Custodian")** to execute and deliver, contemporaneously herewith, a notification and control agreement or other agreement (the **"Control Agreement")** reasonably satisfactory to the Secured Party in order to perfect and protect the Secured Party's security interest in the Collateral.

**9. Further Assurances.** By its signature hereon, the Pledgor hereby irrevocably authorizes the Secured Party, at any time and from time to time, to execute (on behalf of the Pledgor), file and record against the Pledgor any notice, financing statement, continuation statement, amendment statement, instrument, document or agreement under the UCC that the Secured Party may consider necessary or advisable to create, preserve, continue, perfect or validate any security interest granted hereunder or to enable the Secured Party to exercise or enforce its rights hereunder with respect to such security interest. Without limiting the generality of the foregoing, the Pledgor hereby irrevocably appoints the Secured Party as the Pledgor's attorney-in-fact to do all acts and things in the Pledgor's name that the Secured Party may deem necessary or advisable to create, preserve, continue, perfect or validate any security interest granted hereunder or to enable the Secured Party to exercise or enforce its rights hereunder with respect to such security interest. This power of attorney is coupled with an interest with full power of substitution and is irrevocable. The Pledgor hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof.

**10. Release of Collateral.** Subject to any sale or other disposition by the Secured Party of the Collateral in accordance with the terms hereof, upon payment in full and the satisfaction of all of the Obligations and the termination of the Credit Agreement, this Pledge Agreement shall terminate, the Pledgor and its assigns are authorized to file or the Secured Party,

upon request from the Pledgor, shall file, if applicable, UCC-3 financing statements to evidence the release of the Liens granted hereunder and the Collateral shall within thirty (30) days following payment in full and the satisfaction of all of the Obligations and the termination of the Credit Agreement be returned to the Pledgor.

**11. Notices.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder **("Notices")** must be in writing and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth above or to such other address as either the Pledgor or the Secured Party may give to the other for such purpose in accordance with this section.

**12. Preservation of Rights.** (a) No delay or omission on the Secured Party's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Secured Party's action or inaction impair any such right or power. The Secured Party's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Secured Party may have under other agreements, at law or in equity.

(b) The Secured Party may, at any time and from time to time, without notice to or the consent of the Pledgor unless otherwise expressly required pursuant to the terms of the Obligations, and without impairing or releasing, discharging or modifying the Pledgor's liabilities hereunder, (i) change the manner, place, time or terms of payment or performance of or interest rates on, or other terms relating to, any of the Obligations; (ii) renew, substitute, modify, amend or alter, or grant consents or waivers relating to any of the Obligations, any other pledge or security agreements, or any security for any Obligations; (iii) apply any and all payments by whomever paid or however realized including any proceeds of any collateral, to any Obligations of the Pledgor in such order, manner and amount as the Secured Party may determine in its sole discretion; (iv) deal with any other Person with respect to any Obligations in such manner as the Secured Party deems appropriate in its sole discretion; (v) substitute, exchange or release any security or guaranty; or (vi) take such actions and exercise such remedies hereunder as provided herein. The Pledgor hereby waives (a) presentment, demand, protest, notice of dishonor and notice of non-payment and all other notices to which the Pledgor might otherwise be entitled, and (b) all defenses based on suretyship or impairment of collateral.

**13. Illegality.** In case any one or more of the provisions contained in this Pledge Agreement should be invalid, illegal or unenforceable in any respect, it shall not affect or impair the validity, legality and enforceability of the remaining provisions in this Pledge Agreement.

**14. Changes in Writing.** No modification, amendment or waiver of or consent to any departure by the Pledgor from, any provision of this Pledge Agreement will be effective unless made in a writing signed by the Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Pledgor in any case will entitle the Pledgor to any other or further notice or demand in the same, similar or other circumstance.

**15. Entire Agreement.** This Pledge Agreement (including the documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the Pledgor and the Secured Party with respect to the subject matter hereof.

**16. Successors and Assigns**. This Pledge Agreement will be binding upon and inure to the benefit of the Pledgor and the Secured Party and their respective heirs, executors, administrators, successors and assigns; provided, however, that the Pledgor may not assign this Pledge Agreement in whole or in part without the Secured Party's prior written consent and the Secured Party at any time may assign this Pledge Agreement in whole or in part.

**17. Interpretation.** In this Pledge Agreement, unless the Secured Party and the Pledgor otherwise agree in writing, the singular includes the plural and the plural the singular; references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to; the word "or" shall be deemed to include "and/or", the words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; and references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Pledge Agreement. Section headings in this Pledge Agreement are included for convenience of reference only and shall not constitute a part of this Pledge Agreement for any other purpose. If this Pledge Agreement is executed by more than one party as Pledgor, the obligations of such persons or entities will be joint and several.

**18. Indemnity.** The Pledgor agrees to indemnify each of the Secured Party, each legal entity, if any, who controls, is controlled by or is under common control with the Secured Party, and each of their respective directors, officers and employees (the **"Indemnified Parties"**), and to hold each Indemnified Party harmless from and against, any and all claims, damages, losses, liabilities and expenses (including all reasonable fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation or preparation therefor) which any Indemnified Party may incur, or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Pledgor), in connection with or arising out of or relating to the matters referred to in this Pledge Agreement or under any Control Agreement, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Pledgor, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Pledge Agreement. The Pledgor may participate at its expense in the defense of any such action or claim.

**19. Governing Law and Jurisdiction.** This Pledge Agreement has been delivered to and accepted by the Secured Party and will be deemed to be made in the Commonwealth of Pennsylvania. **THIS PLEDGE AGREEMENT WILL BE INTERPRETED AND THE**

**RIGHTS AND LIABILITIES OF THE PLEDGOR AND THE SECURED PARTY DETERMINED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, EXCLUDING ITS CONFLICT OF LAWS RULES.** The Pledgor hereby irrevocably consents to the exclusive jurisdiction of the courts of the Commonwealth of Pennsylvania sitting in Allegheny County and of the United States District Court for the Western District of Pennsylvania, and any appellate court from any thereof; provided that nothing contained in this Pledge Agreement will prevent the Secured Party from bringing any action, enforcing any award or judgment or exercising any rights against the Pledgor individually, against any security or against any property of the Pledgor within any other county, state or other foreign or domestic jurisdiction. The Pledgor acknowledges and agrees that the venue provided above is the most convenient forum for both the Secured Party and the Pledgor. The Pledgor waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Pledge Agreement.

**20. WAIVER OF JURY TRIAL. THE PLEDGOR IRREVOCABLY WAIVES ANY AND ALL RIGHT THE PLEDGOR MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS PLEDGE AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS PLEDGE AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE PLEDGOR ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.**

**The Pledgor acknowledges that it has read and understood all the provisions of this Pledge Agreement, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.**

[INTENTIONALLY LEFT BLANK]

WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

WITNESS:

/s/ Brian W. Bolash

**Erie Insurance Exchange**

**By: Erie Indemnity Company,**
**a Pennsylvania corporation, its Attorney-in-Fact**

By: /s/ Douglas F. Ziegler (SEAL)
Print Name: Douglas F. Ziegler
Title: Senior Vice President, Treasurer and Chief Investment Officer

**EXHIBIT A TO PLEDGE AGREEMENT**
**(UNCERTIFICATED SECURITIES)**

With respect to the following account:

Title of the Securities Account: Erie Insurance Exchange Collateral Account
Securities Account No.: EIRF 1221052
Custodian: The Bank of New York Mellon

The specific assets listed on the attached spreadsheet, which are in the securities account referred to above, are being pledged as collateral and trading and withdrawals are permitted provided that no Event of Default has occurred and is continuing, and further provided that at all times, (i) the Pledgor shall maintain Collateral Value at all times in accordance with Section 7.1.10 of the Credit Agreement, (ii) the Pledgor shall maintain in the Collateral Account investment property and other assets in accordance with Section 7.1.12 of the Credit Agreement, and (iii) upon any trading or withdrawals of such assets, the Pledgor shall immediately provide the Secured Party with an updated Exhibit A to this Pledge Agreement.

[Spreadsheet Attached]

| $Par Amt(M) | $MV(M) 9/29/09 | Description | Cusip # | Insurer | Mdy/S&P | Underlying | Other Inf | % Tot MV |
|---|---|---|---|---|---|---|---|---|
| 9.910 | 10.820 | Farmer Mac 5 1/8% due 4/19/17 | 30769qaa8 | na | Aaa/nr | Aaa/nr/AA | Corp | 4.09 |
| 4.000 | 4.260 | Alaska Stdt 5.25% due 6/1/12 | 011855AH6 | na | nr/AAA | nr/AAA/AAA | | 1.61 |
| 5.040 | 5.320 | Carrltn.TX ISD GO 5.25% due 2/15/14 | 145628jv6 | PSF | Aaa/AAA | Aa2/AA/nr | | 2.01 |
| 3.400 | 3.580 | Carrltn.TX ISD GO 5.25% due 2/15/17 | 145628JY0 | PSF | Aaa/AAA | Aa2/AA/nr | | 1.35 |
| 5.200 | 6.000 | Chicago Wtr 5.375% due 12/1/16 | 167560JM4 | na | Aaa/nr | Aaa/nr/AAA | pr 12/1/12 | 2.27 |
| 6.000 | 7.040 | DistofCol GO 5% due 6/1/20 | 25476FJE9 | BHAC | Aa1/AAA | A1/A+/A+ | | 2.66 |
| 4.940 | 5.380 | Garland, Tx ISD 4% due 2/15/14 | 366155NN5 | PSF | Aaa/AAA | Aa1/AA/nr | | 2.04 |
| 6.200 | 7.220 | Georgia GO 5% due 8/1/21 | 373384DQ6 | na | Aaa/AAA | Aaa/AAA/AAA | | 2.73 |
| 5.000 | 5.250 | Grand Prairie, TX ISD 5% due 2/15/23 | 386154P36 | PSF | Aaa/AAA | A1/AA-/nr | | 1.99 |
| 10.000 | 12.530 | Harris Cty Hlth 5.75% due 7/1/27 | 41315RBF0 | na | nr/AAA | S&P AAA | etm | 4.74 |
| 7.000 | 7.850 | Harris Cty GO 5% due 10/1/25 | 414004U58 | na | Aa1/AAA | Aa1/AAA/AA+ | | 2.97 |
| 7.780 | 8.140 | Harris Cty Hsg 4.95% due 3/1/31 | 414158QM0 | na | Aaa/nr | Mdy Aaa | put 3/1/11 | 3.08 |
| 9.750 | 10.850 | Horry Cty Sch 5% due 3/1/24 | 440673yf2 | FSA | Aa1/AAA | Aa1/AA/AA+ | | 4.11 |
| 8.000 | 9.070 | Houston ISD 5% due 2/15/22 | 442403BU4 | PSF | Aaa/AAA | Aa2/AA+/AA+ | | 3.43 |
| 4.500 | 4.980 | Indiana BdBk 4.50% due 2/1/13 | 4546233M9 | na | nr/AAA | nr/AAA/AAA | | 1.88 |
| 4.895 | 5.550 | Indianapolis Pub 5% due 8/1/21 | 45528SH25 | na | Aa1/AAA | Aa1/AAA/AA+ | | 2.10 |
| 8.000 | 9.320 | Maryland GO 5% due 7/15/23 | 574192L81 | na | Aaa/AAA | Aaa/AAA/AAA | | 3.53 |
| 8.000 | 9.250 | Massachusetts Wtr 5.25% due 8/1/13 | 57604PNS9 | na | Aaa/AAA | Aaa/AAA/AAA | | 3.50 |
| 10.000 | 11.520 | Minnesota GO 5% due 8/1/23 | 604129FQ4 | na | Aa1/AAA | Aa1/AAA/AAA | | 4.36 |
| 5.000 | 5.620 | Nevada Bond Bk 5% due 12/1/17 | 641460p38 | FSA | Aa1/AAA | Aa1/AA+/AA+ | | 2.13 |
| 6.580 | 7.140 | Port Seattle 5% due 11/1/15 | 735371hz2 | FSA | Aa1/AAA | Aa1/AAA/AA+ | | 2.70 |
| 7.000 | 8.200 | Round Rock Sch 5%due 8/1/15 | 7792398f2 | PSF | Aaa/AAA | Aa1/AA/nr | | 3.10 |
| **146.195** | **164.890** | **Total AAA** | | | | | | **62.39** |
| | | | | | | | | |
| 5.000 | 5.600 | Alaska GO 5% due 8/1/15 | 011770p73 | FSA | Aa2/AAA | Aa2/AA+/AA | | 2.12 |
| 5.000 | 5.620 | Chicago Trans 5.25% due 6/1/20 | 167723CT0 | AssrdGty | Aa2/AAA | A2/A/A | | 2.13 |
| 3.590 | 4.080 | Dallas W&S 5.375% due 10/1/14 | 235416F25 | FSA | Aa2/AAA | Aa2/AAA/nr | pr 4/1/13 | 1.54 |
| 5.000 | 5.710 | DC Income Tax 5% due 12/1/24 | 25477GBL8 | na | Aa2/AAA | Aa2/AAA/AA | | 2.16 |
| 4.000 | 4.640 | DC Wtr&Swr 5% due 10/1/20 | 254845ED8 | BHAC | Aa2/AAA | A1/AA-/A+ | | 1.76 |
| 5.000 | 5.460 | Colorado Hlth 5.5% due 9/1/13 | 196474XM7 | na | Aa2/AA | Aa2/AA | pr 9/1/11 | 2.07 |
| 5.660 | 6.180 | Colorado Hlth 5.5% due 9/1/16 | 196474XQ8 | na | Aa2/AA | Aa2/AA | pr 9/1/11 | 2.34 |
| 6.385 | 6.730 | King Cty Sch 5.125% due 12/1/20 | 495044PK9 | na | Aa1/AA+ | Aa1/AA+ | | 2.55 |
| 6.500 | 6.628 | General Electric Cap 6% Due 8/7/19 | 36962G4D3 | na | Aa2/AA+ | Aa2/AA+ | | 2.51 |
| 10.000 | 11.250 | Wal-Mart 5.8% due 2/15/18 | 931142CJ0 | na | Aa2/AA | Aa2/AA | Corp | 4.26 |
| ***56.135*** | ***61.898*** | ***Total Aa2*** | | | | | | ***23.42*** |

| $Par Amt(M) | $MV(M) 9/29/09 | Description | Cusip # | Insurer | Mdy/S&P | Underlying | Other Inf | % Tot MV |
|---|---|---|---|---|---|---|---|---|
| 5.000 | 5.780 | Central Puget Sound, WA 5% due 11/1/13 | 15504rae9 | AMBAC | Aa3/AAA | Aa3/AAA/nr | 2.19 | |
| 8.000 | 8.990 | Chicago GO 5.25% due 1/1/17 | 1674843r3 | FSA | Aa3/AAA | Aa3/AA/AA | 3.40 | |
| 5.000 | 5.500 | Cook Cty GO 5% due 11/15/24 | 213201QA7 | FSA | Aa3/AAA | A1/A+/A+ | 2.08 | |
| 5.000 | 5.940 | Dallas RapTran 5% due 12/1/19 | 235241LQ7 | na | Aa3/AAA | Aa3/AAA/nr | 2.25 | |
| 5.000 | 5.660 | Illinois GO 5.375% due 12/1/16 | 452151GR8 | FSA | Aa3/AAA | A1/AA-/A | 2.14 | |
| 5.000 | 5.620 | Illinois Tolls 5% due 1/1/18 | 452252av1 | FSA | Aa3/AAA | Aa3/AA-/AA- | 2.13 | |
| ***33.000*** | ***37.490*** | ***Total Aa3*** | | | | | ***14.19*** | |
| **235.330** | **264.278** | **Overall Total** | | | | | | |

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Terrence W. Cavanaugh, Chief Executive Officer of Erie Indemnity Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Erie Indemnity Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2009

/s/ Terrence W. Cavanaugh
Terrence W. Cavanaugh, President & CEO

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Marcia A. Dall, Chief Financial Officer of Erie Indemnity Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Erie Indemnity Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2009

/s/ Marcia A. Dall
Marcia A. Dall, Executive Vice President & CFO

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

We, Terrence W. Cavanaugh, Chief Executive Officer of the Company, and Marcia A. Dall, Chief Financial Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that:

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period September 30, 2009 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Terrence W. Cavanaugh
Terrence W. Cavanaugh
President and Chief Executive Officer

/s/ Marcia A. Dall
Marcia A. Dall
Executive Vice President and Chief Financial Officer

October 29, 2009

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Erie Indemnity Company and will be retained by Erie Indemnity Company and furnished to the Securities and Exchange Commission or its staff upon request.