DANIELSON HOLDING CORP
Form S-3/A
April 08, 2005

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As Filed with the Securities and Exchange Commission on April 8, 2005

Registration No. 333-120755

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2
to

Form S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Danielson Holding Corporation

(Exact name of registrant as specified in its charter)

Delaware	**95-6021257**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

40 Lane Road

Fairfield, New Jersey 07004
(973) 882-9000
(Address, including zip code and telephone number, including area code, of registrant s principal executive offices)

Anthony J. Orlando

President and Chief Executive Officer
Danielson Holding Corporation
40 Lane Road
Fairfield, New Jersey 07004
(Name, address, including zip code, and telephone number, including area code, of agent for service)

with copies to:

Timothy J. Simpson, Esq.

Senior Vice President, General Counsel and Secretary
Danielson Holding Corporation
40 Lane Road
Fairfield, New Jersey 07004

and

David S. Stone, Esq.

Neal, Gerber & Eisenberg LLP
Two North LaSalle Street

Suite 2200
Chicago, Illinois 60602
(312) 269-8000

Approximate date of commencement of proposed sale to the public: From time to time after the registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box: o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $.10 par value per share, issuable upon the exercise of non- transferable rights	3,000,000 shares	$1.53	$4,590,000	$582*

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

* Registration fee paid pursuant to the Company s Registration Statement on Form S-3 filed on November 24, 2004.

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The information in this prospectus is not complete and may be changed. These securities will not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any states where the offer or sale is not permitted.

PROSPECTUS (SUBJECT TO COMPLETION)

PROSPECTUS DATED , 2005

Danielson Holding Corporation

Up To 3,000,000 Shares of Common Stock

We are conducting a rights offering and we are offering at no charge the right to subscribe to up to 3,000,000 shares of our common stock at a purchase price of $1.53 per share. This rights offer is being made solely to holders as of January 12, 2004 of the $100,000,000 of principal amount of 9.25% Debentures issued by Covanta who voted in favor of Covanta s second reorganization plan.

The number of shares of our common stock that each eligible offeree is entitled to purchase is determined by the ratio of the principal amount of 9.25% Debentures held by each eligible offeree over $99,600,000 and multiplying this ratio by 3,000,000.

The rights are not certificated and are non-transferable. Rights that are not exercised by each eligible offeree by the expiration date will expire and have no value. There are no over-subscription rights being offered and any rights not exercised will be cancelled. If all of the rights are exercised in the rights offering, the total purchase price of our common stock in the rights offering will be $4,590,000.

The rights offering begins on the date of this prospectus and ends on , 2005.

Our common stock is listed on the American Stock Exchange under the symbol DHC. On April 6, 2005, the last reported sale price for the common stock was $17.25 per share.

You should carefully consider the risk factors beginning on page 5 of this prospectus before exercising your rights to purchase any of the shares offered by this prospectus.

In order to avoid an ownership change for federal tax purposes, our certificate of incorporation prohibits any person from becoming a beneficial owner of 5% or more of our outstanding common stock, except under limited circumstances. Consequently, there are limitations on the exercise of the rights as described in this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April [ ], 2005.

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Unless the context otherwise requires, references in this prospectus to Danielson, and we, our, us and similar terms refer to Danielson Holding Corporation and its subsidiaries; references to NAICC refer to National American Insurance Company of California and its subsidiaries; references to ACL refer to American Commercial Lines, LLC and its subsidiaries; and references to Covanta refer to Covanta Energy Corporation and its subsidiaries.

SUMMARY

About Danielson Holding Corporation

We are a holding company incorporated in Delaware. Substantially all of our current operations were conducted in the insurance services industry prior to our acquisition of Covanta Energy Corporation in March 2004. We engage in insurance operations through our indirect subsidiaries, National American Insurance Company of California and related entities. A significant portion of our operating losses in the past three years stem from lines of insurance business, such as commercial automobile and worker s compensation insurance, which the Company has ceased actively underwriting.

As a result of the consummation of the Covanta acquisition on March 10, 2004, our future performance will predominantly reflect the performance of Covanta s operations which are significantly larger than our other operations. As a result, the nature of our business, the risks attendant to such business and the trends that it will face will be significantly altered by the acquisition of Covanta. Accordingly, our prior financial results will not be comparable to our future results.

As of the end of 2004, we reported aggregate consolidated net operating loss tax carryforwards, which we refer to as NOLs in this prospectus, for federal income tax purposes of approximately $516 million. These losses will expire over the course of the next 18 years unless utilized prior thereto. Danielson s NOLs are primarily from the taxable results of certain grantor trusts established in 1990 as part of a reorganization from which Mission Insurance Group, Inc. emerged from bankruptcy as Danielson.

We acquired our 100% ownership interest in ACL in May 2002. As a result of adverse developments in the marine transportation business, ACL was no longer able to meet its obligations under applicable financing arrangements. On January 31, 2003, ACL, many of its subsidiaries and its immediate direct parent entity, American Commercial Lines Holdings, LLC (ACL Holdings), filed a petition with the U.S. Bankruptcy Court for the Southern District of Indiana to reorganize under Chapter 11 of the U.S. Bankruptcy Code. The Company wrote off its investment in ACL as an other than temporarily impaired asset at the end of the first quarter of 2003. ACL Holdings and ACL confirmed a plan of reorganization on December 30, 2004. As a result, our equity interest in ACL was cancelled, and we received warrants to purchase three percent of ACL s new common stock at a price of $12.00 per share. The impairment of our investment in ACL and our share of ACL s net loss under the equity method resulted in net losses of $54.9 million in 2003.

As of April 5, 2005, our officers and directors as a group owned approximately 7.7% of common stock that is outstanding and entitled to vote. This percentage reflects shares beneficially owned by affiliates of officers and directors, as well as shares underlying currently exercisable options to purchase shares of common stock that our officers and directors have the right to acquire within 60 days of the date hereof.

Our principal executive offices are located at 40 Lane Road, Fairfield, New Jersey 07004, and our telephone number is (973) 882-9000.

About Covanta Energy Corporation

Covanta develops, constructs, owns and operates for itself and others infrastructure for the conversion of waste to energy, independent power production and the treatment of water and wastewater in the United States and abroad. Covanta owns or operates 49 power generation facilities, 37 of which are in the United States and 12 of which are located outside of the United States. Covanta s power generation facilities use a variety of fuels, including municipal solid waste, water (hydroelectric), natural gas, coal,

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wood waste, landfill gas and heavy fuel oil. Covanta also operates one water treatment facility, which is located in the United States. Until September 1999, and under prior management, Covanta was also actively involved in the entertainment and aviation services industries.

Prior to March 10, 2004 when we acquired Covanta upon its emergence from bankruptcy proceedings, it and most of its domestic subsidiaries had been operating as debtors in possession under Chapter 11 of the United States Bankruptcy Code.

When Covanta emerged from bankruptcy proceedings, Covanta and certain of its subsidiaries entered into both secured and unsecured financing arrangements. In addition many of Covanta s operating subsidiaries are parties to financing arrangements for individual operating projects which are secured by the assets of the project. The Company has no obligations with respect to the debt of Covanta or any of its subsidiaries.

The Rights Offering

Reason for Offering	We agreed to make this offering to provide additional benefits to those holders of 9.25% Debentures who voted in favor of our proposed plan of reorganization for Covanta as an inducement to facilitate the approval of our proposed plan.
Eligible Offerees	Holders of the 9.25% Debentures on January 12, 2004 who voted in favor of our proposed second plan of reorganization for Covanta are the only persons eligible to participate in this offering. These holders are referred to as Eligible Offerees in this prospectus. No other person is eligible to participate in this rights offering and the rights to purchase shares of our common stock offered under this prospectus may not be transferred to any other person.
Size of Rights Offering	We are offering to sell 3,000,000 shares of our common stock. If all of the common stock is purchased in the rights offering, the total purchase price of our common stock in the offering will be $4,590,000.
Rights Being Offered	We are offering a total of 3,000,000 shares of our common stock at $1.53 per share. Each Eligible Offeree is entitled to purchase his, her or its pro rata portion of this rights offering. The number of shares of our common stock each Eligible Offeree is entitled to purchase is determined by the ratio of the principal amount of 9.25% Debentures held by each Eligible Offeree voted in favor of our plan of reorganization over $99,600,000, the principal amount of all outstanding 9.25% Debentures voted in favor of our plan of reorganization, and multiplying this ratio by 3,000,000. Wells Fargo, the rights agent in this rights offering, will verify and confirm the eligibility of and the number of shares each Eligible Offeree is entitled to purchase.
Offering Period	This rights offering will commence on the date of this prospectus and remain open until the 5:00 p.m. New York City time on , 2005.
Oversubscription Rights	There are no oversubscription rights in this rights offering. Any rights not exercised by any Eligible Offeree entitled to exercise such rights will not be reallocated to any other Eligible Holder and will be cancelled.

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Transferability of Rights	The rights are not transferable. The rights may only be exercised by Eligible Offerees in the amount offered to each Eligible Offeree.
Conditions to the Rights Offering	The closing of the rights offering is subject to conditions. See The Rights Offering Conditions to the Rights Offering for more details. Your subscription rights are subject to, among other things, ownership restrictions imposed by our certificate of incorporation and the escrow protection mechanics described herein.
Certificate of Incorporation Restrictions; Escrow Protection Mechanics	Our ability to utilize our net operating loss tax carryforwards would be substantially reduced if we were to undergo an ownership change within the meaning of Section 382 of the Internal Revenue Code. In order to reduce the risk of an ownership change, our certificate of incorporation restricts the ability of any holder of 5% or more of our common stock to sell or otherwise transfer any shares owned by such holder or to purchase or otherwise acquire shares of our common stock. Our certificate of incorporation also restricts the ability of any other holder to make an acquisition of our common stock which will result in total ownership by such stockholder of 5% or more of our common stock. These restrictions will apply unless and until we determine that such acquisition will not result in an unreasonable risk of an ownership change. We have the right, in our sole and absolute discretion, to limit the exercise of the rights, including instructing the rights agent to refuse to honor any exercise of rights, by 5% stockholders or stockholders who would become 5% holders upon exercise of their rights.
	The total number of shares of our common stock to be outstanding upon completion of the offering, assuming the offering is fully subscribed, would be 76,279,040. Five percent of 76,279,040 is 3,813,952.
	In order to avoid an ownership change for Federal income tax purposes, we have implemented the escrow protection mechanics, which are as follows: (1) by exercising its rights, each Eligible Offeree will represent to us that such Eligible Offeree will not be, after giving effect to the exercise of the rights, an owner, directly or indirectly (as described in this prospectus), of more than 3,400,000 shares; (2) if such exercise would result in such holder owning more than 3,400,000 shares of our common stock, such holder must notify the rights agent at the telephone number set forth under The Rights Offering Delivery of Subscription Materials and Payment; (3) if requested, each Eligible Offeree will provide us with additional information regarding the amount of common stock that the Eligible Offeree owns; and (4) we shall have the right to instruct the rights agent to refuse to honor such Eligible Offeree s exercise to the extent such exercise of rights might, in our sole and absolute discretion, result in such holder owning 5% or more of our common stock. By exercising your rights in the rights offering, you agree that the escrow protection mechanics are valid, binding and enforceable against

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	you. See The Rights Offering Certificate of Incorporation Restrictions; Escrow Protection Mechanics.
Procedure for Purchasing Common Stock under the Automated Subscription Offer Program	The rights offering is eligible for the Automated Subscription Offer Program, referred to in this prospectus as ASOP, of Depository Trust Company, referred to in this prospectus as DTC. Since all record holders of the 9.25% Debentures are DTC participants, we are requiring that all rights be exercised through ASOP. If you are an Eligible Offeree and wish to purchase shares of our common stock through the exercise of rights issued to you in this rights offering, you must transmit your notice of exercise by electronic message through ASOP prior to 5:00 p.m., New York City time, on the expiration date. DTC will then send an agent s message to the rights agent for the rights offering, Wells Fargo Bank, National Association, for its acceptance. Delivery of the agent s message by DTC indicates that the you agree to be bound to the terms and conditions of the rights offering (including the authorization that the exercise price be debited from your DTC account). Once you have exercised your subscription rights, your exercise may not be revoked in whole or in part. Rights not exercised prior to the expiration date will lose their value. We will make the necessary book-entry transfers or, upon your request, issue certificates or representing shares purchased in the offering, as soon as reasonably practicable after the closing of the rights offering. All exercises of rights will be effective on the closing of the rights offering. Our common stock is traded on the American Stock Exchange, which we sometimes refer to as the AMEX, under the symbol DHC. On April 6, 2005, the closing price of our common stock on the AMEX was $17.25 per share. Shares of our common stock issued upon the exercise of the rights will also be listed on the AMEX under the same symbol.

Risk Factors

An investment in our common stock is very risky. You should consider carefully the risk factors beginning on this page 5 of this prospectus.

Use of Proceeds

The proceeds from the offering, estimated to be approximately $4.5 million, after deduction of expenses of the offering estimated to be $335,000, will be used by us for general corporate purposes.

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RISK FACTORS

An investment in our common stock is very risky. You should carefully consider the following factors and all the information in this prospectus and the information incorporated by reference herein.

Danielson-Specific Risks

The market for our common stock has been historically illiquid which may affect your ability to sell your shares.

The volume of trading in our stock has historically been low. In the last six months, the daily trading volume for our stock has been approximately 286,107 shares. Having a market for shares without substantial liquidity can adversely affect the price of the stock at a time an investor might want to sell his, her or its shares.

Reduced liquidity and price volatility could result in a loss to investors.

Although our common stock is listed on the AMEX, there can be no assurance as to the liquidity of an investment in our common stock or as to the price an investor may realize upon the sale of our common stock. These prices are determined in the marketplace and may be influenced by many factors, including the liquidity of the market for our common stock, the market price of our common stock, investor perception and general economic and market conditions.

Concentrated stock ownership and charter provision may discourage unsolicited acquisition proposals.

Assuming the issuance of 3,000,000 shares of our Common Stock in the rights offering described in this prospectus, SZ Investments, L.L.C., together with its affiliate EGI Fund (05-07) Investors, L.L.C., stockholders referred to in this prospectus together as SZ Investments, Third Avenue Trust, on behalf of Third Avenue Value Fund, a stockholder referred to in this prospectus as Third Avenue, and D. E. Shaw Laminar Portfolios, L.L.C., a creditor of Covanta and a stockholder referred to in this prospectus as Laminar, separately own or will have the right to acquire as of April 5, 2005, approximately 15.4%, 5.9% and 18.3%, respectively, or when aggregated, 39.6% of our outstanding common stock. These stockholders have each separately committed to participate in the rights offering we have agreed to undertake in order to finance the Company s acquisition of American Ref-Fuel Holdings Corp., which we refer to in this prospectus as Ref-Fuel, and acquire their pro rata portion of shares in that rights offering. Although there are no agreements among SZ Investments, Third Avenue and Laminar regarding their voting or disposition of shares of our common stock, the level of their combined ownership of shares of common stock could have the effect of discouraging or impeding an unsolicited acquisition proposal. In addition, the change in ownership limitations contained in Article Fifth of our charter could have the effect of discouraging or impeding an unsolicited takeover proposal.

The exercise of irrevocable subscription rights may adversely affect investors.

Once you have exercised your subscription rights, your exercise may not be revoked in whole or in part for any reason, including a decline in our common stock price. Rights not exercised prior to the expiration date will lose their value.

Future sales of our common stock may depress our stock price.

No prediction can be made as to the effect, if any, that future sales of our common stock, or the availability of our common stock for future sales, will have on the market price of our common stock. Sales in the public market of substantial amounts of our common stock, or the perception that such sales could occur, could adversely affect prevailing market prices for our common stock. In addition, in connection with the Covanta acquisition financing, we have filed a registration statement on Form S-3 to register the resale of 17,711,491 shares of our common stock held by Laminar, Third Avenue and SZ Investments and in connection with our proposed acquisition of Ref-Fuel we intend to register additional shares to be offered in a pro rata rights offering and have agreed to register the resale of certain shares held by Laminar, Third Avenue and SZ Investments in an underwritten public offering. We have also agreed to register any shares issuable to the current shareholders of Ref-Fuel in the event the purchase agreement we entered into with such stockholders is terminated due to our failure to complete the equity and debt financing for such acquisition. The potential effect of these shares being sold may be to depress the price at which our common stock trades.

Our disclosure controls and procedures may not prevent or detect all acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within our companies have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by an unauthorized override of the controls. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Failure to maintain an effective system of internal control over financial reporting may have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated by the Securities and Exchange Commission, commonly referred to as the SEC, to implement Section 404, we are required to furnish a report to include in our annual report on Form 10-K by our management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

We have in the past, and in the future may discover, areas of our internal control over financial reporting which may require improvement. For example, during the course of its audit of our 2004 financial statements, our independent auditors, Ernst & Young LLP identified errors, principally related to complex manual fresh start accounting calculations, predominantly effecting Covanta s investments in its international businesses. Although the net effect of these errors was immaterial (less than $2 million, pretax), and such errors have been corrected in our 2004 consolidated financial statements, management determined that errors in complex fresh start and other technical accounting areas originally went undetected due to insufficient technical in-house expertise necessary to provide sufficiently rigorous review. As a result, management has concluded that Danielson s internal control over financial reporting was not effective as of December 31, 2004. We have identified and undertaken steps necessary in order to address this material weakness, but the effectiveness of our internal control over financial reporting in the future will depend on our effectiveness in fulfilling these steps to address this material weakness. If we are unable to assert that our internal control over financial reporting is effective or if our auditors are unable to

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express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect in our stock price.

We cannot be certain that the net operating loss tax carryforwards will continue to be available to offset our tax liability.

As of December 31, 2004, we had approximately $516 million of net operating loss tax carryforwards for federal income tax purposes, which we refer to as NOLs . In order to utilize the NOLs, we must generate taxable income which can offset such carryforwards. The NOLs are also utilized by income from certain grantor trusts that were established as part of the Mission Insurance reorganization. The NOLs will expire if not used. The availability of NOLs to offset taxable income would be substantially reduced if we were to undergo an ownership change within the meaning of Section 382(g)(1) of the Internal Revenue Code. We will be treated as having had an ownership change if there is more than a 50% change in stock ownership during a three year testing period by 5% stockholders .

In order to help us preserve the NOLs, our certificate of incorporation contains stock transfer restrictions designed to reduce the risk of an ownership change for purposes of Section 382 of the Internal Revenue Code. The transfer restrictions were implemented in 1990, and we expect that the restrictions will remain in force as long as the NOLs are available. We cannot assure you, however, that these restrictions will prevent an ownership change.

The NOLs will expire in various amounts, if not used, between 2005 and 2023. The Internal Revenue Service has not audited any of our tax returns for any of the years during the carryforward period including those returns for the years in which the losses giving rise to the NOLs were reported. We cannot assure you that we would prevail if the IRS were to challenge the availability of the NOLs. If the IRS was successful in challenging our NOLs, all or some portion of the NOLs would not be available to offset our future consolidated income and we may not be able to satisfy our obligations to Covanta under a tax sharing agreement described below, or to pay taxes that may be due from our consolidated tax group.

Reductions in our NOLs could occur in connection with the grantor trusts associated with the Mission Insurance entities. Taxable income could result which could materially reduce our NOLs. For a more detailed discussion of the Mission Insurance entities and the grantor trusts, please see Note 25 to the Notes to Consolidated Financial Statements, as filed in our Annual Report on Form 10-K for the year ended December 31, 2004, and which is incorporated herein by reference.

In addition, if our existing insurance services business were to require capital infusions from us in order to meet certain regulatory capital requirements, and were we to fail to provide such capital, some or all of our subsidiaries comprising our Insurance Services business could enter insurance insolvency proceedings. In such event, such subsidiaries might no longer be included in our consolidated tax return, and a portion, which could constitute a significant portion, of our remaining NOLs might no longer be available to us.

Covanta-Specific Risks

Covanta emerged from bankruptcy with a large amount of domestic debt, and we cannot assure you that its cash flow from domestic operations will be sufficient to pay this debt.

As of December 31, 2004, Covanta s outstanding domestic corporate debt was $236 million.

Although Covanta is currently in compliance with all of its domestic debt covenants, Covanta s ability to service its domestic debt will also depend upon:

- its ability to continue to operate and maintain its facilities consistent with historical performance levels;

- its ability to maintain compliance with its debt covenants;

its ability to avoid increases in overhead and operating expenses in view of the largely fixed nature of its revenues;

its ability to maintain or enhance revenue from renewals or replacement of existing contracts, which begin to expire in October, 2007, and from new contracts to expand existing facilities or operate additional facilities;

market conditions affecting waste disposal and energy pricing, as well as competition from other companies for contract renewals, expansions, and additional contracts, particularly after its existing contracts expire;

the continued availability to Covanta of the benefit of Danielson s net operating losses under the Tax Sharing Agreement; and

its ability to refinance its domestic corporate debt, whether in conjunction with the Ref-Fuel acquisition or otherwise.

For a more detailed discussion of Covanta s domestic debt covenants please see Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as amended by our Annual Report on Form 10-K/A, and Item 7 of Covanta s Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

The amount of unsecured claims for which Covanta is liable has not been determined and could exceed our estimates.

In connection with Covanta s emergence from bankruptcy, Covanta authorized the issuance of $50 million of unsecured notes under an indenture. Although Covanta estimates that it will issue such notes in an amount less than $30 million, the ultimate amount of unsecured notes will not be determined until remaining claims are resolved through settlement or litigation in the U.S. Bankruptcy Court for the Southern District of New York. We cannot assure you that the final amount of such notes issued will be less than Covanta s estimate, or that the ultimate resolution of such claims will result in liabilities of less than $50 million.

Covanta may not be able to refinance its domestic debt agreements prior to maturity.

Covanta issued high yield notes, which mature in 2011. Prior to maturity, Covanta is obligated to pay only interest, and no principal, with respect to these notes. Covanta s cash flow may be insufficient to pay the principal at maturity, which will be $230 million at such time. Consequently, Covanta may be obligated to refinance these notes prior to maturity. Covanta may refinance the notes during the first two years after issuance without paying a premium, and thereafter may refinance these notes but must pay a premium to do so.

Several of Covanta s contracts require it to provide certain letters of credit to contract counterparties. The aggregate stated amount of these letters declines materially each year, particularly prior to 2010. Covanta s financing arrangements under which these letters of credit are issued expire in 2009, and so it must refinance these arrangements in order to allow Covanta to continue to provide the letters of credit beyond the current expiration date.

Although we have received a commitment from Goldman Sachs Credit Partners, L.P. and Credit Suisse First Boston for a debt financing package for Covanta necessary to finance the acquisition of Ref-Fuel, as well as to refinance the existing recourse debt of Covanta, such refinancing is contingent upon consummation of the Ref-Fuel acquisition.

We cannot assure you that Covanta will be able to obtain refinancing on acceptable terms, or at all, either in conjunction with the Ref-Fuel acquisition or otherwise.

Covanta s ability to grow its business is limited.

Covanta s ability to grow its domestic business by investing in new projects will be limited by debt covenants in its principal financing agreements, unless such financing agreements are refinanced, and from potentially fewer market opportunities for new waste-to-energy facilities. Covanta s business is based upon building and operating municipal solid waste processing and energy generating projects, which are capital intensive businesses that require financing through direct investment and the incurrence of debt. When we acquired Covanta and it emerged from bankruptcy proceedings in March, 2004, Covanta entered into financing arrangements with restrictive covenants typical of financings for companies emerging from bankruptcy. These covenants essentially prohibit investments in new projects or acquisitions of new businesses, and place restrictions on Covanta s ability to expand existing projects. The covenants prohibit borrowings to finance new construction, except in limited circumstances related to specifically identified expansions of existing facilities. The covenants also limit spending for new business development and require that excess cash flow be trapped to collateralize outstanding letters of credit.

Although we will be negotiating debt covenants for the refinancing of Covanta s recourse debt in connection with the Ref-Fuel acquisition, such financing is contingent upon consummation of the Ref-Fuel acquisition. We cannot assure you that, when it seeks to refinance its domestic debt agreements, Covanta will be able to negotiate covenants that will provide it with more flexibility to grow its business.

Covanta s liquidity is limited by the amount of domestic debt issued when it emerged from bankruptcy.

Covanta believes that its cash flow from domestic operations will be sufficient to pay for its domestic cash needs, including debt service on its domestic corporate debt, and that its revolving credit facility will provide a secondary source of liquidity. For the period March 11 through December 31, 2004, Covanta s cash flow from operating activities for domestic operations was $85.3 million. We cannot assure you, however, that Covanta s cash flow from domestic operations will not be adversely affected by adverse economic conditions or circumstances specific to one or more projects or that if such conditions or circumstances do occur, its revolving credit facility will provide Covanta with access to sufficient cash for such purposes.

Operation of Covanta s facilities and the construction of new or expanded facilities involve significant risks.

The operation of Covanta s facilities and the construction of new or expanded facilities involve many risks, including:

- the inaccuracy of Covanta s assumptions with respect to the timing and amount of anticipated revenues;
- supply interruptions;
- permitting and other regulatory issues, license revocation and changes in legal requirements;
- labor disputes and work stoppages;
- unforeseen engineering and environmental problems;
- unanticipated cost overruns;
- weather interferences, catastrophic events including fires, explosions, earthquakes, droughts and acts of terrorism; and
- performance below expected levels of output or efficiency.

We cannot predict the impact of these risks on Covanta s business or operations.

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Expansion of Covanta s existing plants or construction of new plants may require Covanta to use additional new technology which may increase construction costs.

Expansions of existing plants and construction of new plants may require that Covanta incorporate recently developed and technologically complex equipment, especially in the case of newer environmental emission control technology. Inclusion of such new technology may materially increase the cost of construction.

Covanta s insurance and contractual protections may not always cover lost revenues, increased expenses or liquidated damages payments.

Although Covanta maintains insurance, obtains warranties from vendors, obligates contractors to meet certain performance levels, and attempts, where feasible, to pass risks Covanta cannot control to the service recipient or output purchaser, the proceeds of such insurance, warranties, performance guarantees or risk sharing arrangements may not be adequate to cover lost revenues, increased expenses or liquidated damages payments.

Performance reductions could materially and adversely affect Covanta.

Any of the risks described in this prospectus or unforeseen problems could cause Covanta s projects to operate below expected levels, which in turn could result in lost revenues, increased expenses, higher maintenance costs and penalties for defaults under Covanta s service agreements and operating contracts. As a result, a project may operate at less than expected levels of profit or at a loss.

Most of Covanta s service agreements for waste-to-energy facilities provide for limitations on damages and cross-indemnities among the parties for damages that such parties may incur in connection with their performance under the contract. Such contractual provisions excuse Covanta from performance obligations to the extent affected by uncontrollable circumstances and provide for service fee adjustments if uncontrollable circumstances increase its costs. We cannot assure you that these provisions will prevent Covanta from incurring losses upon the occurrence of uncontrollable circumstances or that if Covanta were to incur such losses it would continue to be able to service its debt.

Covanta and certain of its subsidiaries have issued or are party to performance guarantees and related contractual obligations undertaken mainly pursuant to agreements to construct and operate certain energy and water facilities. With respect to its domestic businesses, Covanta has issued guarantees to its municipal clients and other parties that Covanta s subsidiaries will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. The obligations guaranteed will depend upon the contract involved. Many of Covanta s subsidiaries have contracts to operate and maintain waste-to-energy facilities. In these contracts the subsidiary typically commits to operate and maintain the facility in compliance with legal requirements; to accept minimum amounts of solid waste; to generate a minimum amount of electricity per ton of waste; and to pay damages to contract counterparties under specified circumstances, including those where the operating subsidiary s contract has been terminated for default. In its operating history, Covanta has not incurred liability to pay material amounts under these guarantees, and has incurred no liability to repay project debt. Such contractual damages or other obligations could be material, and in circumstances where one or more subsidiary s contract has been terminated for its default, such damages could include amounts sufficient to repay project debt. Additionally, damages payable under such guarantees on Company-owned waste-to-energy facilities could expose Covanta to recourse liability on project debt. Covanta may not have sufficient sources of cash to pay such damages or other obligations. Although it has not incurred material liability under energy, water and waste-to-energy guarantees previously and has incurred no liability to repay project debt, we cannot assure you that Covanta will be able to continue to avoid incurring material payment obligations under such guarantees or that if it did incur such obligations that it would have the cash resources to pay them.

With respect to the international projects, Covanta Power International Holdings, Inc., referred to as CPIH in this prospectus, Covanta and certain of Covanta s domestic subsidiaries have issued guarantees of CPIH s operating obligations. The potential damages that may be owed under these guarantees may be material. Covanta is generally entitled to be reimbursed by CPIH for any payments it may make under guarantees related to international projects.

Covanta generates its revenue primarily under long term contracts, and must avoid defaults under its contracts in order to service its debt and avoid material liability to contract counterparties.

Covanta must satisfy its performance and other obligations under its contracts to operate waste-to-energy facilities. These contracts typically require Covanta to meet certain performance criteria relating to amounts of waste processed, energy generation rates per ton of waste processed, residue quantity, and environmental standards. Covanta s failure to satisfy these criteria may subject it to termination of its operating contracts. If such a termination were to occur, Covanta would lose the cash flow related to the project, and incur material termination damage liability. In circumstances where the contract of one or more subsidiaries has been terminated for Covanta s default, Covanta may not have sufficient sources of cash to pay such damages.

None of Covanta s operating contracts for its waste-to-energy facilities previously have been terminated for Covanta s default. We cannot assure you, however, that Covanta will be able to continue to be able to perform its obligations under such contracts in order to avoid such contract terminations, or damages for related to any such contract termination, or that if it could not avoid such terminations that it would have the cash resources to pay amounts that may then become due.

Covanta may face increased risk of market influences on its domestic revenues after its contracts expire.

Covanta s contracts to operate waste-to-energy projects begin to expire in 2007, and its contracts to sell energy output generally expire when the project s operating contract expires. One of Covanta s contracts will expire in 2007. During the twelve month period January 1 to December 31, 2004, this contract contributed $12.5 million in revenues. Expiration of these contracts will subject Covanta to greater market risk in maintaining and enhancing its revenues. As its operating contracts at municipally-owned projects approach expiration, Covanta will seek to enter into renewal or replacement contracts to continue operating such projects. Covanta will seek to bid competitively in the market for additional contracts to operate other facilities as similar contracts of other vendors expire. The expiration of Covanta s existing energy sales contracts, if not renewed, will require Covanta to sell project energy output either into the electricity grid or pursuant to new contracts.

At some of Covanta s facilities, market conditions may allow Covanta to effect extensions of existing operating contracts along with facility expansions which would increase the waste processing capacity of these projects. Such extensions and expansions are currently being considered at a limited number of Covanta s facilities in conjunction with its municipal clients. If Covanta were unable to reach agreement with its municipal clients on the terms under which it would implement such extensions and expansions, or if the implementation of these extensions and expansions is materially delayed, this may adversely affect Covanta s cash flow and profitability.

Covanta s cash flow and profitability may be adversely affected if it is unable to obtain contracts acceptable to it for such renewals, replacements or additional contracts, or extension and expansion contracts. We cannot assure you that Covanta will be able to enter into such contracts, or that the terms available in the market at the time will be favorable to Covanta.

Concentration of suppliers and customers may expose Covanta to heightened financial exposure.

Covanta often relies on single suppliers and single customers at Covanta s facilities, exposing such facilities to financial risks if any supplier or customer should fail to perform its obligations.

Covanta often relies on a single supplier to provide waste, fuel, water and other services required to operate a facility and on a single customer or a few customers or to purchase all or a significant portion of a facility s output or capacity. In most cases, Covanta has long-term agreements with such suppliers and customers in order to mitigate the risk of supply interruption. The financial performance of these facilities

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depends on such customers and suppliers continuing to perform their obligations under their long-term agreements. A facility s financial results could be materially and adversely affected if any one customer or supplier fails to fulfill its contractual obligations and Covanta is unable to find other customers or suppliers to produce the same level of profitability. We cannot assure you that such performance failures by third parties will not occur, or that if they do occur, such failures will not adversely affect Covanta s cash flow or profitability.

In addition, for its waste-to-energy facilities, Covanta relies on its municipal clients as a source not only of waste for fuel but also of revenue from fees for disposal services Covanta provides. Because Covanta s contracts with its municipal clients are generally long term (none expires prior to 2007), Covanta may be adversely affected if the credit quality of one or more of its municipal clients were to decline materially. We cannot assure you that such credit quality will not decline, or that if one or more of Covanta s municipal clients credit quality does decline, that it would not adversely affect Covanta s domestic cash flow or profitability.

Covanta s international businesses emerged from bankruptcy with a large amount of debt, and we cannot assure you that its cash flow from international operations will be sufficient to pay this debt.

Covanta s subsidiary holding the equity interests in its international businesses, CPIH, is also highly leveraged, and its debt will be serviced solely from the cash generated from the international operations. Cash distributions from international projects are typically less dependable as to timing and amount than distributions from domestic projects, and we cannot assure you that CPIH will have sufficient cash flow from operations or other sources to pay the principal or interest due on its debt. As of December 31, 2004, Covanta s outstanding international debt was $180 million, consisting of $77 million of CPIH recourse debt and $103 million of project debt.

Although CPIH is currently not in default under its debt covenants, CPIH s ability to service its debt will depend upon:

- its ability to continue to operate and maintain its facilities consistent with historical performance levels;
- stable foreign political environments that do not resort to expropriation, contract renegotiations or currency or exchange changes;
- the financial ability of the electric and steam purchasers to pay the full contractual tariffs on a timely basis;
- the ability of its international project subsidiaries to maintain compliance with their respective project debt covenants in order to make equity distributions to CPIH; and
- its ability to sell existing projects in an amount sufficient to repay CPIH indebtedness at or prior to its maturity in March 2007, or to refinance its indebtedness at or prior to such maturity.

For a more detailed discussion of CPIH s international debt covenants please see Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as amended by our Annual Report on Form 10-K/A, and Item 7 of Covanta s Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

CPIH s debt is due in March 2007, and it will need to refinance its debt or obtain cash from other sources to repay this debt at maturity.

Covanta believes that cash from CPIH s operations, together with liquidity available under CPIH s revolving credit facility, will provide CPIH with sufficient liquidity to meet its needs for cash, including cash to pay debt service on CPIH s debt prior to maturity in March 2007. Covanta believes that CPIH will not have sufficient cash from its operations and its revolving credit facility to pay off its debt at maturity, and so if it is unable to generate sufficient additional cash from asset sales or other sources, CPIH will need to refinance its debt at or prior to maturity. While CPIH s debt is non-recourse to

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Covanta, it is secured by a pledge of Covanta s stock in CPIH and CPIH s equity interests in certain of its subsidiaries. While we have financing commitments to refinance Covanta s recourse debt and to repay CPIH s corporate debt entirely in connection with the acquisition of Ref-Fuel, such financing is contingent upon consummation of the Ref-Fuel acquisition. We cannot assure you that such additional cash will be available to CPIH, or that it will be able to refinance its debt on acceptable terms, or at all.

CPIH s assets and cash flow will not be available to Covanta.

Although CPIH s results of operations are consolidated with Danielson s and Covanta s for financial reporting purposes, as long as the CPIH debt is outstanding, CPIH is restricted under its existing credit agreements from distributing cash to Covanta. Under these agreements, CPIH s cash may only be used for CPIH s purposes and to service CPIH s debt. Accordingly, although reported on Danielson s and Covanta s consolidated financial statements, Covanta does not have access to CPIH s revenues or cash flows and will have access only to Covanta s domestically generated cash flows.

A sale or transfer of CPIH or its assets may not be sufficient to repay CPIH indebtedness.

Although CPIH s results of operations are consolidated with Danielson s and Covanta s for financial reporting purposes, due to CPIH s indebtedness and the terms of Covanta s credit agreements, CPIH s cash flow is available only to repay CPIH s debt. Similarly, in the event that CPIH determines that it is desirable to sell or transfer all or any portion of its assets or business, the proceeds would first be applied to reduce CPIH s debt. We cannot assure you that the proceeds of any such sale would be sufficient to repay all of CPIH s debt, consisting of principal and accrued interest or, if sufficient to repay CPIH s debt, that such proceeds would offset the loss of CPIH s revenues and earnings as reported by Danielson and Covanta in their respective consolidated financial statements.

Although the Company has received a commitment from Goldman Sachs Credit Partners, L.P. and Credit Suisse First Boston for a debt financing package for Covanta necessary to finance the acquisition of Ref-Fuel, as well as to refinance the existing recourse debt of Covanta and repay all of CPIH s recourse debt, such financing is contingent upon consummation of the Ref-Fuel acquisition. We cannot assure you that this financing will close. In the absence of a successful closing of the Ref-Fuel acquisition and its related financing, we cannot assure you that CPIH will be able to obtain refinancing on acceptable terms, or at all.

Exposure to international economic and political factors may materially and adversely affect Covanta s business.

CPIH s operations are entirely outside the United States and expose it to legal, tax, currency, inflation, convertibility and repatriation risks, as well as potential constraints on the development and operation of potential business, any of which can limit the benefits to CPIH of a foreign project.

CPIH s projected cash distributions from existing facilities over the next five years comes from facilities located in countries having sovereign ratings below investment grade, including Bangladesh, the Philippines and India. In addition, Covanta continues to provide operating guarantees and letters of credit for certain of CPIH s projects, which if drawn upon would require CPIH to reimburse Covanta for any related payments it may be required to make. The financing, development and operation of projects outside the United States can entail significant political and financial risks, which vary by country, including:

changes in law or regulations;

changes in electricity tariffs;

changes in foreign tax laws and regulations;

changes in United States, federal, state and local laws, including tax laws, related to foreign operations;

compliance with United States, federal, state and local foreign corrupt practices laws;

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- changes in government policies or personnel;
- changes in general economic conditions affecting each country, including conditions in financial markets;
- changes in labor relations in operations outside the United States;
- political, economic or military instability and civil unrest; and
- expropriation and confiscation of assets and facilities.

The legal and financial environment in foreign countries in which CPIH currently owns assets or projects also could make it more difficult for it to enforce its rights under agreements relating to such projects.

The occurrence of any of these risks could substantially delay the receipt of cash distributions from international projects or reduce the value of the project concerned. In addition, the existence of the operating guarantees and letters of credit provided by Covanta for CPIH projects could expose it to any or all of the risks identified above with respect to the CPIH projects, particularly if CPIH s cash flow or other sources of liquidity are insufficient to reimburse Covanta for amounts due under such instruments. As a result, these risks may have a material adverse effect on Covanta s business, consolidated financial condition and results of operations and on CPIH s ability to service its debt.

Exposure to foreign currency fluctuations may affect Covanta s costs of operations.

CPIH sought to participate in projects in jurisdictions where limitations on the convertibility and expatriation of currency have been lifted by the host country and where such local currency is freely exchangeable on the international markets. In most cases, components of project costs incurred or funded in the currency of the United States are recovered with limited exposure to currency fluctuations through negotiated contractual adjustments to the price charged for electricity or service provided. This contractual structure may cause the cost in local currency to the project s power purchaser or service recipient to rise from time to time in excess of local inflation. As a result, there is a risk in such situations that such power purchaser or service recipient will, at least in the near term, be less able or willing to pay for the project s power or service.

Exposure to fuel supply prices may affect CPIH s costs and results of operations.

Changes in the market prices and availability of fuel supplies to generate electricity may increase CPIH s cost of producing power, which could adversely impact our profitability and financial performance.

The market prices and availability of fuel supplies of some of CPIH s facilities fluctuate. Although CPIH believes that it has adequate and reliable fuel supplies and that its suppliers have adequate production and transportation systems to comply with their contractual requirements to supply CPIH s facilities, any price increase, delivery disruption or reduction in the availability of such supplies could affect CPIH s ability to operate CPIH s facilities and impair its cash flow and profitability. CPIH may be subject to further exposure if any of its future operations are concentrated in facilities using fuel types subject to fluctuating market prices and availability. Covanta may not be successful in its efforts to mitigate its exposure to supply and price swings.

Covanta s inability to obtain resources for operations may adversely affect its ability to effectively compete.

Covanta s waste-to-energy facilities depend on solid waste both for fuel and as a source of revenue. For most of Covanta s facilities, the prices it charges for disposal of solid waste are fixed under long-term contracts and the supply is guaranteed by sponsoring municipalities. However, for some of Covanta s waste-to-energy facilities, the availability of solid waste to Covanta, as well as the tipping fee that Covanta must charge to attract solid waste to its facilities, depends upon competition from a number of sources such as other waste-to-energy facilities, landfills and transfer stations competing for waste in the market

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area. In addition, Covanta may need to obtain waste on a short-term competitive basis as its long-term contracts expire at its owned facilities. There has been and may be further consolidation in the solid waste industry which would reduce the number of solid waste collectors or haulers that are competing for disposal facilities or enable such collectors or haulers to use wholesale purchasing to negotiate favorable below-market disposal rates. The consolidation in the solid waste industry has resulted in companies with vertically integrated collection activities and disposal facilities. Such consolidation may result in economies of scale for those companies as well as the use of disposal capacity at facilities owned by such companies or by affiliated companies. Such activities can affect both the availability of waste to Covanta for disposal at some of Covanta s waste-to-energy facilities and market pricing.

Compliance with environmental laws could adversely affect Covanta s results of operations.

Costs of compliance with existing and future environmental regulations by federal, state and local authorities could adversely affect Covanta s cash flow and profitability. Covanta s business is subject to extensive environmental regulation by federal, state and local authorities, primarily relating to air, waste (including residual ash from combustion) and water. Covanta is required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits in operating Covanta s facilities. Covanta may incur significant additional costs to comply with these requirements. Environmental regulations may also limit Covanta s ability to operate Covanta s facilities at maximum capacity or at all. If Covanta fails to comply with these requirements, Covanta could be subject to civil or criminal liability, damages and fines. Existing environmental regulations could be revised or reinterpreted, and new laws and regulations could be adopted or become applicable to Covanta or its facilities, and future changes in environmental laws and regulations could occur. This may materially increase the amount Covanta must invest to bring its facilities into compliance. In addition, lawsuits by the Environmental Protection Agency, commonly referred to as the EPA, and various states highlight the environmental risks faced by generating facilities. Stricter environmental regulation of air emissions, solid waste handling or combustion, residual ash handling and disposal, and waste water discharge could materially affect Covanta s cash flow and profitability.

Covanta may not be able to obtain or maintain, from time to time, all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if Covanta fails to obtain and comply with them, the operation of Covanta s facilities could be jeopardized or become subject to additional costs.

Federal energy regulation could adversely affect Covanta s revenues and costs of operations.

Covanta s business is subject to extensive energy regulations by federal and state authorities. The economics, including the costs, of operating Covanta s generating facilities may be adversely affected by any changes in these regulations or in their interpretation or implementation or any future inability to comply with existing or future regulations or requirements.

The Public Utility Holding Company Act of 1935, or PUHCA, and the Federal Power Act, or the FPA, regulate public utility holding companies and their subsidiaries and place constraints on the conduct of their business. The FPA regulates wholesale sales of electricity and the transmission of electricity in interstate commerce by public utilities. Under the Public Utility Regulatory Policies Act of 1978, known as PURPA, Covanta s domestic facilities are qualifying facilities (facilities meeting statutory size, fuel and ownership requirements), which are exempt from regulations under PUHCA, most provisions of the FPA and state rate regulation. Covanta s foreign projects are exempt from regulation under PUHCA.

If Covanta becomes subject to either the FPA or PUHCA, the economics and operations of Covanta s energy projects could be adversely affected, including rate regulation by the Federal Energy Regulation Commission, with respect to its output of electricity. If an alternative exemption from PUHCA was not available, Covanta could be subject to regulation by the SEC as a public utility holding company. In addition, depending on the terms of the project s power purchase agreement, a loss of Covanta s

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exemptions could allow the power purchaser to cease taking and paying for electricity or to seek refunds of past amounts paid. Such results could cause the loss of some or all contract revenues or otherwise impair the value of a project and could trigger defaults under provisions of the applicable project contracts and financing agreements. Defaults under such financing agreements could render the underlying debt immediately due and payable. Under such circumstances, Covanta cannot assure you that revenues received, the costs incurred, or both, in connection with the project could be recovered through sales to other purchasers.

Failure to obtain regulatory approvals could adversely affect Covanta s operations.

Covanta is continually in the process of obtaining or renewing federal, state and local approvals required to operate Covanta s facilities. While Covanta currently has all necessary operating approvals, Covanta may not always be able to obtain all required regulatory approvals, and Covanta may not be able to obtain any necessary modifications to existing regulatory approvals or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approvals or if Covanta fails to obtain and comply with any required regulatory approvals, the operation of Covanta s facilities or the sale of electricity to third parties could be prevented, made subject to additional regulation or subject Covanta to additional costs.

The energy industry is becoming increasingly competitive, and Covanta might not successfully respond to these changes.

Covanta may not be able to respond in a timely or effective manner to the changes resulting in increased competition in the energy industry in both domestic and international markets. These changes may include deregulation of the electric utility industry in some markets, privatization of the electric utility industry in other markets and increasing competition in all markets. To the extent U.S. competitive pressures increase and the pricing and sale of electricity assumes more characteristics of a commodity business, the economics of Covanta s business may come under increasing pressure. Regulatory initiatives in foreign countries where Covanta has or will have operations involve the same types of risks.

Changes in laws and regulations affecting the solid waste and the energy industries could adversely affect Covanta s business.

Covanta s business is highly regulated. Covanta cannot predict whether the federal or state governments or foreign governments will adopt legislation or regulations relating to the solid waste or energy industries. These laws and regulations can result in increased capital, operating and other costs to Covanta, particularly with regard to enforcement efforts. The introduction of new laws or other future regulatory developments which increase the costs of operation or capital to Covanta may have a material adverse effect on Covanta s business, financial condition or results of operations.

Insurance Services-Specific Risks

Insurance regulations may affect NAICC s operations.

The insurance industry is highly regulated. NAICC is subject to regulation by state and federal regulators, and a significant portion of NAICC s operations are subject to regulation by the state of California. Changes in existing insurance regulations or adoption of new regulations or laws which could affect NAICC s results of operations and financial condition may include, without limitation, proposed changes to California regulations regarding a broker s fiduciary duty to select the best carrier for an insured, extension of California s Low Cost Automobile Program beyond Los Angeles and San Francisco counties and changes to California s workers compensation laws. We cannot predict the impact of changes in existing insurance regulations or adoption of new regulations or laws on NAICC s results of operations and financial condition.

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The insurance products sold by NAICC are subject to intense competition.

The insurance products sold by NAICC are subject to intense competition from many competitors, many of whom have substantially greater resources than NAICC. The California non-standard personal automobile marketplace consists of over 100 carriers.

In order to decrease rates, insurers in California must obtain the prior permission for rate reductions from the California Department of Insurance. In lieu of requesting rate decreases, competitors may soften underwriting standards as an alternative means of attracting new business. Such tactics, should they occur, would introduce new levels of risk for NAICC and could limit NAICC s ability to write new policies or renew existing profitable policies. We cannot assure you that NAICC will be able to successfully compete in these markets and generate sufficient premium volume at attractive prices to be profitable. This risk is enhanced by the reduction in lines of business NAICC writes as a result of its decision to reduce underwriting operations.

If NAICC s loss experience exceeds its estimates, additional capital may be required.

Unpaid losses and loss adjustment expenses are based on estimates of reported losses, historical company experience of losses reported for reinsurance assumed, and historical company experience for unreported claims. Such liability is, by necessity, based on estimates that may change in the near term. NAICC cannot assure you that the ultimate liabilities will not exceed, or even materially exceed, the amounts estimated. If the ultimate liability materially exceeds estimates, then additional capital may be required to be contributed to some of our insurance subsidiaries. NAICC and the other insurance subsidiaries have received additional capital contributions from Danielson in 2003 and 2002 and NAICC cannot provide any assurance that it and its subsidiaries will be able to obtain such additional capital on commercially reasonable terms or at all.

In addition, due to the fact that NAICC and its other insurance subsidiaries are in the process of running off several significant lines of business, the risk of adverse development and the subsequent requirement to obtain additional capital is heightened.

Failure to satisfy capital adequacy and risk-based capital requirements would require NAICC to obtain additional capital.

NAICC is subject to regulatory risk-based capital requirements. Depending on its risk-based capital, NAICC could be subject to four levels of increasing regulatory intervention ranging from company action to mandatory control. NAICC s capital and surplus is also one factor used to determine its ability to distribute or loan funds t>

Class B common stock

2,542

2,542

2,542

2,542

Weighted average shares outstanding attributable to Indemnity – Diluted

Class A common stock

52,562,514

52,411,414

52,598,633

52,504,920

Class B common stock

2,542

2,542

2,542

2,542

Dividends declared per share

Class A common stock

$
0.6810

$
0.6350

$
1.3620

$
1.2700

Class B common stock

$
102.1500

$
95.2500

$
204.3000

$
190.5000

See accompanying notes to Consolidated Financial Statements. See Note 12. "Indemnity Accumulated Other Comprehensive Loss," for amounts reclassified out of accumulated other comprehensive income (loss) into the Consolidated Statements of Operations. See Note 15. “Indemnity Supplemental Information,” for supplemental statements of operations information.

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ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in millions)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income	$197	$103	$333	$212
Other comprehensive (loss) income				
Change in unrealized holding (losses) gains on available-for-sale securities, net of tax benefit (expense) of $73, $(37), $45 and $(80), respectively	(136)	68	(83)	148
Reclassification adjustment for gross gains included in net income, net of tax benefit of $2, $2, $4 and $7, respectively	(4)	(3)	(7)	(11)
Other comprehensive (loss) income	(140)	65	(90)	137
Comprehensive income	$57	$168	$243	$349
Less: Comprehensive income attributable to noncontrolling interest in consolidated entity – Exchange	3	118	150	250
Total comprehensive income – Indemnity	$54	$50	$93	$99

See accompanying notes to Consolidated Financial Statements. See Note 12. "Indemnity Accumulated Other Comprehensive Loss," for supplemental statements of comprehensive income (loss) information.

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

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Investments – Indemnity		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $553 and $555, respectively)	$561	$564
Equity securities (cost of $22 and $24, respectively)	22	25
Limited partnerships (cost of $85 and $89, respectively)	101	113
Other invested assets	1	1
Investments – Exchange		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost of $9,040 and $8,540, respectively)	9,372	9,007
Equity securities (cost of $766 and $788, respectively)	817	850
Trading securities, at fair value (cost of $2,319 and $2,289, respectively)	3,144	3,223
Limited partnerships (cost of $676 and $694, respectively)	842	866
Other invested assets	21	20
Total investments	14,881	14,669
Cash and cash equivalents (Exchange portion of $344 and $422, respectively)	421	514
Premiums receivable from policyholders – Exchange	1,384	1,281
Reinsurance recoverable – Exchange	162	161
Deferred income taxes – Indemnity	44	37
Deferred acquisition costs – Exchange	635	595
Other assets (Exchange portion of $419 and $374, respectively)	542	501
Total assets	$18,069	$17,758
Liabilities and shareholders' equity		
Liabilities		
Indemnity liabilities		
Other liabilities	$589	$611
Exchange liabilities		
Losses and loss expense reserves	3,963	3,853
Life policy and deposit contract reserves	1,837	1,812
Unearned premiums	3,007	2,834
Deferred income taxes	413	490
Other liabilities	98	175
Total liabilities	9,907	9,775
Indemnity shareholders' equity		
Class A common stock, stated value $0.0292 per share; 74,996,930 shares authorized; 68,299,200 shares issued; 46,189,068 shares outstanding	2	2
Class B common stock, convertible at a rate of 2,400 Class A shares for one Class B share, stated value $70 per share; 3,070 shares authorized; 2,542 shares issued and outstanding	0	0
Additional paid-in-capital	16	16

Accumulated other comprehensive loss	(120)	(118)
Retained earnings	1,980	1,949
Total contributed capital and retained earnings	1,878	1,849
Treasury stock, at cost, 22,110,132 shares held	(1,146)	(1,146)
Total Indemnity shareholders' equity	732	703
Noncontrolling interest in consolidated entity – Exchange	7,430	7,280
Total equity	8,162	7,983
Total liabilities, shareholders' equity, and noncontrolling interest	$18,069	$17,758

See accompanying notes to Consolidated Financial Statements. See Note 15. "Indemnity Supplemental Information," for supplemental consolidating statements of financial position information.

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

	Six months ended June 30, 2015	2014
Cash flows from operating activities		
Premiums collected	$2,906	$2,679
Net investment income received	262	235
Limited partnership distributions	74	64
Service agreement fee received	15	15
Commissions and bonuses paid to agents	(436)	(397)
Losses paid	(1,613)	(1,630)
Loss expenses paid	(257)	(251)
Other underwriting and acquisition costs paid	(392)	(372)
Income taxes paid	(248)	(98)
Net cash provided by operating activities	311	245
Cash flows from investing activities		
Purchase of investments:		
Fixed maturities	(1,607)	(1,090)
Preferred stock	(125)	(168)
Common stock	(565)	(550)
Limited partnerships	(63)	(46)
Sales/maturities of investments:		
Fixed maturity sales	625	371
Fixed maturity calls/maturities	469	413
Preferred stock	112	119
Common stock	713	565
Sale of and returns on limited partnerships	118	70
Net purchase of property and equipment	(26)	(17)
Net collections on agent loans	0	1
Net distributions on life policy loans	(1)	0
Net cash used in investing activities	(350)	(332)
Cash flows from financing activities		
Annuity deposits and interest	40	45
Annuity surrenders and withdrawals	(42)	(39)
Universal life deposits and interest	17	14
Universal life surrenders	(6)	(6)
Purchase of treasury stock	0	(20)
Dividends paid to shareholders	(63)	(59)
Net cash used in financing activities	(54)	(65)
Net decrease in cash and cash equivalents	(93)	(152)
Cash and cash equivalents at beginning of period	514	452
Cash and cash equivalents at end of period	$421	$300

See accompanying notes to Consolidated Financial Statements. See Note 15. “Indemnity Supplemental Information,” for supplemental cash flow information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Nature of Operations

Erie Indemnity Company ("Indemnity") is a publicly held Pennsylvania business corporation that has since its incorporation in 1925 served as the attorney-in-fact for the subscribers (policyholders) at the Erie Insurance Exchange ("Exchange"). The Exchange, which also commenced business in 1925, is a Pennsylvania-domiciled reciprocal insurer that writes property and casualty insurance.

Indemnity's primary function, as attorney-in-fact, is to perform certain services for the Exchange relating to the sales, underwriting and issuance of policies on behalf of the Exchange. This is done in accordance with a subscriber's agreement (a limited power of attorney) executed individually by each subscriber (policyholder), which appoints Indemnity as their common attorney-in-fact to transact certain business on their behalf and to manage the affairs of the Exchange. Pursuant to the subscriber's agreement and for its services as attorney-in-fact, Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group (defined below), which are assumed by the Exchange under an intercompany pooling arrangement.

Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange's economic performance by acting as the common attorney-in-fact and decision maker for the subscribers (policyholders) at the Exchange.

The Exchange, together with its wholly owned subsidiaries, Erie Insurance Company ("EIC"), Erie Insurance Company of New York ("ENY"), Erie Insurance Property and Casualty Company ("EPC"), and Flagship City Insurance Company ("Flagship"), operate as a property and casualty insurer and are collectively referred to as the "Property and Casualty Group". The Property and Casualty Group operates in 12 Midwestern, Mid-Atlantic and Southeastern states and the District of Columbia.

Erie Family Life Insurance Company ("EFL"), a wholly owned subsidiary of the Exchange, operates as a life insurer that underwrites and sells individual and group life insurance policies and fixed annuities.

All property and casualty and life insurance operations are owned by the Exchange and Indemnity functions solely as the management company.

The consolidated financial statements of Erie Indemnity Company reflect the results of Indemnity and its variable interest entity, the Exchange, which we refer to collectively as the "Erie Insurance Group" ("we," "us," "our").

"Indemnity shareholder interest" refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. "Noncontrolling interest" refers to the interest in the Erie Insurance Exchange held for the subscribers (policyholders).

Note 2. Significant Accounting Policies

Basis of presentation
The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and include the accounts of Indemnity together with its affiliate companies in which Indemnity holds a majority voting or economic interest.

Use of estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position, results of operations, and cash flows for the interim periods have been included. Operating results for the six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. The accompanying consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on February 26, 2015.

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Principles of consolidation
We consolidate the Exchange as a variable interest entity for which Indemnity is the primary beneficiary under Accounting Standards Codification ("ASC 810"), Consolidation which was adopted January 1, 2010. All intercompany accounts and transactions have been eliminated in consolidation. The required presentation of noncontrolling interests is reflected in the consolidated financial statements. Noncontrolling interests represent the ownership interests of the Exchange, all of which are held by parties other than Indemnity (i.e. the Exchange's subscribers (policyholders)). Noncontrolling interests also include the Exchange subscribers' ownership interest in EFL.

Presentation of assets and liabilities – While the assets of the Exchange are presented separately in the Consolidated Statements of Financial Position, the Exchange's assets can only be used to satisfy the Exchange's liabilities or for other unrestricted activities. ASC 810 does not require separate presentation of the Exchange's assets; however, because the shareholders of Indemnity have no rights to the assets of the Exchange and, conversely, the Exchange has no rights to the assets of Indemnity, we have presented the invested assets of the Exchange separately on the Consolidated Statements of Financial Position along with the remaining consolidated assets reflecting the Exchange's portion parenthetically. Liabilities are required under ASC 810, to be presented separately for the Exchange on the Consolidated Statements of Financial Position as the Exchange's creditors do not have recourse to the general credit of Indemnity.

Rights of shareholders of Indemnity and subscribers (policyholders) of the Exchange – The shareholders of Indemnity, through the management fee, have a controlling financial interest as defined in ASC 810 in the Exchange; however, they have no other rights to or obligations arising from assets and liabilities of the Exchange. The shareholders of Indemnity own its equity but have no rights or interest in the Exchange's (noncontrolling interest) income or equity. The noncontrolling interest equity represents the Exchange's equity held for the interest of its subscribers (policyholders), who have no rights or interest in the Indemnity shareholder interest income or equity.

All intercompany assets, liabilities, revenues, and expenses between Indemnity and the Exchange have been eliminated in the Consolidated Financial Statements.

Recently issued accounting standards
In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, "Consolidation", which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 modifies the evaluation of whether limited partnerships are variable interest entities and the consolidation analysis of reporting entities that are involved in variable interest entities, particularly those that have fee arrangements and related party relationships. All legal entities are subject to reevaluation under this revised consolidation model. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We are currently evaluating this new guidance and we will determine its impact on our consolidated financial statements by the end of the year. It is possible that Indemnity would no longer be required to consolidate the results of the Exchange upon adoption of the new guidance.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement", which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and limits the disclosure requirements. ASU 2015-07 is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. We expect to implement these amended disclosure requirements at December 31, 2015.

In May 2015, the FASB issued ASU 2015-09, "Financial Services - Insurance", which requires additional disclosures about the liability for losses and loss adjustment expenses, including incurred and paid claims development activity and reconciliations of that information to the financial statements. ASU 2015-09 is effective for annual periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016. Early adoption is permitted. We expect to include the applicable disclosures as required.

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Note 3. Indemnity Earnings Per Share

Class A and Class B basic earnings per share and Class B diluted earnings per share are calculated under the two-class method. The two-class method allocates earnings to each class of stock based upon its dividend rights. Class B shares are convertible into Class A shares at a conversion ratio of 2,400 to 1. See Note 11. "Indemnity Capital Stock".

Class A diluted earnings per share are calculated under the if-converted method, which reflects the conversion of Class B shares to Class A shares. Diluted earnings per share calculations include the dilutive effect of assumed issuance of stock-based awards under compensation plans using the treasury stock method.

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

(dollars in millions, except per share data)	Indemnity Shareholder Interest					
	Three months ended June 30,					
	2015			2014		
	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	$56	46,189,068	$1.21	$49	46,214,153	$1.05
Dilutive effect of stock-based awards	0	272,646	—	0	96,461	—
Assumed conversion of Class B shares	0	6,100,800	—	0	6,100,800	—
Class A – Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$56	52,562,514	$1.07	$49	52,411,414	$0.94
Class B – Basic EPS:						
Income available to Class B stockholders	$0	2,542	$181	$0	2,542	$158
Class B – Diluted EPS:						
Income available to Class B stockholders	$0	2,542	$180	$0	2,542	$158

(dollars in millions, except per share data)	Indemnity Shareholder Interest					
	Six months ended June 30,					
	2015			2014		
	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	$94	46,189,068	$2.04	$94	46,307,659	$2.04
	0	308,765	—	0	96,461	—

Dilutive effect of stock-based awards						
Assumed conversion of Class B shares	1	6,100,800	—	1	6,100,800	—
Class A – Diluted EPS:						
Income available to Class A stockholders on Class A equivalent shares	$95	52,598,633	$1.81	$95	52,504,920	$1.82
Class B – Basic EPS:						
Income available to Class B stockholders	$1	2,542	$306	$1	2,542	$307
Class B – Diluted EPS:						
Income available to Class B stockholders	$1	2,542	$305	$1	2,542	$307

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Note 4. Variable Interest Entity

Erie Insurance Exchange
The Exchange is a reciprocal insurance exchange domiciled in Pennsylvania, for which Indemnity serves as attorney-in-fact. Indemnity holds a variable interest in the Exchange due to the absence of decision-making capabilities by the equity owners (subscribers/policyholders) of the Exchange and due to the significance of the management fee the Exchange pays to Indemnity as its decision maker. Therefore as defined in ASC 810, Indemnity is deemed to have a controlling financial interest in the Exchange and is considered to be its primary beneficiary.

Under ASC 810, consolidation of the Exchange's financial results is required given the significance of the management fee to the Exchange and because Indemnity has the power to direct the activities of the Exchange that most significantly impact the Exchange's economic performance. The Exchange's anticipated economic performance is the product of its underwriting results combined with its investment results. The fees paid to Indemnity under the subscriber's agreement impact the anticipated economic performance attributable to the Exchange's results. Indemnity earns a management fee from the Exchange for the services it provides as attorney-in-fact. Indemnity's management fee revenues are based upon all premiums written or assumed by the Exchange. Indemnity's Board of Directors determines the management fee rate to be paid by the Exchange to Indemnity. This rate cannot exceed 25% of the direct and assumed written premiums of the Exchange, as defined by the subscriber's agreement signed by each policyholder. Management fee revenues and management fee expenses are eliminated upon consolidation.

The shareholders of Indemnity have no rights to the assets of the Exchange and no obligations arising from the liabilities of the Exchange. Indemnity has no obligation related to any underwriting and/or investment losses experienced by the Exchange. Indemnity 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 Indemnity receives. In addition, a decline in the surplus of the Exchange from its current level may impact the management fee rate received by Indemnity. Indemnity also has an exposure to a concentration of credit risk related to the unsecured receivables due from the Exchange for its management fee. If any of these events occurred, Indemnity's financial position, financial performance, and/or cash flows could be adversely impacted.

All property and casualty and life insurance operations are owned by the Exchange, and Indemnity functions solely as the management company.

Indemnity has not provided financial or other support to the Exchange for any of the reporting periods presented. At June 30, 2015, there are no explicit or implicit arrangements that would require Indemnity to provide future financial support to the Exchange. Indemnity is not liable if the Exchange was to be in violation of its debt covenants or was unable to meet its obligation for unfunded commitments to limited partnerships.

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Note 5. Segment Information

Our reportable segments include management operations, property and casualty insurance operations, life insurance operations, and investment operations. Accounting policies for segments are the same as those described in the summary of significant accounting policies. See Item 8. “Financial Statements and Supplementary Data, Note 2. Significant Accounting Policies,” in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on February 26, 2015. Assets are not allocated to the segments, but rather, are reviewed in total for purposes of decision-making. No single customer or agent provides 10% or more of revenues.

Management operations
Our management operations segment consists of Indemnity serving as attorney-in-fact for the Exchange. Indemnity operates in this capacity solely for the Exchange. We evaluate profitability of our management operations segment principally on the gross margin from management operations. Indemnity earns a management fee from the Exchange for providing certain sales, underwriting, and policy issuance services. Management fee revenue, which is eliminated upon consolidation, is calculated as a percentage not to exceed 25% of all the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement. The Property and Casualty Group issues policies with annual terms only. Management fees are recorded upon policy issuance or renewal, as substantially all of the services required to be performed by Indemnity have been satisfied at that time. Certain activities are performed and related costs are incurred by us subsequent to policy issuance in connection with the services provided to the Exchange; however, these activities are inconsequential and perfunctory. Although these management fee revenues and expenses are eliminated upon consolidation, the amount of the fee directly impacts the allocation of our consolidated net income between the noncontrolling interest, which bears the management fee expense and represents the interests of the Exchange subscribers (policyholders), and Indemnity’s interest, which earns the management fee revenue and represents the Indemnity shareholder interest in net income.

Property and casualty insurance operations
Our property and casualty insurance operations segment includes personal and commercial lines. Personal lines consist primarily of private passenger auto and homeowners and are marketed to individuals. Commercial lines consist primarily of commercial multi-peril, commercial auto, and workers compensation and are marketed to small- and medium-sized businesses. Our property and casualty policies are sold by independent agents. Our property and casualty insurance underwriting operations are conducted through the Exchange and its subsidiaries and include assumed involuntary and ceded reinsurance business and run-off activity of the previously assumed voluntary reinsurance business. We evaluate profitability of the property and casualty insurance operations principally based upon net underwriting results represented by the combined ratio.

Life insurance operations
Our life insurance operations segment includes traditional and universal life insurance products and fixed annuities marketed to individuals using the same independent agency force utilized by our property and casualty insurance operations. We evaluate profitability of the life insurance segment principally based upon segment net income, including investments, which for segment purposes are reflected in the investment operations segment. At the same time, we recognize that investment-related income is integral to the evaluation of the life insurance segment because of the long duration of life products. For the second quarters of 2015 and 2014, investment activities on life insurance related assets generated revenues of $25 million and
$24 million, respectively, resulting in EFL reporting income before income taxes of $13 million and $10 million, respectively, before intercompany eliminations. For the six months ended June 30, 2015 and 2014, investment activities on life insurance related assets generated revenues of $50 million and $53 million, respectively, resulting in EFL reporting income before income taxes of $23 million for both periods, before intercompany eliminations.

Investment operations

The investment operations segment includes returns from our fixed maturity, equity security and limited partnership investment portfolios to support our underwriting business. The Indemnity and Exchange portfolios are managed with the objective of maximizing after-tax returns on a risk-adjusted basis, while the EFL portfolio is managed to be closely aligned to its liabilities and to maintain a sufficient yield to meet profitability targets. We actively evaluate the portfolios for impairments and record impairment writedowns on investments in instances where the fair value of the investment is substantially below cost, and it is concluded that the decline in fair value is other-than-temporary. Investment related income for the life operations is included in the investment segment results.

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The following tables summarize the components of the Consolidated Statements of Operations by reportable business segment:

(in millions)	Erie Insurance Group Three months ended June 30, 2015					
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$1,412	$22		$0	$1,434
Net investment income				$130	(3)	127
Net realized investment losses				(7)		(7)
Net impairment losses recognized in earnings				(2)		(2)
Equity in earnings of limited partnerships				72		72
Management fee revenue	$395				(395)	—
Service agreement and other revenue	7		1			8
Total revenues	402	1,412	23	193	(398)	1,632
Cost of management operations	332				(332)	—
Insurance losses and loss expenses		952	25		(1)	976
Policy acquisition and underwriting expenses		416	10		(65)	361
Total benefits and expenses	332	1,368	35	—	(398)	1,337
Income (loss) before income taxes	70	44	(12)	193	—	295
Provision for income taxes	24	16	(4)	62	—	98
Net income (loss)	$46	$28	$(8)	$131	$—	$197

(in millions)	Erie Insurance Group Three months ended June 30, 2014					
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$1,298	$22		$(1)	$1,319
Net investment income				$116	(5)	111
Net realized investment gains				133		133
Net impairment losses recognized in earnings				0		0
Equity in earnings of limited partnerships				27		27
Management fee revenue	$366				(366)	—
Service agreement and other revenue	8		0			8
Total revenues	374	1,298	22	276	(372)	1,598
Cost of management operations	306				(306)	—
Insurance losses and loss expenses		1,101	27		(2)	1,126

Policy acquisition and underwriting expenses		380	9		(64)	325
Total benefits and expenses	306	1,481	36	—	(372)	1,451
Income (loss) before income taxes	68	(183)	(14)	276	—	147
Provision for income taxes	24	(64)	(5)	89	—	44
Net income (loss)	$44	$(119)	$(9)	$187	$—	$ 103

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(in millions)	Erie Insurance Group Six months ended June 30, 2015					
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$2,792	$44		$0	$ 2,836
Net investment income				$246	(6)	240
Net realized investment gains				49		49
Net impairment losses recognized in earnings				(4)		(4)
Equity in earnings of limited partnerships				100		100
Management fee revenue	$738				(738)	—
Service agreement and other revenue	15		1			16
Total revenues	753	2,792	45	391	(744)	3,237
Cost of management operations	630				(630)	—
Insurance losses and loss expenses		1,985	53		(2)	2,036
Policy acquisition and underwriting expenses		802	19		(112)	709
Total benefits and expenses	630	2,787	72	—	(744)	2,745
Income (loss) before income taxes	123	5	(27)	391	—	492
Provision for income taxes	43	2	(9)	123	—	159
Net income (loss)	$80	$3	$(18)	$268	$—	$ 333

(in millions)	Erie Insurance Group Six months ended June 30, 2014					
	Management operations	Property and casualty insurance operations	Life insurance operations	Investment operations	Eliminations	Consolidated
Premiums earned/life policy revenue		$2,566	$42		$ (1)	$ 2,607
Net investment income				$228	(8)	220
Net realized investment gains				189		189
Net impairment losses recognized in earnings				0		0
Equity in earnings of limited partnerships				77		77
Management fee revenue	$685				(685)	—
Service agreement and other revenue	15		1			16
Total revenues	700	2,566	43	494	(694)	3,109
Cost of management operations	574				(574)	—
Insurance losses and loss expenses		2,108	55		(3)	2,160
Policy acquisition and underwriting expenses		745	18		(117)	646

Total benefits and expenses	574	2,853	73	—	(694)	2,806
Income (loss) before income taxes	126	(287)	(30)	494	—	303
Provision for income taxes	44	(100)	(11)	158	—	91
Net income (loss)	$82	$(187)	$(19)	$336	$—	$ 212

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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 upon 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 under current market conditions. Financial instruments are categorized based upon the following characteristics or inputs to the valuation techniques:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 – Unobservable inputs for the asset or liability.

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 upon proprietary models and are used when observable inputs are not available or 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 upon 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. In other circumstances, certain securities are internally priced because prices are not provided by the pricing service.

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 that we determine the proper classification level 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 as well as other observable inputs, such as data, and transaction volumes and believe that their prices adequately consider market activity in determining fair value. Our review process continues to evolve based upon accounting guidance and requirements.

When a price from the pricing service is not available, values are determined by obtaining broker/dealer quotes and/or market comparables. When available, we obtain multiple quotes for the same security. The ultimate value for these securities is determined based upon 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 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.

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The following table represents our consolidated fair value measurements on a recurring basis by asset class and level of input at June 30, 2015:

	Erie Insurance Group June 30, 2015 Fair value measurements using:			
(in millions)	Total	Quoted prices in active markets for identical assets Level 1	Observable inputs Level 2	Unobservable inputs Level 3
Indemnity				
Available-for-sale securities:				
States & political subdivisions	$225	$0	$225	$0
Corporate debt securities	235	0	235	0
Residential mortgage-backed securities	9	0	9	0
Commercial mortgage-backed securities	49	0	49	0
Collateralized debt obligations	38	0	37	1
Other debt securities	5	0	5	0
Total fixed maturities	561	0	560	1
Nonredeemable preferred stock	10	1	9	0
Common stock	12	12	0	0
Total available-for-sale securities	583	13	569	1
Other investments (1)	6	0	0	6
Total – Indemnity	$589	$13	$569	$7
Exchange				
Available-for-sale securities:				
U.S. treasury	$7	$0	$7	$0
Government sponsored enterprises	4	0	4	0
States & political subdivisions	1,492	0	1,492	0
Foreign government securities	83	0	83	0
Corporate debt securities	7,622	0	7,548	74
Residential mortgage-backed securities	34	0	34	0
Commercial mortgage-backed securities	29	0	29	0
Collateralized debt obligations	11	0	11	0
Other debt securities	90	0	79	11
Total fixed maturities	9,372	0	9,287	85
Nonredeemable preferred stock	721	359	361	1
Common stock	96	96	0	0
Total available-for-sale securities	10,189	455	9,648	86
Trading securities:				
Common stock	3,144	3,131	0	13
Total trading securities	3,144	3,131	0	13
Other investments (1)	53	0	0	53
Total – Exchange	$13,386	$3,586	$9,648	$152
Total – Erie Insurance Group	$13,975	$3,599	$10,217	$159
% of total assets at fair value	100.0 %	25.8 %	73.1 %	1.1 %

(1) Other investments measured at fair value represent four real estate funds included on the balance sheet as limited partnership investments that are reported under the fair value option. These investments can never be redeemed with the funds. Instead, distributions are received when liquidation of the underlying assets of the funds occur. It is estimated that the underlying assets will generally be liquidated between 5 and 10 years from the inception of the funds. The fair value of these investments is based on the net asset value (NAV) information provided by the general partner. Fair value is based on our proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally one quarter prior to our balance sheet date. These values are then analyzed to determine if the NAV represents fair value at our balance sheet date, with adjustment being made where appropriate. We consider observable market data and perform a review validating the appropriateness of the NAV at each balance sheet date. It is likely that all of the investments will be redeemed at a future date for an amount different than the NAV of our ownership interest in partners' capital as of June 30, 2015. During the six months ended June 30, 2015, Indemnity made no contributions and received distributions totaling $0.9 million, and the Exchange made no contributions and received distributions totaling $21.2 million for these investments. As of June 30, 2015, the amount of unfunded commitments related to the investments was $0.6 million for Indemnity and $1.7 million for the Exchange.

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The following table represents our consolidated fair value measurements on a recurring basis by asset class and level of input at December 31, 2014:

(in millions)	Erie Insurance Group December 31, 2014 Fair value measurements using: Total	Quoted prices in active markets for identical assets Level 1	Observable inputs Level 2	Unobservable inputs Level 3
Indemnity				
Available-for-sale securities:				
States & political subdivisions	$231	$ 0	$231	$0
Corporate debt securities	234	0	234	0
Residential mortgage-backed securities	8	0	8	0
Commercial mortgage-backed securities	51	0	51	0
Collateralized debt obligations	33	0	33	0
Other debt securities	7	0	7	0
Total fixed maturities	564	0	564	0
Nonredeemable preferred stock	12	2	10	0
Common stock	13	13	0	0
Total available-for-sale securities	589	15	574	0
Other investments [(1)]	8	0	0	8
Total – Indemnity	$597	$ 15	$574	$8
Exchange				
Available-for-sale securities:				
U.S. treasury	$6	$ 0	$6	$0
Government sponsored enterprises	4	0	4	0
States & political subdivisions	1,477	0	1,477	0
Foreign government securities	10	0	10	0
Corporate debt securities	7,289	0	7,202	87
Residential mortgage-backed securities	111	0	111	0
Commercial mortgage-backed securities	30	0	30	0
Collateralized debt obligations	11	0	11	0
Other debt securities	69	0	57	12
Total fixed maturities	9,007	0	8,908	99
Nonredeemable preferred stock	710	328	381	1
Common stock	140	140	0	0
Total available-for-sale securities	9,857	468	9,289	100
Trading securities:				
Common stock	3,223	3,208	0	15
Total trading securities	3,223	3,208	0	15
Other investments [(1)]	71	0	0	71
Total – Exchange	$13,151	$ 3,676	$9,289	$186
Total – Erie Insurance Group	$13,748	$ 3,691	$9,863	$194
% of total assets at fair value	100.0 %	26.9 %	71.7 %	1.4 %

(1) Other investments measured at fair value represent four real estate funds included on the balance sheet as limited partnership investments that are reported under the fair value option. These investments can never be redeemed with the funds. Instead, distributions are received when liquidation of the underlying assets of the funds occur. It is estimated that the underlying assets will generally be liquidated between 5 and 10 years from the inception of the funds. The fair value of these investments is based on the net asset value (NAV) information provided by the general partner. Fair value is based on our proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally one quarter prior to our balance sheet date. These values are then analyzed to determine if the NAV represents fair value at our balance sheet date, with adjustment being made where appropriate. We consider observable market data and perform a review validating the appropriateness of the NAV at each balance sheet date. It is likely that all of the investments will be redeemed at a future date for an amount different than the NAV of our ownership interest in partners' capital as of December 31, 2014. During the year ended December 31, 2014, Indemnity made no contributions and received distributions totaling $12.9 million, and the Exchange made no contributions and received distributions totaling $41.5 million for these investments. As of December 31, 2014, the amount of unfunded commitments related to the investments was $0.6 million for Indemnity and $1.7 million for the Exchange.

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Level 3 Assets – Quarterly Change:

(in millions)	Erie Insurance Group Beginning balance at March 31, 2015	Included in earnings (1)	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3	Ending balance at June 30, 2015
Indemnity							
Available-for-sale securities:							
Corporate debt securities	$0	$0	$ 0	$ 0	$0	$0	$0
Collateralized debt obligations	0	0	0	1	0	0	1
Total fixed maturities	0	0	0	1	0	0	1
Total available-for-sale securities	0	0	0	1	0	0	1
Other investments	7	(1)	0	0	0	0	6
Total Level 3 assets – Indemnity	$7	$(1)	$ 0	$ 1	$0	$0	$7
Exchange							
Available-for-sale securities:							
Corporate debt securities	$80	$0	$ (6)	$ 24	$0	$(24)	$74
Other debt securities	9	0	0	0	0	2	11
Total fixed maturities	89	0	(6)	24	0	(22)	85
Nonredeemable preferred stock	1	0	0	0	0	0	1
Total available-for-sale securities	90	0	(6)	24	0	(22)	86
Trading securities:							
Common stock	15	(2)	0	0	0	0	13
Total trading securities	15	(2)	0	0	0	0	13
Other investments	51	2	0	0	0	0	53
Total Level 3 assets – Exchange	$156	$0	$ (6)	$ 24	$0	$(22)	$152
Total Level 3 assets – Erie Insurance Group	$163	$(1)	$ (6)	$ 25	$0	$(22)	$159

(1) These amounts are reported in the Consolidated Statement of Operations. There is $2 million of net realized losses included in net realized investment (losses) gains and $1 million included in equity in earnings of limited partnerships for the three months ended June 30, 2015 on Level 3 securities.

We review the fair value hierarchy classifications each reporting period. Transfers between hierarchy levels may occur due to changes in the available market observable inputs. Transfers in and out of level classifications are reported as having occurred at the beginning of the quarter in which the transfers occurred.

For Indemnity, there were no transfers between Level 1 and Level 2 or from Level 2 to Level 3 for the three months ended June 30, 2015. Level 3 to Level 2 transfers totaled $0.1 million for one fixed maturity holding due to the use of observable market data to determine the fair value at June 30, 2015.

For the Exchange, there were no transfers between Level 1 and Level 2 for the three months ended June 30, 2015. Level 2 to Level 3 transfers totaled $2 million for one fixed maturity holding due to the use of unobservable inputs to determine the fair value. Level 3 to Level 2 transfers totaled $24 million for five fixed maturity holdings due to the use of observable market data to determine the fair value at June 30, 2015.

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Level 3 Assets – Year-to-Date Change:

	Erie Insurance Group						
(in millions)	Beginning balance at December 31, 2014	Included in earnings [(1)]	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3	Ending balance at June 30, 2015
Indemnity							
Available-for-sale securities:							
Corporate debt securities	$0	$0	$ 0	$ 0	$0	$0	$0
Collateralized debt obligations	0	0	0	1	0	0	1
Total fixed maturities	0	0	0	1	0	0	1
Total available-for-sale securities	0	0	0	1	0	0	1
Other investments	8	(1)	0	0	(1)	0	6
Total Level 3 assets – Indemnity	$8	$(1)	$ 0	$ 1	$(1)	$0	$7
Exchange							
Available-for-sale securities:							
Corporate debt securities	$87	$0	$ (5)	$ 27	$(2)	$(33)	$74
Other debt securities	12	0	0	0	0	(1)	11
Total fixed maturities	99	0	(5)	27	(2)	(34)	85
Nonredeemable preferred stock	1	0	0	0	0	0	1
Total available-for-sale securities	100	0	(5)	27	(2)	(34)	86
Trading securities:							
Common stock	15	(2)	0	0	0	0	13
Total trading securities	15	(2)	0	0	0	0	13
Other investments	71	3	0	0	(21)	0	53
Total Level 3 assets – Exchange	$186	$1	$ (5)	$ 27	$(23)	$(34)	$152
Total Level 3 assets – Erie Insurance Group	$194	$0	$ (5)	$ 28	$(24)	$(34)	$159

(1) These amounts are reported in the Consolidated Statement of Operations. There is $2 million of losses included in net realized investment (losses) gains and $2 million included in equity in earnings of limited partnerships for the six months ended June 30, 2015 on Level 3 securities.

For Indemnity, there were no transfers between Level 1 and Level 2 or from Level 2 to Level 3 for the six months ended June 30, 2015. Level 3 to Level 2 transfers totaled $0.1 million for one fixed maturity holding as a result of using observable market data to determine the fair value at June 30, 2015.

For the Exchange, there were no Level 1 to Level 2 transfers, and Level 2 to Level 1 transfers totaled $22 million due to trading activity levels for two preferred stock holdings for the six months ended June 30, 2015. Level 2 to Level 3 transfers totaled $2 million for three fixed maturity holdings due to the use of unobservable inputs to determine the fair value. Level 3 to Level 2 transfers totaled $36 million for seven fixed maturity holdings due to the use of observable inputs to determine the fair value at June 30, 2015.

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Level 3 Assets – Quarterly Change:

(in millions)	Erie Insurance Group Beginning balance at March 31, 2014	Included in earnings [(1)]	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3	Ending balance at June 30, 2014
Indemnity							
Available-for-sale securities:							
Corporate debt securities	$1	$0	$ 0	$ 0	$0	$0	$1
Collateralized debt obligations	0	0	0	0	0	0	0
Total fixed maturities	1	0	0	0	0	0	1
Total available-for-sale securities	1	0	0	0	0	0	1
Other investments	18	1	0	0	(1)	0	18
Total Level 3 assets – Indemnity	$19	$1	$ 0	$ 0	$(1)	$0	$19
Exchange							
Available-for-sale securities:							
Corporate debt securities	$26	$0	$ 0	$ 0	$(1)	$0	$25
Collateralized debt obligations	0	0	0	0	0	0	0
Total fixed maturities	26	0	0	0	(1)	0	25
Nonredeemable preferred stock	1	0	0	0	0	0	1
Total available-for-sale securities	27	0	0	0	(1)	0	26
Trading securities:							
Common stock	15	0	0	0	0	0	15
Total trading securities	15	0	0	0	0	0	15
Other investments	98	6	0	0	(2)	0	102
Total Level 3 assets – Exchange	$140	$6	$ 0	$ 0	$(3)	$0	$143
Total Level 3 assets – Erie Insurance Group	$159	$7	$ 0	$ 0	$(4)	$0	$162

(1) These amounts are reported in the Consolidated Statement of Operations. There is $7 million included in equity in earnings of limited partnerships for the three months ended June 30, 2014 on Level 3 securities.

For Indemnity, there were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 for the three months ended June 30, 2014.

For the Exchange, Level 1 to Level 2 transfers totaled $11 million due to trading activity levels for one preferred stock holding, and there were no transfers from Level 2 to Level 1 or between Level 2 and Level 3 for the three months ended June 30, 2014.

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Level 3 Assets – Year-to-Date Change:

(in millions)	Erie Insurance Group Beginning balance at December 31, 2013	Included in earnings [(1)]	Included in other comprehensive income	Purchases	Sales	Transfers in and (out) of Level 3	Ending balance at June 30, 2014
Indemnity							
Available-for-sale securities:							
Corporate debt securities	$1	$0	$ 0	$ 0	$0	$0	$1
Collateralized debt obligations	1	0	0	0	(1)	0	0
Total fixed maturities	2	0	0	0	(1)	0	1
Total available-for-sale securities	2	0	0	0	(1)	0	1
Other investments	18	2	0	0	(2)	0	18
Total Level 3 assets – Indemnity	$20	$2	$ 0	$ 0	$(3)	$0	$19
Exchange							
Available-for-sale securities:							
Corporate debt securities	$26	$0	$ 0	$ 0	$(1)	$0	$25
Collateralized debt obligations	5	1	(1)	0	(3)	(2)	0
Total fixed maturities	31	1	(1)	0	(4)	(2)	25
Nonredeemable preferred stock	0	0	0	1	0	0	1
Total available-for-sale securities	31	1	(1)	1	(4)	(2)	26
Trading securities:							
Common stock	15	0	0	0	0	0	15
Total trading securities	15	0	0	0	0	0	15
Other investments	98	11	0	0	(7)	0	102
Total Level 3 assets – Exchange	$144	$12	$ (1)	$ 1	$(11)	$(2)	$143
Total Level 3 assets – Erie Insurance Group	$164	$14	$ (1)	$ 1	$(14)	$(2)	$162

(1) These amounts are reported in the Consolidated Statement of Operations. There is $1 million included in net realized investment gains (losses) and $13 million included in equity in earnings of limited partnerships for the six months ended June 30, 2014 on Level 3 securities.

For Indemnity, there were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 for the six months ended June 30, 2014.

For the Exchange, Level 1 to Level 2 transfers totaled $14 million due to trading activity levels for two preferred stock holdings, and there were no transfers from Level 2 to Level 1 for the six months ended June 30, 2014. There were no Level 2 to Level 3 transfers, and Level 3 to Level 2 transfers totaled $2 million for one fixed maturity holding as a result of using observable market data to determine the fair value at June 30, 2014.

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When a non-binding broker quote was the only input available, it was classified within Level 3. The unobservable inputs are not reasonably available to us and therefore have not been included in the tables below. These investments totaled $1 million for Indemnity and $78 million for the Exchange at June 30, 2015, and $92 million for the Exchange at December 31, 2014.

Other investments represent certain limited partnerships that are recorded at fair value based upon net asset value (NAV) provided by the general partner. Due to the nature of these investments, the NAV was classified within Level 3. The unobservable inputs are not reasonably available to us and therefore have not been included in the tables below. These investments totaled $6 million for Indemnity and $53 million for the Exchange at June 30, 2015, and $8 million for Indemnity and $71 million for the Exchange at December 31, 2014.

Quantitative and Qualitative Disclosures about Unobservable Inputs

	Erie Insurance Group				
	June 30, 2015				
(dollars in millions)	Fair value	Valuation techniques	Unobservable input	Range	Weighted average
Exchange					
Corporate debt securities (1)	$7	Market approach	Comparable transaction EBITDA multiples	8.0x	8.0x
			Comparable security yield	6%	6%
Nonredeemable preferred stock (2)	1	Market approach	Held at cost		
Common stock (1)	13	Market approach	Comparable transaction EBITDA multiples	8.0x	8.0x
			Discount for lack of marketability	10%	10%
	December 31, 2014				
(dollars in millions)	Fair value	Valuation techniques	Unobservable input	Range	Weighted average
Exchange					
Corporate debt securities (1)	$7	Market approach	Comparable transaction EBITDA multiples	8.0x	8.0x
			Comparable security yield	6%	6%
Nonredeemable preferred stock (2)	1	Market approach	Held at cost		
Common stock (1)	15	Market approach	Comparable transaction EBITDA multiples	8.0x	8.0x
			Discount for lack of marketability	10%	10%

(1) Common stock investments and Corporate debt securities – The unobservable inputs used in the fair value measurement of direct private equity common stock investments and certain corporate debt securities are

comparable private transaction earnings before interest, taxes, depreciation, and amortization ("EBITDA") multiples, the average EBITDA multiple for comparable publicly traded companies and the amount of discount applied to the price due to the illiquidity of the securities being valued. Significant changes in any of those inputs in isolation could result in a significantly higher or lower fair value measurement.

(2) Nonredeemable preferred stock - Represents a private security where cost was determined to be the best estimate of fair value.

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The following table presents our consolidated fair value measurements on a recurring basis by pricing source at June 30, 2015:

(in millions)	Erie Insurance Group June 30, 2015			
	Total	Level 1	Level 2	Level 3
Indemnity				
Fixed maturities:				
Priced via pricing services	$560	$0	$560	$0
Priced via market comparables/broker quotes (1)	1	0	0	1
Total fixed maturities	561	0	560	1
Nonredeemable preferred stock:				
Priced via pricing services	8	1	7	0
Priced via market comparables/broker quotes (1)	2	0	2	0
Total nonredeemable preferred stock	10	1	9	0
Common stock:				
Priced via pricing services	12	12	0	0
Total common stock	12	12	0	0
Other investments:				
Priced via unobservable inputs (2)	6	0	0	6
Total other investments	6	0	0	6
Total – Indemnity	$589	$13	$569	$7
Exchange				
Fixed maturities:				
Priced via pricing services	$9,273	$0	$9,262	$11
Priced via market comparables/broker quotes (1)	92	0	25	67
Priced via internal modeling	7	0	0	7
Total fixed maturities	9,372	0	9,287	85
Nonredeemable preferred stock:				
Priced via pricing services	711	359	352	0
Priced via market comparables/broker quotes (1)	9	0	9	0
Priced via internal modeling	1	0	0	1
Total nonredeemable preferred stock	721	359	361	1
Common stock:				
Priced via pricing services	3,227	3,227	0	0
Priced via internal modeling	13	0	0	13
Total common stock	3,240	3,227	0	13
Other investments:				
Priced via unobservable inputs (2)	53	0	0	53
Total other investments	53	0	0	53
Total – Exchange	$13,386	$3,586	$9,648	$152
Total – Erie Insurance Group	$13,975	$3,599	$10,217	$159

(1) When a non-binding broker quote was the only price available, the security was classified as Level 3.

(2) Other investments measured at fair value represent real estate funds included on the balance sheet as limited partnership investments that are reported under the fair value option. The fair value of these investments is based on the net asset value (NAV) information provided by the general partner.

There were no assets measured at fair value on a nonrecurring basis during the six months ended June 30, 2015.

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Note 7. Investments

Available-for-sale securities
The following table summarizes the cost and fair value of our available-for-sale securities at June 30, 2015:

	Erie Insurance Group June 30, 2015			
(in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Available-for-sale securities:				
States & political subdivisions	$215	$ 10	$ 0	$225
Corporate debt securities	236	1	2	235
Residential mortgage-backed securities	9	0	0	9
Commercial mortgage-backed securities	50	0	1	49
Collateralized debt obligations	38	0	0	38
Other debt securities	5	0	0	5
Total fixed maturities	553	11	3	561
Nonredeemable preferred stock	9	1	0	10
Common stock	13	0	1	12
Total available-for-sale securities – Indemnity	$575	$ 12	$ 4	$583
Exchange				
Available-for-sale securities:				
U.S. treasury	$7	$ 0	$ 0	$7
Government sponsored enterprises	3	1	0	4
States & political subdivisions	1,427	67	2	1,492
Foreign government securities	85	0	2	83
Corporate debt securities	7,362	322	62	7,622
Residential mortgage-backed securities	34	1	1	34
Commercial mortgage-backed securities	28	1	0	29
Collateralized debt obligations	6	5	0	11
Other debt securities	88	2	0	90
Total fixed maturities	9,040	399	67	9,372
Nonredeemable preferred stock	670	54	3	721
Common stock	96	1	1	96
Total available-for-sale securities – Exchange	$9,806	$ 454	$ 71	$10,189
Total available-for-sale securities – Erie Insurance Group	$10,381	$ 466	$ 75	$10,772

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The following table summarizes the cost and fair value of our available-for-sale securities at December 31, 2014:

(in millions)	Erie Insurance Group December 31, 2014 Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Available-for-sale securities:				
States & political subdivisions	$219	$ 12	$ 0	$231
Corporate debt securities	236	1	3	234
Residential mortgage-backed securities	8	0	0	8
Commercial mortgage-backed securities	52	0	1	51
Collateralized debt obligations	33	0	0	33
Other debt securities	7	0	0	7
Total fixed maturities	555	13	4	564
Nonredeemable preferred stock	11	1	0	12
Common stock	13	0	0	13
Total available-for-sale securities – Indemnity	$579	$ 14	$ 4	$589
Exchange				
Available-for-sale securities:				
U.S. treasury	$6	$ 0	$ 0	$6
Government sponsored enterprises	3	1	0	4
States & political subdivisions	1,394	84	1	1,477
Foreign government securities	10	0	0	10
Corporate debt securities	6,918	405	34	7,289
Residential mortgage-backed securities	109	3	1	111
Commercial mortgage-backed securities	28	2	0	30
Collateralized debt obligations	6	5	0	11
Other debt securities	66	3	0	69
Total fixed maturities	8,540	503	36	9,007
Nonredeemable preferred stock	650	64	4	710
Common stock	138	3	1	140
Total available-for-sale securities – Exchange	$9,328	$ 570	$ 41	$9,857
Total available-for-sale securities – Erie Insurance Group	$9,907	$ 584	$ 45	$10,446

The amortized cost and estimated fair value of fixed maturities at June 30, 2015 are shown below by remaining contractual term to maturity. Mortgage-backed securities are allocated based upon 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 millions)	Erie Insurance Group June 30, 2015 Amortized cost	Estimated fair value
Indemnity		
Due in one year or less	$70	$70
Due after one year through five years	236	237

Due after five years through ten years	150	154
Due after ten years	97	100
Total fixed maturities – Indemnity	$553	$561
Exchange		
Due in one year or less	$425	$432
Due after one year through five years	3,270	3,437
Due after five years through ten years	3,842	3,932
Due after ten years	1,503	1,571
Total fixed maturities – Exchange	$9,040	$9,372
Total fixed maturities – Erie Insurance Group	$9,593	$9,933

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Available-for-sale securities in a gross unrealized loss position at June 30, 2015 are as follows. Data is provided by length of time for securities in a gross unrealized loss position.

	Erie Insurance Group June 30, 2015						
(dollars in millions)	Less than 12 months		12 months or longer		Total		
Indemnity	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Available-for-sale securities:							
States & political subdivisions	$17	$0	$0	$0	$17	$0	8
Corporate debt securities	123	1	16	1	139	2	248
Residential mortgage-backed securities	4	0	0	0	4	0	4
Commercial mortgage-backed securities	35	1	0	0	35	1	23
Collateralized debt obligations	16	0	0	0	16	0	8
Other debt securities	3	0	0	0	3	0	2
Total fixed maturities	198	2	16	1	214	3	293
Nonredeemable preferred stock	4	0	0	0	4	0	2
Common stock	12	1	0	0	12	1	1
Total available-for-sale securities – Indemnity	$214	$3	$16	$1	$230	$4	296
Quality breakdown of fixed maturities:							
Investment grade	$153	$1	$0	$0	$153	$1	71
Non-investment grade	45	1	16	1	61	2	222
Total fixed maturities – Indemnity	$198	$2	$16	$1	$214	$3	293
Exchange							
Available-for-sale securities:							
U.S. treasury	$2	$0	$0	$0	$2	$0	4
States & political subdivisions	202	2	12	0	214	2	59
Foreign government securities	56	2	0	0	56	2	34
Corporate debt securities	2,042	55	100	7	2,142	62	855
Residential mortgage-backed securities	4	0	10	1	14	1	4
Commercial mortgage-backed securities	0	0	1	0	1	0	1
Other debt securities	33	0	7	0	40	0	7
Total fixed maturities	2,339	59	130	8	2,469	67	964
Nonredeemable preferred stock	122	2	22	1	144	3	25
Common stock	31	1	0	0	31	1	1
Total available-for-sale securities – Exchange	$2,492	$62	$152	$9	$2,644	$71	990
Quality breakdown of fixed maturities:							
Investment grade	$1,893	$45	$66	$2	$1,959	$47	487
Non-investment grade	446	14	64	6	510	20	477
Total fixed maturities – Exchange	$2,339	$59	$130	$8	$2,469	$67	964

The above securities for Indemnity and the Exchange have been evaluated and determined to be temporary impairments for which we expect to recover our entire principal plus interest. The primary components of this analysis include a general review of market conditions and financial performance of the issuer along with the extent and duration at which fair value is less than cost. Any 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.

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Available-for-sale securities in a gross unrealized loss position at December 31, 2014 are as follows. Data is provided by length of time for securities in a gross unrealized loss position.

	Erie Insurance Group December 31, 2014						
(dollars in millions)	Less than 12 months		12 months or longer		Total		
Indemnity	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	No. of holdings
Available-for-sale securities:							
States & political subdivisions	$6	$0	$2	$0	$8	$0	4
Corporate debt securities	121	3	0	0	121	3	250
Residential mortgage-backed securities	6	0	0	0	6	0	4
Commercial mortgage-backed securities	41	1	0	0	41	1	24
Collateralized debt obligations	21	0	0	0	21	0	9
Other debt securities	7	0	0	0	7	0	3
Total fixed maturities	202	4	2	0	204	4	294
Common stock	0	0	13	0	13	0	1
Total available-for-sale securities – Indemnity	$202	$4	$15	$0	$217	$4	295
Quality breakdown of fixed maturities:							
Investment grade	$146	$1	$2	$0	$148	$1	58
Non-investment grade	56	3	0	0	56	3	236
Total fixed maturities – Indemnity	$202	$4	$2	$0	$204	$4	294
Exchange							
Available-for-sale securities:							
U.S. treasury	$1	$0	$0	$0	$1	$0	2
States & political subdivisions	47	0	47	1	94	1	24
Corporate debt securities	980	29	181	5	1,161	34	656
Residential mortgage-backed securities	6	0	27	1	33	1	8
Commercial mortgage-backed securities	1	0	0	0	1	0	1
Other debt securities	13	0	7	0	20	0	4
Total fixed maturities	1,048	29	262	7	1,310	36	695
Nonredeemable preferred stock	86	3	25	1	111	4	16
Common stock	0	0	73	1	73	1	2
Total available-for-sale securities – Exchange	$1,134	$32	$360	$9	$1,494	$41	713
Quality breakdown of fixed maturities:							
Investment grade	$606	$10	$253	$5	$859	$15	172
Non-investment grade	442	19	9	2	451	21	523
Total fixed maturities – Exchange	$1,048	$29	$262	$7	$1,310	$36	695

The above securities for Indemnity and the Exchange have been evaluated and determined to be temporary impairments for which we expect to recover our entire principal plus interest. The primary components of this analysis include a general review of market conditions and financial performance of the issuer along with the extent and duration at which fair value is less than cost. Any 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.

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Net investment income

Interest and dividend income are recognized as earned and recorded to net investment income. Investment income, net of expenses, was generated from the following portfolios:

	Erie Insurance Group			
(in millions)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Indemnity				
Fixed maturities	$4	$3	$8	$6
Equity securities	0	0	0	1
Cash equivalents and other	1	1	1	1
Total investment income	5	4	9	8
Less: investment expenses	0	0	0	0
Investment income, net of expenses – Indemnity	$5	$4	$9	$8
Exchange				
Fixed maturities	$96	$85	$190	$171
Equity securities	36	30	62	59
Cash equivalents and other	0	1	1	1
Total investment income	132	116	253	231
Less: investment expenses	10	9	22	19
Investment income, net of expenses – Exchange	$122	$107	$231	$212
Investment income, net of expenses – Erie Insurance Group	$127	$111	$240	$220

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Realized investment gains (losses)

Realized gains and losses on sales of securities are recognized in income based upon the specific identification method. Realized gains (losses) on investments were as follows:

(in millions)	Erie Insurance Group Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Indemnity				
Available-for-sale securities:				
Fixed maturities:				
Gross realized gains	$0	$0	$0	$0
Gross realized losses	0	0	0	0
Net realized gains	0	0	0	0
Equity securities:				
Gross realized gains	0	0	0	1
Gross realized losses	0	0	0	0
Net realized gains	0	0	0	1
Net realized investment gains – Indemnity	$0	$0	$0	$1
Exchange				
Available-for-sale securities:				
Fixed maturities:				
Gross realized gains	$7	$4	$13	$10
Gross realized losses	(4)	0	(8)	(1)
Net realized gains	3	4	5	9
Equity securities:				
Gross realized gains	6	2	11	10
Gross realized losses	(1)	(1)	(1)	(2)
Net realized gains	5	1	10	8
Trading securities:				
Common stock:				
Gross realized gains	49	52	166	122
Gross realized losses	(11)	(7)	(23)	(10)
(Decreases) increases in fair value[1]	(53)	83	(109)	59
Net realized (losses) gains	(15)	128	34	171
Net realized investment (losses) gains – Exchange	$(7)	$133	$49	$188
Net realized investment (losses) gains – Erie Insurance Group	$(7)	$133	$49	$189

(1) The fair value on our common stock portfolio is based upon exchange traded prices provided by a nationally recognized pricing service.

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Net impairment losses

Net impairment losses recorded in earnings for Indemnity were less than $0.1 million for the second quarter, and $0.2 million for the six months ended June 30, 2015, compared to $0.1 million for both the second quarter and six months ended June 30, 2014. Net impairment losses recorded in earnings for the Exchange were $2 million for the second quarter, and $4 million for the six months ended June 30, 2015, compared to $0.1 million for the second quarter and $0.3 million for the six months ended June 30, 2014.

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.

Limited partnerships

Limited partnership investments, excluding certain real estate limited partnerships recorded at fair value, are generally reported on a one-quarter lag, therefore our year-to-date limited partnership results through June 30, 2015 are comprised of partnership financial results for the fourth quarter of 2014 and the first quarter of 2015. Given the lag in reporting, our limited partnership results do not reflect the market conditions of the second quarter of 2015. Cash contributions made to and distributions received from the partnerships are recorded in the period in which the transaction occurs.

Amounts included in equity in earnings of limited partnerships by method of accounting are included below:

(in millions)	Erie Insurance Group			
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Indemnity				
Equity in earnings of limited partnerships accounted for under the equity method	$12	$2	$14	$7
Change in fair value of limited partnerships accounted for under the fair value option	(1)	1	(1)	2
Equity in earnings of limited partnerships – Indemnity	$11	$3	$13	$9
Exchange				
Equity in earnings of limited partnerships accounted for under the equity method	$59	$18	$84	$57
Change in fair value of limited partnerships accounted for under the fair value option	2	6	3	11
Equity in earnings of limited partnerships – Exchange	$61	$24	$87	$68
Equity in earnings of limited partnerships – Erie Insurance Group	$72	$27	$100	$77

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We have provided summarized financial information in the following tables for the six months ended June 30, 2015 and for the year ended December 31, 2014. Amounts provided in the tables are presented using the latest available financial statements received from the partnerships for the respective periods. Limited partnership financial information has been presented based upon the investment percentage in the partnerships for the Erie Insurance Group consistent with how we evaluate these investments.

As these investments are generally reported on a one-quarter lag, our limited partnership results through June 30, 2015 include partnership financial results for the fourth quarter of 2014 and the first quarter of 2015.

(dollars in millions) Investment percentage in limited partnerships	Erie Insurance Group As of and for the six months ended June 30, 2015 Number of partnerships	Asset recorded	Income (loss) recognized due to valuation adjustments by the partnerships	Income (1oss) recorded
Indemnity				
Private equity:				
Less than 10%	24	$29	$(1)	$1
Greater than or equal to 10% but less than 50%	3	25	9	1
Total private equity	27	54	8	2
Mezzanine debt:				
Less than 10%	11	8	0	1
Greater than or equal to 10% but less than 50%	3	5	0	0
Greater than 50%	1	0	0	0
Total mezzanine debt	15	13	0	1
Real estate:				
Less than 10%	11	23	(11)	11
Greater than or equal to 10% but less than 50%	2	4	(6)	6
Greater than 50%	2	7	2	0
Total real estate	15	34	(15)	17
Total limited partnerships – Indemnity	57	$101	$(7)	$20
Exchange				
Private equity:				
Less than 10%	43	$333	$0	$22
Greater than or equal to 10% but less than 50%	3	104	37	3
Total private equity	46	437	37	25
Mezzanine debt:				
Less than 10%	22	114	(4)	10
Greater than or equal to 10% but less than 50%	4	25	0	2
Greater than 50%	3	27	1	1
Total mezzanine debt	29	166	(3)	13
Real estate:				
Less than 10%	26	169	(29)	32
Greater than or equal to 10% but less than 50%	4	45	(16)	18
Greater than 50%	2	25	10	0

Total real estate	32	239	(35)	50
Total limited partnerships – Exchange	107	$842	$(1)	$88
Total limited partnerships – Erie Insurance Group		$943	$(8)	$108

Per the limited partnership financial statements, total partnership assets were $41 billion and total partnership liabilities were $4 billion at June 30, 2015 (as recorded in the March 31, 2015 limited partnership financial statements). For the six month period comparable to that presented in the preceding table (fourth quarter of 2014 and first quarter of 2015), total partnership valuation adjustment losses were $0.1 billion and total partnership net income was $3 billion.

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As these investments are generally reported on a one-quarter lag, our limited partnership results through December 31, 2014 include partnership financial results for the fourth quarter of 2013 and the first three quarters of 2014.

	Erie Insurance Group As of and for the year ended December 31, 2014			
(dollars in millions) Investment percentage in limited partnerships	Number of partnerships	Asset recorded	Income (loss) recognized due to valuation adjustments by the partnerships	Income (1oss) recorded
Indemnity				
Private equity:				
Less than 10%	24	$34	$(7)	$7
Greater than or equal to 10% but less than 50%	3	18	3	1
Total private equity	27	52	(4)	8
Mezzanine debt:				
Less than 10%	11	10	0	2
Greater than or equal to 10% but less than 50%	3	4	0	0
Greater than 50%	1	0	0	0
Total mezzanine debt	15	14	0	2
Real estate:				
Less than 10%	11	36	5	(2)
Greater than or equal to 10% but less than 50%	3	4	1	0
Greater than 50%	2	7	0	1
Total real estate	16	47	6	(1)
Total limited partnerships – Indemnity	58	$113	$2	$9
Exchange				
Private equity:				
Less than 10%	42	$344	$(12)	$43
Greater than or equal to 10% but less than 50%	3	74	13	3
Total private equity	45	418	1	46
Mezzanine debt:				
Less than 10%	21	120	0	16
Greater than or equal to 10% but less than 50%	4	23	(3)	3
Greater than 50%	3	27	0	3
Total mezzanine debt	28	170	(3)	22
Real estate:				
Less than 10%	22	207	18	7
Greater than or equal to 10% but less than 50%	5	44	6	2
Greater than 50%	2	27	(17)	20
Total real estate	29	278	7	29
Total limited partnerships – Exchange	102	$866	$5	$97
Total limited partnerships – Erie Insurance Group		$979	$7	$106

Per the limited partnership financial statements, total partnership assets were $45 billion and total partnership liabilities were $4 billion at December 31, 2014 (as recorded in the September 30, 2014 limited partnership financial statements). For the twelve month period comparable to that presented in the preceding table (fourth quarter of 2013 and first three quarters of 2014), total partnership valuation adjustment losses were $1 billion and total partnership net income was $7 billion.

See also Note 14. "Commitments and Contingencies," for investment commitments related to limited partnerships.

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Note 8. Bank Line of Credit

As of June 30, 2015, Indemnity has access to a $100 million bank revolving line of credit with a $25 million letter of credit sublimit that expires on November 3, 2018. As of June 30, 2015, a total of $98 million remains available under the facility due to $2 million outstanding letters of credit, which reduce the availability for letters of credit to $23 million. Indemnity had no borrowings outstanding on its line of credit as of June 30, 2015. Bonds with a fair value of $109 million were pledged as collateral on the line at June 30, 2015.

As of June 30, 2015, the Exchange has access to a $300 million bank revolving line of credit with a $25 million letter of credit sublimit that expires on October 25, 2018. As of June 30, 2015, a total of $299 million remains available under the facility due to $1 million outstanding letters of credit, which reduce the availability for letters of credit to $24 million. The Exchange had no borrowings outstanding on its line of credit as of June 30, 2015. Bonds with a fair value of $321 million were pledged as collateral on the line at June 30, 2015.

Both lines have securities pledged as collateral that have no trading restrictions and are reported as available-for-sale fixed maturities in the Consolidated Statements of Financial Position as of June 30, 2015. The banks require compliance with certain covenants, which include leverage ratios for Indemnity’s line of credit and statutory surplus and risk based capital ratios for the Exchange’s line of credit. We are in compliance with all covenants at June 30, 2015.

Note 9. Income Taxes

At June 30, 2015, we recorded a net deferred tax liability of $369 million on our Consolidated Statements of Financial Position. Of this amount, $44 million is a net deferred tax asset attributable to Indemnity and $413 million is a net deferred tax liability attributable to the Exchange. There was no deferred tax valuation allowance recorded at June 30, 2015. Our effective tax rate is calculated after consideration of permanent differences related to our investment revenues. Given that these amounts represent over 98% of the total permanent differences, the effective tax rate is approximately 35% for both Indemnity and the Exchange when the investment related permanent differences are excluded.

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Note 10. Postretirement Benefits

Pension plans

Our pension plans consist of a noncontributory defined benefit pension plan covering substantially all employees and an unfunded supplemental employee retirement plan for certain members of executive and senior management of the Erie Insurance Group. The gross liability for postretirement benefits is presented in the Consolidated Statements of Financial Position as part of other liabilities. A portion of annual expenses related to our postretirement benefit plans is allocated to related entities within the Erie Insurance Group. Although Indemnity is the sponsor of these postretirement plans and records the funded status of these plans, the Exchange and EFL reimburse Indemnity for approximately 56% of the annual benefit expense of these plans, which represents pension benefits for Indemnity employees performing claims and EFL functions.

A $17 million contribution was made to the defined benefit pension plan in the first quarter of 2015.

Prior to 2003, the employee pension plan purchased annuities from EFL for certain plan participants that were receiving benefit payments under the pension plan. These are nonparticipating annuity contracts under which EFL has unconditionally contracted to provide specified benefits to beneficiaries; however, the pension plan remains the primary obligor to the beneficiaries. A contingent liability, $23 million at June 30, 2015, exists in the event EFL does not honor the annuity contracts.

The cost of our pension plans are as follows:

	Erie Insurance Group			
(in millions)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Service cost for benefits earned	$7	$5	$15	$11
Interest cost on benefits obligation	7	7	15	14
Expected return on plan assets	(9)	(8)	(18)	(16)
Prior service cost amortization	1	1	1	1
Net actuarial loss amortization	4	1	7	3
Pension plan cost [1]	$10	$6	$20	$13

(1) Pension plan costs represent the total cost for the Erie Insurance Group before reimbursements to Indemnity from the Exchange and EFL.

Note 11. Indemnity Capital Stock

Class A and B common stock

Holders of Class B shares may, at their option, convert their shares into Class A shares at the rate of 2,400 Class A shares per Class B share. There were no shares of Class B common stock converted into Class A common stock during the six months ended June 30, 2015 and the year ended December 31, 2014. There is no provision for conversion of Class A shares to Class B shares, and, Class B shares surrendered for conversion cannot be reissued.

Stock repurchase program

In October 2011, our Board of Directors approved a continuation of the current stock repurchase program for a total of $150 million, with no time limitation. We had approximately $18 million of repurchase authority remaining under this program at June 30, 2015.

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Note 12. Indemnity Accumulated Other Comprehensive Loss

Changes in Indemnity's accumulated other comprehensive loss by component attributable to the Indemnity shareholder interest is presented as follows for the year ended December 31, 2014 and for the six months ended June 30, 2015:

(in millions)	Indemnity Shareholder Interest Unrealized holding gains (losses) on available-for-sale securities	Postretirement plans[2]	Total
Balance at December 31, 2013	$6	$(65)	$(59)
Other comprehensive income (loss) before reclassifications, net of tax	2	(65)	(63)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax[1]	(1)	5	4
Net current period other comprehensive income (loss), net of tax	1	(60)	(59)
Balance at December 31, 2014	$7	$(125)	$(118)
Other comprehensive income (loss) before reclassifications, net of tax	(2)	0	(2)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax[1]	0	0	0
Net current period other comprehensive income (loss), net of tax	(2)	0	(2)
Balance at June 30, 2015	$5	$(125)	$(120)

(1) See the following table for details about these reclassifications.
(2) There are no amounts reclassified out of accumulated other comprehensive loss related to postretirement plan items during interim periods.

Amounts reclassified out of accumulated other comprehensive income (loss) and the related affected line item in the Consolidated Statements of Operations where net income is presented are as follows:

	Erie Insurance Group Amounts reclassified from accumulated other comprehensive income (loss)[1]			
	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Unrealized holding gains (losses) on available-for-sale securities:				
Net realized investment gains	$8	$5	$15	$18
Net impairment losses recognized in earnings	(2)	0	(4)	0
Income from operations before income taxes and noncontrolling interest	6	5	11	18
Provision for income taxes	2	2	4	7
Net income	4	3	7	11

Less: Net income attributable to noncontrolling interest in consolidated entity – Exchange	4	3	7	10
Net income attributable to Indemnity	$0	$0	$0	$1

(1) Positive amounts indicate net income, while negative amounts indicate net loss.

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Note 13. Indemnity Shareholders' Equity and Noncontrolling Interest

A reconciliation of the beginning and ending balances of Indemnity's shareholders' equity and the noncontrolling interest is presented as follows for the year ended December 31, 2014 and for the six months ended June 30, 2015:

	Erie Insurance Group		
(in millions, except per share data)	Indemnity shareholder interest	Exchange noncontrolling interest	Erie Insurance Group
Balance at December 31, 2013	$734	$6,816	$7,550
Net income	168	405	573
Change in accumulated other comprehensive income (loss), net of tax	(59)	59	0
Net purchase of treasury stock	(19)	—	(19)
Dividends declared:			
Class A $2.586 per share	(120)	—	(120)
Class B $387.90 per share	(1)	—	(1)
Balance at December 31, 2014	$703	$7,280	$7,983
Net income	95	238	333
Change in accumulated other comprehensive income (loss), net of tax	(2)	(88)	(90)
Dividends declared:			
Class A $1.362 per share	(63)	—	(63)
Class B $204.30 per share	(1)	—	(1)
Balance at June 30, 2015	$732	$7,430	$8,162

Note 14. Commitments and Contingencies

Indemnity has contractual commitments to invest up to $23 million related to its limited partnership investments at June 30, 2015. These commitments are split among private equity securities of $10 million, mezzanine debt securities of $9 million, and real estate activities of $4 million. These commitments will be funded as required by the limited partnership agreements.

The Exchange, including EFL, has contractual commitments to invest up to $527 million related to its limited partnership investments at June 30, 2015. These commitments are split among private equity securities of $124 million, mezzanine debt securities of $188 million, and real estate activities of $215 million. These commitments will be funded as required by the limited partnership agreements.

We are involved in litigation arising in the ordinary course of conducting business. In accordance with current accounting standards for loss contingencies and based upon information currently known to us, we establish reserves for litigation when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss or range of loss can be reasonably estimated. When no amount within the range of loss is a better estimate than any other amount, we accrue the minimum amount of the estimable loss. To the extent that such litigation against us may have an exposure to a loss in excess of the amount we have accrued, we believe that such excess would not be material to our consolidated financial condition, results of operations, or cash flows. Legal fees are expensed as incurred. We believe that our accruals for legal proceedings are appropriate and, individually and in the aggregate, are not expected to be material to our consolidated financial condition, operations, or cash flows.

We review all litigation on an ongoing basis when making accrual and disclosure decisions. For certain legal proceedings, we cannot reasonably estimate losses or a range of loss, if any, particularly for proceedings that are in their early stages of development or where the plaintiffs seek indeterminate damages. Various factors, including, but not limited to, the outcome of potentially lengthy discovery and the resolution of important factual questions, may need to be determined before probability can be established or before a loss or range of loss can be reasonably estimated. If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. In the event that a legal proceeding results in a substantial judgment against, or settlement by, us, there can be no assurance that any resulting liability or financial commitment would not have a material adverse effect on the financial condition, results of operations, or cash flows of the Indemnity shareholder interest or the consolidated financial statements of Erie Indemnity Company.

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We are subject to escheatment laws and regulations requiring the identification, reporting and payment to the state of unclaimed or abandoned funds of our policyholders, annuitants, claimants and shareholders. We are also subject to audit and examination for compliance with these requirements.

In August 2012, we were notified that we would be subject to an audit of our compliance with the unclaimed property laws of a number of jurisdictions both within and outside our operating territory. The audit commenced in April 2013 and is ongoing. We continue to cooperate with the auditors, responding to several requests for information and supplying data runs, as requested.

It is probable that ongoing inquiries, audits, and other regulatory activity will result in the payment of additional death claims and escheatment of funds, as well as possible fines. EFL will incur expenses to identify death claims, confirm that benefits are due and notify the beneficiaries. At this time, we are not able to reasonably estimate the possible loss or range of loss related to this issue due to the early stage of development.

Note 15. Indemnity Supplemental Information

Consolidating Statement of Financial Position

	Erie Insurance Group At June 30, 2015			
(in millions)	Indemnity shareholder interest	Exchange noncontrolling interest	Reclassifications and eliminations	Erie Insurance Group
Assets				
Investments				
Available-for-sale securities, at fair value:				
Fixed maturities	$561	$9,372	$—	$9,933
Equity securities	22	817	—	839
Trading securities, at fair value	—	3,144	—	3,144
Limited partnerships	101	842	—	943
Other invested assets	1	21	—	22
Total investments	685	14,196	—	14,881
Cash and cash equivalents	77	344	—	421
Premiums receivable from policyholders	—	1,384	—	1,384
Reinsurance recoverable	—	162	—	162
Deferred income tax asset	44	—	—	44
Deferred acquisition costs	—	635	—	635
Other assets	123	419	—	542
Receivables from the Exchange and other affiliates	369	—	(369)	—
Note receivable from EFL	25	—	(25)	—
Total assets	$1,323	$17,140	$(394)	$18,069
Liabilities				
Losses and loss expense reserves	$—	$3,963	$—	$3,963
Life policy and deposit contract reserves	—	1,837	—	1,837
Unearned premiums	—	3,007	—	3,007
Deferred income tax liability	—	413	—	413
Other liabilities	591	490	(394)	687
Total liabilities	591	9,710	(394)	9,907
Shareholders' equity and noncontrolling interest				

Total Indemnity shareholders’ equity	732	—	—	732
Noncontrolling interest in consolidated entity – Exchange	—	7,430	—	7,430
Total equity	732	7,430	—	8,162
Total liabilities, shareholders’ equity, and noncontrolling interest	$ 1,323	$ 17,140	$ (394)	$ 18,069

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Consolidating Statement of Financial Position

(in millions)	Erie Insurance Group At December 31, 2014 Indemnity shareholder interest	Exchange noncontrolling interest	Reclassifications and eliminations	Erie Insurance Group
Assets				
Investments				
Available-for-sale securities, at fair value:				
Fixed maturities	$564	$9,007	$—	$9,571
Equity securities	25	850	—	875
Trading securities, at fair value	—	3,223	—	3,223
Limited partnerships	113	866	—	979
Other invested assets	1	20	—	21
Total investments	703	13,966	—	14,669
Cash and cash equivalents	92	422	—	514
Premiums receivable from policyholders	—	1,281	—	1,281
Reinsurance recoverable	—	161	—	161
Deferred income tax asset	37	—	—	37
Deferred acquisition costs	—	595	—	595
Other assets	127	374	—	501
Receivables from the Exchange and other affiliates	335	—	(335)	—
Note receivable from EFL	25	—	(25)	—
Total assets	$1,319	$16,799	$(360)	$17,758
Liabilities				
Losses and loss expense reserves	$—	$3,853	$—	$3,853
Life policy and deposit contract reserves	—	1,812	—	1,812
Unearned premiums	—	2,834	—	2,834
Deferred income tax liability	—	490	—	490
Other liabilities	616	530	(360)	786
Total liabilities	616	9,519	(360)	9,775
Shareholders' equity and noncontrolling interest				
Total Indemnity shareholders' equity	703	—	—	703
Noncontrolling interest in consolidated entity – Exchange	—	7,280	—	7,280
Total equity	703	7,280	—	7,983
Total liabilities, shareholders' equity, and noncontrolling interest	$1,319	$16,799	$(360)	$17,758

Transactions with the Exchange and EFL and concentrations of credit risk – Financial instruments could potentially expose Indemnity to concentrations of credit risk, including unsecured receivables from the Exchange. A majority of Indemnity's revenue and receivables are from the Exchange and affiliates. See also Note 4, "Variable Interest Entity."

Management fees and expense allocation amounts payable from the Exchange to Indemnity were $365 million and $331 million at June 30, 2015 and December 31, 2014, respectively. The payable from EFL to Indemnity for expense allocations and interest on the surplus note totaled $4 million at June 30, 2015 and December 31, 2014.

Note receivable from EFL – Indemnity is due $25 million from EFL in the form of a surplus note that was issued in 2003. The note may be repaid only out of unassigned surplus of EFL. Both principal and interest payments are subject to prior approval by the Pennsylvania Insurance Commissioner. The note bears an annual interest rate of 6.7% and will be payable on demand on or after December 31, 2018, with interest scheduled to be paid semi-annually, subject to prior approval by the Pennsylvania Insurance Commissioner. For each of the six months ended June 30, 2015 and 2014, Indemnity recognized interest income on the note of $0.8 million.

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Income attributable to Indemnity shareholder interest

(in millions)	Indemnity Shareholder Interest Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Management operations:				
Management fee revenue, net	$395	$366	$738	$685
Service agreement revenue	7	8	15	15
Total revenue from management operations	402	374	753	700
Cost of management operations	332	306	630	574
Income from management operations before taxes	70	68	123	126
Investment operations:				
Net investment income	5	4	9	8
Net realized investment gains	0	0	0	1
Net impairment losses recognized in earnings	0	0	0	0
Equity in earnings of limited partnerships	11	3	13	9
Income from investment operations before taxes	16	7	22	18
Income from operations before income taxes	86	75	145	144
Provision for income taxes	30	26	50	49
Net income attributable to Indemnity	$56	$49	$95	$95

Indemnity's components of direct cash flows as included in the Consolidated Statements of Cash Flows

(in millions)	Indemnity Shareholder Interest Six months ended June 30, 2015	2014
Management fee received	$714	$659
Service agreement fee received	15	15
Net investment income received	13	11
Limited partnership distributions	9	8
Decrease in reimbursements collected from affiliates	(10)	(13)
Commissions and bonuses paid to agents	(436)	(397)
Salaries and wages paid	(78)	(80)
Pension contribution and employee benefits paid	(28)	(29)
General operating expenses paid	(111)	(94)
Income taxes paid	(46)	(44)
Net cash provided by operating activities	42	36
Net cash provided by investing activities	6	57
Net cash used in financing activities	(63)	(79)
Net (decrease) increase in cash and cash equivalents	(15)	14
Cash and cash equivalents at beginning of period	92	49
Cash and cash equivalents at end of period	$77	$63

Note 16. Subsequent Events

No items were identified in the period subsequent to the financial statement date that required adjustment or disclosure.

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

The following discussion of financial condition and results of operations highlights significant factors influencing the Erie Insurance Group ("we," "us," "our"). This discussion should be read in conjunction with the historical financial statements and the related notes thereto included in Item 1. "Financial Statements" of this Quarterly Report on Form 10-Q, and with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2014, as contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2015.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:
Statements contained herein that are not historical fact are forward-looking statements and, as such, are subject to risks and uncertainties that could cause actual events and results to differ, perhaps materially, from those discussed herein. Forward-looking statements relate to future trends, events or results and 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 forward-looking statements are discussions relating to premium and investment income, expenses, operating results, agency relationships, and compliance with contractual and regulatory requirements. Forward-looking 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, in addition to those set forth in our filings with the Securities and Exchange Commission, that could cause actual results and future events to differ from those set forth or contemplated in the forward-looking statements include the following:

Risk factors related to the Erie Indemnity Company ("Indemnity") shareholder interest:

- dependence upon Indemnity's relationship with the Exchange and the management fee under the agreement with the subscribers at the Exchange;

- costs of providing services to the Exchange under the subscriber’s agreement;
- ability to attract and retain talented management and employees;
- ability to maintain uninterrupted business operations;
- factors affecting the quality and liquidity of Indemnity’s investment portfolio;
- credit risk from the Exchange;
- Indemnity’s ability to meet liquidity needs and access capital; and
- outcome of pending and potential litigation.

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Risk factors related to the non-controlling interest owned by the Erie Insurance Exchange (“Exchange”), which includes the Property and Casualty Group and Erie Family Life Insurance Company:

- general business and economic conditions;
- dependence upon the independent agency system;
- ability to maintain our reputation for customer service;
- factors affecting insurance industry competition;
- changes in government regulation of the insurance industry;
- premium rates and reserves must be established from forecasts of ultimate costs;
- emerging claims, coverage issues in the industry, and changes in reserve estimates related to the property and casualty business;
- changes in reserve estimates related to the life business;
- severe weather conditions or other catastrophic losses, including terrorism and pandemic events;
- the Exchange’s ability to acquire reinsurance coverage and collectability from reinsurers;
- factors affecting the quality and liquidity of the Exchange’s investment portfolio;
- the Exchange’s ability to meet liquidity needs and access capital;
- the Exchange’s ability to maintain acceptable financial strength ratings;
- outcome of pending and potential litigation; and
- dependence upon the service provided by Indemnity.

A forward-looking statement speaks only as of the date on which it is made and reflects our analysis only as of that date. We undertake 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.

RECENT ACCOUNTING STANDARDS

See Item 1. “Financial Statements - Note 2. Significant Accounting Policies,” contained within this report for a discussion of recently issued accounting standards and the impact on our consolidated financial statements if known.

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OPERATING OVERVIEW

Overview

The Erie Insurance Group represents the consolidated results of Indemnity and the results of its variable interest entity, the Exchange. The Erie Insurance Group operates predominantly as a property and casualty insurer through its regional insurance carriers that write a broad range of personal and commercial coverages. Our property and casualty insurance companies include the Exchange and its wholly owned subsidiaries, Erie Insurance Company ("EIC"), Erie Insurance Company of New York ("ENY"), Erie Insurance Property and Casualty Company ("EPC"), and Flagship City Insurance Company ("Flagship"). These entities operate collectively as the "Property and Casualty Group." The Erie Insurance Group also operates as a life insurer through the Exchange's wholly owned subsidiary, Erie Family Life Insurance Company ("EFL"), which underwrites and sells individual and group life insurance policies and fixed annuities.

The Exchange is a reciprocal insurance exchange organized under Article X of Pennsylvania's Insurance Company Law of 1921 under which individuals, partnerships, and corporations are authorized to exchange reciprocal or inter-insurance contracts with each other, or with individuals, partnerships, and corporations of other states and countries, providing indemnity among themselves from any loss which may be insured against under any provision of the insurance laws except life insurance. Each applicant for insurance to the Exchange signs a subscriber's agreement, which contains an appointment of Indemnity as their attorney-in-fact to transact certain business of the Exchange on their behalf.

Pursuant to the subscriber's agreement and for its services as attorney-in-fact, Indemnity earns a management fee calculated as a percentage of the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling arrangement.

The Indemnity shareholder interest includes Indemnity's equity and income, but not the equity or income of the Exchange. The Exchange's equity, which is comprised of its retained earnings and accumulated other comprehensive income, is held for the interest of its subscribers (policyholders) and meets the definition of a noncontrolling interest, which is reflected as such in our consolidated financial statements.

"Indemnity shareholder interest" refers to the interest in Erie Indemnity Company owned by the Class A and Class B shareholders. "Noncontrolling interest" refers to the interest in the Erie Insurance Exchange held for the interest of the subscribers (policyholders).

The Indemnity shareholder interest in income comprises:

- a management fee of up to 25% of all property and casualty insurance premiums written or assumed by the Exchange, less the costs associated with providing certain sales, underwriting, and policy issuance services;
- Service fees collected from policyholders for providing extended payment terms and late payment and policy reinstatement fees, less the costs associated with providing these services;
- net investment income and results on investments that belong to Indemnity; and
- other income and expenses, including income taxes, that are the responsibility of Indemnity.

The Exchange's or the noncontrolling interest in income comprises:

- a 100% interest in the net underwriting results of the property and casualty insurance operations;

- a 100% interest in the net earnings of EFL's life insurance operations;
- net investment income and results on investments that belong to the Exchange and its subsidiaries; and
- other income and expenses, including income taxes, that are the responsibility of the Exchange and its subsidiaries.

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Results of the Erie Insurance Group's Operations by Interest (Unaudited)

The following tables represent a breakdown of the composition of the income attributable to the Indemnity shareholder interest and the income attributable to the noncontrolling interest (Exchange). For purposes of this discussion, EFL's investments are included in the life insurance operations.

(in millions)	Indemnity shareholder interest		Noncontrolling interest (Exchange)		Eliminations of related party transactions		Erie Insurance Group	
	Three months ended June 30,		Three months ended June 30,		Three months ended June 30,		Three months ended June 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
Management operations:								
Management fee revenue, net	$ 395	$ 366	$—	$—	$(395)	$(366)	$—	$—
Service agreement revenue	7	8	—	—	—	—	7	8
Total revenue from management operations	402	374	—	—	(395)	(366)	7	8
Cost of management operations	332	306	—	—	(332)	(306)	—	—
Income from management operations before taxes	70	68	—	—	(63)	(60)	7	8
Property and casualty insurance operations:								
Net premiums earned	—	—	1,412	1,298	—	—	1,412	1,298
Losses and loss expenses	—	—	952	1,101	(1)	(2)	951	1,099
Policy acquisition and underwriting expenses	—	—	416	380	(65)	(64)	351	316
Income (loss) from property and casualty insurance operations before taxes	—	—	44	(183)	66	66	110	(117)
Life insurance operations:(1)								
Total revenue	—	—	48	46	0	(1)	48	45
Total benefits and expenses	—	—	35	36	0	0	35	36
Income from life insurance operations before taxes	—	—	13	10	0	(1)	13	9
Investment operations:(1)								
Net investment income	5	4	101	89	(3)	(5)	103	88
Net realized investment (losses) gains	0	0	(8)	133	—	—	(8)	133
Net impairment losses recognized in earnings	0	0	(2)	0	—	—	(2)	0
Equity in earnings of limited partnerships	11	3	61	23	—	—	72	26
Income from investment operations before taxes	16	7	152	245	(3)	(5)	165	247
Income from operations before income taxes and noncontrolling interest	86	75	209	72	—	—	295	147
Provision for income taxes	30	26	68	18	—	—	98	44
Net income	$ 56	$ 49	$ 141	$ 54	$—	$—	$ 197	$ 103

(1) Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes, the life insurance operations

in the table above include life insurance related investment results. However, the life insurance investment results are included in the investment operations segment discussion as part of the Exchange's investment results.

Net income increased in the second quarter of 2015 compared to the second quarter of 2014 due to an underwriting gain experienced in the property and casualty insurance operations, which was somewhat offset by lower earnings from our investment operations. Contributing to the property and casualty insurance operations underwriting results was an 8.7% increase in earned premium in the second quarter of 2015, driven by increases in policies in force and average premium per policy. Lower current accident year catastrophe losses combined with favorable development on prior accident year loss reserves also contributed to the improved underwriting results compared to 2014. Our investment operations generated net realized losses on investments in the second quarter of 2015 compared to gains in 2014, offset somewhat by increases in earnings from limited partnerships and net investment income.

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(in millions)	Indemnity shareholder interest		Noncontrolling interest (Exchange)		Eliminations of related party transactions		Erie Insurance Group	
	Six months ended June 30,		Six months ended June 30,		Six months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
Management operations:								
Management fee revenue, net	$ 738	$ 685	$—	$—	$ (738)	$ (685)	$—	$—
Service agreement revenue	15	15	—	—	—	—	15	15
Total revenue from management operations	753	700	—	—	(738)	(685)	15	15
Cost of management operations	630	574	—	—	(630)	(574)	—	—
Income from management operations before taxes	123	126	—	—	(108)	(111)	15	15
Property and casualty insurance operations:								
Net premiums earned	—	—	2,792	2,566	—	—	2,792	2,566
Losses and loss expenses	—	—	1,985	2,108	(2)	(3)	1,983	2,105
Policy acquisition and underwriting expenses	—	—	802	745	(112)	(117)	690	628
Income (loss) from property and casualty insurance operations before taxes	—	—	5	(287)	114	120	119	(167)
Life insurance operations:(1)								
Total revenue	—	—	95	96	0	(1)	95	95
Total benefits and expenses	—	—	72	73	0	0	72	73
Income from life insurance operations before taxes	—	—	23	23	0	(1)	23	22
Investment operations:(1)								
Net investment income	9	8	189	173	(6)	(8)	192	173
Net realized investment gains	0	1	48	183	—	—	48	184
Net impairment losses recognized in earnings	0	0	(4)	0	—	—	(4)	0
Equity in earnings of limited partnerships	13	9	86	67	—	—	99	76
Income from investment operations before taxes	22	18	319	423	(6)	(8)	335	433
Income from operations before income taxes and noncontrolling interest	145	144	347	159	—	—	492	303
Provision for income taxes	50	49	109	42	—	—	159	91
Net income	$ 95	$ 95	$ 238	$ 117	$—	$—	$ 333	$ 212

(1) Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes, the life insurance operations in the table above include life insurance related investment results. However, the life insurance investment results are included in the investment operations segment discussion as part of the Exchange’s investment results.

Net income increased in the first six months of 2015 compared to the first six months of 2014 due to an underwriting gain experienced in the property and casualty insurance operations, which was somewhat offset by lower earnings from our investment operations. Contributing to the property and casualty insurance operations underwriting results was an 8.8% increase in earned premium in the first six months of 2015, driven by increases in policies in force and average premium per policy. Lower current accident year catastrophe losses combined with favorable development on prior accident year loss reserves also contributed to the improved underwriting results compared to 2014. Our investment operations generated lower levels of net realized gains on investments in the first six months of 2015 compared to 2014, offset somewhat by increases in earnings from limited partnerships and net investment income.

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Reconciliation of Operating Income to Net Income (Unaudited)
We disclose operating income, a non-GAAP financial measure, to enhance our investors' understanding of our performance related to the Indemnity shareholder interest. Our method of calculating this measure may differ from those used by other companies, and therefore comparability may be limited.

Indemnity defines operating income as net income excluding realized capital gains and losses, impairment losses and related federal income taxes.

Indemnity uses operating income to evaluate the results of its operations. It reveals trends that may be obscured by the net effects of realized capital gains and losses including impairment losses. Realized capital gains and losses, including impairment losses, may vary significantly between periods and are generally driven by business decisions and economic developments such as capital market conditions which are not related to our ongoing operations. We are aware that the price to earnings multiple commonly used by investors as a forward-looking valuation technique uses operating income as the denominator. Operating income should not be considered as a substitute for net income prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and does not reflect Indemnity's overall profitability.

The following table reconciles operating income and net income for the Indemnity shareholder interest:

(in millions, except per share data)	Indemnity Shareholder Interest			
	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Operating income attributable to Indemnity	$56	$49	$95	$94
Net realized investment gains and impairments	0	0	0	1
Income tax expense	0	0	0	0
Realized gains and impairments, net of income taxes	0	0	0	1
Net income attributable to Indemnity	$56	$49	$95	$95
Per Indemnity Class A common share-diluted:				
Operating income attributable to Indemnity	$1.07	$0.94	$1.81	$1.81
Net realized investment gains and impairments	0.00	0.00	0.00	0.02
Income tax expense	0.00	0.00	0.00	(0.01)
Realized gains and impairments, net of income taxes	0.00	0.00	0.00	0.01
Net income attributable to Indemnity	$1.07	$0.94	$1.81	$1.82

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Operating Segments

Our reportable segments include management operations, property and casualty insurance operations, life insurance operations and investment operations.

Management operations

Management operations generate internal management fee revenue, which accrues to the Indemnity shareholder interest, as Indemnity provides services relating to the sales, underwriting, and issuance of policies on behalf of the Exchange. Management fee revenue is based upon all premiums written or assumed by the Exchange and the management fee rate, which is not to exceed 25%. Our Board of Directors establishes the management fee rate at least annually, generally in December for the following year, and considers factors such as the relative financial strength of Indemnity and the Exchange and projected revenue streams. The management fee rate was set at 25% for both 2015 and 2014. Management fee revenue is eliminated upon consolidation.

Property and casualty insurance operations

The property and casualty insurance business is driven by premium growth, the combined ratio, and investment returns. The property and casualty insurance industry is cyclical, with periods of rising premium rates and shortages of underwriting capacity followed by periods of substantial price competition and excess capacity. The cyclical nature of the insurance industry has a direct impact on the direct written premium of the Property and Casualty Group.

The property and casualty insurance operation's premium growth strategy focuses on growth by expansion of existing operations including a careful agency selection process and increased market penetration in existing operating territories. Expanding the size of our existing agency force of nearly 2,200 independent agencies, with over 11,300 licensed property and casualty representatives, will contribute to future growth as new agents build their books of business with the Property and Casualty Group.

The property and casualty insurance operations insure preferred and standard risks while maintaining a disciplined underwriting approach. Based upon direct written premium in 2014, 43% of our premiums were derived from private passenger auto, 27% from homeowners and 29% from commercial lines. Pennsylvania, Maryland, Virginia, North Carolina and Ohio made up 74% of the property and casualty lines insurance business direct written premium in 2014.

Members of the Property and Casualty Group pool their underwriting results under an intercompany pooling agreement. Under the pooling agreement, the Exchange retains a 94.5% interest in the net underwriting results of the Property and Casualty Group, while EIC retains a 5.0% interest, and ENY retains a 0.5% interest.

The key measure of underwriting profitability traditionally used in the property and casualty insurance industry is the combined ratio, which is expressed as a percentage. It is the sum of the ratio of losses and loss expenses to premiums earned (loss ratio) plus the ratio of policy acquisition and other underwriting expenses to premiums earned (expense ratio). When the combined ratio is less than 100%, underwriting results are generally considered profitable; when the combined ratio is greater than 100%, underwriting results are generally considered unprofitable.

Factors affecting losses and loss expenses include the frequency and severity of losses, the nature and severity of catastrophic losses, the quality of risks underwritten, and underlying claims and settlement expenses.

Investments held by the Property and Casualty Group are reported in the investment operations segment, separate from the underwriting business.

Life insurance operations

EFL generates revenues through the sale of its individual and group life insurance policies and fixed annuities. These products provide our property and casualty agency force an opportunity to cross-sell both personal and commercial accounts. EFL's profitability depends principally on the ability to develop, price, and distribute insurance products, attract and retain deposit funds, generate investment returns, and manage expenses. Other drivers include mortality and morbidity experience, persistency experience to enable the recovery of acquisition costs, maintenance of interest spreads over the amounts credited to deposit funds, and the maintenance of strong ratings from rating agencies.

Earnings on life insurance related invested assets are integral to the evaluation of the life insurance operations because of the long duration of life products. On that basis, for presentation purposes, the life insurance operations segment discussion includes the life insurance related investment results. However, also for presentation purposes, the segment footnote and the investment operations segment discussion include the life insurance investment results as part of the Exchange's investment results.

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Investment operations

We generate revenues from our fixed maturity, equity security, and limited partnership investment portfolios to support our underwriting business. The Indemnity and Exchange portfolios are managed with the objective of maximizing after-tax returns on a risk-adjusted basis, while the EFL portfolio is managed to be closely aligned to its liabilities and to maintain a sufficient yield to meet profitability targets. We actively evaluate the portfolios for impairments, and record impairment writedowns on investments in instances where the fair value of the investment is substantially below cost, and it is concluded that the decline in fair value is other-than-temporary, which includes consideration for intent to sell.

General Conditions and Trends Affecting Our Business

Economic conditions

Unfavorable changes in economic conditions, including declining consumer confidence, inflation, high unemployment, and the threat of recession, among others, may lead the Property and Casualty Group's customers to modify coverage, not renew policies, or even cancel policies, which could adversely affect the premium revenue of the Property and Casualty Group, and consequently Indemnity's management fee. These conditions could also impair the ability of customers to pay premiums when due, and as a result, the Property and Casualty Group's bad debt write-offs could increase. Further, unanticipated increased inflation costs including medical cost inflation, construction and auto repair cost inflation, and tort issues may impact the estimated loss reserves and future premium rates. Our key challenge is to generate profitable revenue growth in a highly competitive market that continues to experience the effects of uncertain economic conditions.

Financial market volatility

Our portfolio of fixed income, preferred and common stocks, and limited partnerships are subject to market volatility especially in periods of instability in the worldwide financial markets. Over time, net investment income could also be impacted by volatility and by the general level of interest rates, which impact reinvested cash flow from the portfolio and business operations. Depending upon market conditions, which are unpredictable and remain uncertain, considerable fluctuation could exist in the fair value of our investment portfolio and reported total investment income, which could have an adverse impact on our financial condition, results of operations, and cash flows.

RESULTS OF OPERATIONS

The information that follows is presented on a segment basis prior to eliminations.

Management Operations

Indemnity earns management fee revenue from providing services relating to the sales, underwriting, and issuance of policies on behalf of the Exchange as a result of its attorney-in-fact relationship, which is eliminated upon consolidation. A summary of the results of our management operations is as follows:

	Indemnity Shareholder Interest					
	Three months ended June 30,			Six months ended June 30,		
(dollars in millions)	2015	2014	% Change	2015	2014	% Change
	(Unaudited)			(Unaudited)		
Management fee revenue, net	$395	$366	7.6 %	$738	$685	7.7 %
Service agreement revenue	7	8	NM	15	15	NM
Total revenue from management operations	402	374	7.4	753	700	7.5
Cost of management operations	332	306	8.4	630	574	9.8
Income from management operations – Indemnity (1)	$70	$68	3.0 %	$123	$126	(3.1)%
Gross margin	17.4 %	18.2 %	(0.8) pts.	16.3 %	18.0 %	(1.7) pts.

NM = not meaningful

(1) The Indemnity shareholder interest retains 100% of the income from the management operations.

Management fee revenue

Management fee revenue is based upon all premiums written or assumed by the Exchange and the management fee rate, which is determined by our Board of Directors at least annually. Management fee revenue is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the other members of the Property and Casualty Group, which are assumed by the Exchange under an intercompany pooling agreement. The following table presents the calculation of management fee revenue:

	Indemnity Shareholder Interest					
	Three months ended June 30,			Six months ended June 30,		
(dollars in millions)	2015	2014	% Change	2015	2014	% Change
	(Unaudited)			(Unaudited)		
Property and Casualty Group direct written premium	$1,586	$1,474	7.6 %	$2,963	$2,753	7.6 %
Management fee rate	25 %	25 %		25 %	25 %	
Management fee revenue, gross	397	368	7.6	741	688	7.6
Change in allowance for management fee returned on cancelled policies (1)	(2)	(2)	NM	(3)	(3)	NM
Management fee revenue, net of allowance	$395	$366	7.6 %	$738	$685	7.7 %

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.

Management fee revenue increased $29 million, or 7.6%, in the second quarter of 2015, and $53 million, or 7.7%, in the first six months of 2015, compared to the same respective periods in 2014. Direct written premium of the Property and Casualty Group increased 7.6% in the second quarter of 2015 and the first six months of 2015, compared to the same periods in 2014, due to a 4.1% increase in policies in force and a 3.9% increase in the year-over-year average premium per policy for all lines of business. See the "Property and Casualty Insurance Operations" segment that follows for a complete discussion of property and casualty direct written premium, which has a direct bearing on Indemnity's management fee.

The management fee rate was set at 25%, the maximum rate, for both 2015 and 2014. Changes in the management fee rate can affect the Indemnity shareholder interest's revenue and net income from this segment significantly.

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Service agreement revenue

Service agreement revenue includes service charges Indemnity collects from policyholders for providing extended payment terms on policies written by the Property and Casualty Group and late payment and policy reinstatement fees. The service charges are fixed dollar amounts per billed installment. Service agreement revenue totaled $7 million and $8 million in the second quarters of 2015 and 2014, respectively, and $15 million in both the six months ended June 30, 2015 and 2014. The consistency in the service fee revenue compared to the growth in policies in force reflects the continued shift in policies to the monthly direct debit payment plan, which does not incur service charges, and the no-fee single payment plan, which offers a premium discount. The shift to these plans is driven by the consumers' desire to avoid paying service charges and to take advantage of the discount in pricing offered for paid-in-full policies.

Cost of management operations

	Indemnity Shareholder Interest							
	Three months ended June 30,				Six months ended June 30,			
(in millions)	2015	2014	% Change		2015	2014	% Change	
	(Unaudited)				(Unaudited)			
Commissions:								
Total commissions	$224	$205	9.0	%	$418	$379	10.1	%
Non-commission expense:								
Sales and advertising	$17	$16	8.4		$32	$30	6.1	
Underwriting and policy processing	35	32	10.6		67	64	5.6	
Information technology	33	31	6.4		66	59	11.6	
Customer service	7	6	14.7		14	13	9.7	
Administrative and other	16	16	NM		33	29	15.9	
Total non-commission expense	108	101	7.0		212	195	9.3	
Total cost of management operations	$332	$306	8.4	%	$630	$574	9.8	%

Commissions – Commissions increased $19 million in the second quarter of 2015 and $39 million for the six months ended June 30, 2015, compared to the same respective periods in 2014. The majority of the increases were driven by the 7.6% increase in direct written premiums of the Property and Casualty Group for the second quarter and six months ended June 30, 2015, while about one-third of both increases were due to higher agent incentive costs related to profitable growth, compared to the same respective periods in 2014. The estimated agent incentive payout, at the end of each quarter, is based on actual underwriting results for the two prior years and the current year-to-date period. Therefore, fluctuations in the current quarter underwriting results can impact the estimated incentive payout on a quarter-to-quarter basis.

Non-commission expense – Non-commission expense increased $7 million in the second quarter of 2015, compared to the second quarter of 2014. Underwriting and policy processing costs increased $3 million due to increased personnel costs. Information technology costs increased $2 million due to increased professional fees. Personnel costs in all expense categories include a total increase of $3 million related to pension and medical costs in the second quarter of 2015 compared to the same period in 2014.

Non-commission expense increased $17 million in the six months ended June 30, 2015, compared to the six months ended June 30, 2014. Underwriting and policy processing costs increased $3 million due to increased personnel costs. Information technology costs increased $7 million, which included $5 million in professional fees and $1 million each of hardware and software costs and personnel costs. Administrative and other expenses increased $4 million related to professional fees and personnel costs. Personnel costs in all expense categories include a total increase of $4 million related to pension and medical costs in the first six months of 2015 compared to the same period in 2014.

Gross margin

The gross margin in the second quarter of 2015 was 17.4%, compared to 18.2% in the second quarter of 2014, and was 16.3% for the six months ended June 30, 2015, compared to 18.0% for the six months ended June 30, 2014. The 0.8 and 1.7 point decreases in gross margin for the second quarter and six months ended June 30, 2015, respectively, was driven primarily by the increased estimated agent incentive payout discussed above.

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Property and Casualty Insurance Operations

The Property and Casualty Group operates in 12 Midwestern, Mid-Atlantic, and Southeastern states and the District of Columbia and primarily writes private passenger automobile, homeowners, commercial multi-peril, commercial automobile, and workers compensation lines of insurance. A summary of the results of our property and casualty insurance operations is as follows:

	Property and Casualty Group					
	Three months ended June 30,			Six months ended June 30,		
(dollars in millions)	2015	2014	% Change	2015	2014	% Change
	(Unaudited)			(Unaudited)		
Premiums:						
Direct written premium	$1,586	$1,474	7.6 %	$2,963	$2,753	7.6 %
Reinsurance premium – assumed and ceded	(6)	(9)	35.8	(12)	(16)	23.4
Net written premium	1,580	1,465	7.8	2,951	2,737	7.8
Change in unearned premium	(168)	(167)	(0.7)	(159)	(171)	7.1
Net premiums earned	1,412	1,298	8.7	2,792	2,566	8.8
Losses and loss expenses:						
Current accident year, excluding catastrophe losses	942	866	8.9	1,911	1,793	6.6
Current accident year catastrophe losses	52	244	(78.6)	137	337	(59.4)
Prior accident years, including prior year catastrophe losses	(42)	(9)	NM	(63)	(22)	NM
Losses and loss expenses	952	1,101	(13.4)	1,985	2,108	(5.8)
Policy acquisition and other underwriting expenses	416	380	9.3	802	745	7.7
Total losses and expenses	1,368	1,481	(7.6)	2,787	2,853	(2.3)
Underwriting income (loss) – Exchange[(1)]	$44	$(183)	NM %	$5	$(287)	NM %
Loss and loss expense ratios:						
Current accident year loss ratio, excluding catastrophe losses	66.7 %	66.6 %	0.1 pts.	68.5 %	69.9 %	(1.4) pts.
Current accident year catastrophe loss ratio	3.7	18.8	(15.1)	4.9	13.1	(8.2)
Prior accident year loss ratio, including prior year catastrophe losses	(3.0)	(0.7)	(2.3)	(2.3)	(0.9)	(1.4)
Total loss and loss expense ratio	67.4	84.7	(17.3)	71.1	82.1	(11.0)
Policy acquisition and other underwriting expense ratio	29.4	29.3	0.1	28.7	29.0	(0.3)
Combined ratio	96.8 %	114.0 %	(17.2) pts.	99.8 %	111.1 %	(11.3) pts.

NM = not meaningful

(1) The Exchange retains 100% of the income (loss) from the property and casualty insurance operations.

We measure profit or loss from our property and casualty insurance segment based upon its underwriting results, which are represented by net premiums earned less losses and loss expenses and policy acquisition and other underwriting expenses on a pre-tax basis. The loss and loss expense ratio and combined ratio are key performance indicators that we use to assess business trends and to make comparisons to industry results. New business policies written and policyholder retention rates are also key performance indicators we use to measure our success. New business policy growth and policyholder retention rates are impacted when a policyholder cancels an existing policy and enters into a new policy due to various factors, including buying a new home or changing the policy type. When this occurs, the cancelled policy reduces the reported retention rate while the rewritten policy increases the new business policy growth rate.

The investment results related to our property and casualty insurance operations are included in our investment operations segment discussion.

Premiums

Direct written premium – Direct written premium of the Property and Casualty Group increased 7.6% to $1.6 billion in the second quarter of 2015, from $1.5 billion in the second quarter of 2014, driven by an increase in policies in force and increases in average premium per policy. Year-over-year policies in force for all lines of business increased by 4.1% in the second

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quarter of 2015 as the result of continuing strong policyholder retention and an increase in new policies written, compared to an increase of 4.5% in the second quarter of 2014. The year-over-year average premium per policy for all lines of business increased 3.9% at June 30, 2015, compared to 4.2% at June 30, 2014.

Premiums generated from new business increased 7.1% to $195 million in the second quarter of 2015, compared to an increase of 5.4% in the second quarter of 2014. Underlying the trend in new business premiums was a 5.6% increase in new business policies written in the second quarter of 2015, compared to 3.6% in the second quarter of 2014, while the year-over-year average premium per policy on new business increased 3.7% at June 30, 2015, compared to 1.5% at June 30, 2014.

Premiums generated from renewal business increased 7.7% to $1.4 billion in the second quarter of 2015, compared to an increase of 9.3% to $1.3 billion in the second quarter of 2014. Underlying the trend in renewal business premiums were increases in average premium per policy and steady policy retention ratios. The renewal business year-over-year average premium per policy increased 4.0% at June 30, 2015, compared to 4.6% at June 30, 2014. The Property and Casualty Group’s year-over-year policy retention ratio was 90.1% at June 30, 2015, 90.3% at December 31, 2014, and 90.6% at June 30, 2014.

Personal lines – Total personal lines premiums written increased 6.7% to $1.1 billion in the second quarter of 2015, from $1.0 billion in the second quarter of 2014, driven by an increase of 4.1% in the total personal lines policies in force and an increase of 3.0% in the total personal lines year-over-year average premium per policy.

New business premiums written on personal lines increased 8.8% in the second quarter of 2015, compared to 6.1% in the second quarter of 2014, driven by increases in new business policies written seen across all major personal lines of business and average premium per policy. Personal lines new business policies written increased 6.0% in the second quarter of 2015, compared to 3.9% in the second quarter of 2014, while the year-over-year average premium per policy on personal lines new business increased 2.7% at June 30, 2015, compared to 4.2% at June 30, 2014.

- Private passenger auto new business premiums written increased 9.9% in the second quarter of 2015, compared to 7.3% in the second quarter of 2014. New business policies written for private passenger auto increased 5.9% in the second quarter of 2015, compared to 4.9% in the second quarter of 2014, while the new business year-over-year average premium per policy for private passenger auto increased 3.3% at June 30, 2015, compared to 3.7% at June 30, 2014.

- Homeowners new business premiums written increased 7.3% in the second quarter of 2015, compared to 3.0% in the second quarter of 2014. New business policies written for homeowners increased 5.8% in the second quarter of 2015, compared to a decrease of 0.1% in the second quarter of 2014. The new business year-over-year average premium per policy for homeowners increased 2.6% at June 30, 2015, compared to 4.8% at June 30, 2014.

Renewal premiums written on personal lines increased 6.4% in the second quarter of 2015, compared to 8.3% in the second quarter of 2014, driven by increases in average premium per policy and steady policy retention ratios. The year-over-year average premium per policy on personal lines renewal business increased 3.0% at June 30, 2015, compared to 3.7% at June 30, 2014. The personal lines year-over-year policy retention ratio was 90.7% at June 30, 2015, 90.9% at December 31, 2014, and 91.1% at June 30, 2014.

- Private passenger auto renewal premiums written increased 5.6% in the second quarter of 2015, compared to 6.4% in the second quarter of 2014. The year-over-year average premium per policy on private passenger auto renewal business increased 2.0% at June 30, 2015, compared to 1.7% at June 30, 2014. The private passenger auto year-over-year policy retention ratio was 91.5% at June 30, 2015, 91.7% at December 31, 2014, and 91.9% at June 30, 2014.

- Homeowners renewal premiums written increased 7.2% in the second quarter of 2015, compared to 11.6% in the second quarter of 2014. The year-over-year average premium per policy on homeowners renewal business increased 5.1% at June 30, 2015, compared to 7.7% at June 30, 2014. The homeowners year-over-year policyholder retention ratio was 89.5% at June 30, 2015, 89.8% at December 31, 2014, and 90.0% at June 30, 2014.

Commercial lines – Total commercial lines premiums written increased 9.8% to $475 million in the second quarter of 2015, from $433 million in the second quarter of 2014, driven by a 4.1% increase in the total commercial lines policies in force and a 6.3% increase in the total commercial lines year-over-year average premium per policy.

New business premiums written on commercial lines increased 4.0% in the second quarter of 2015, compared to 4.1% in the second quarter of 2014, driven by increases in new business policies written seen across all commercial lines of business and average premium per policy. Commercial lines new business policies written increased 3.9% in the second quarter of 2015, compared to 2.2% in the second quarter of 2014, while the year-over-year average premium per policy on commercial lines new business increased 5.9% at June 30, 2015, compared to a decrease of 0.2% at June 30, 2014.

Renewal premiums for commercial lines increased 10.8% in the second quarter of 2015, compared to an increase of 12.0% in the second quarter of 2014, driven by increases in average premium per policy and steady policy retention ratios. The combined impact of these increases was seen primarily in the commercial multi-peril, commercial auto and workers compensation lines of business. The year-over-year average premium per policy on commercial lines renewal business increased 6.4% at June 30, 2015, compared to 6.3% at June 30, 2014. The year-over-year policy retention ratio for commercial lines was 86.3% at June 30, 2015, 86.5% at December 31, 2014, and 86.9% at June 30, 2014.

Future trends — premium revenue – We plan to continue our efforts to grow Property and Casualty Group premiums and improve our competitive position in the marketplace. Expanding the size of our agency force through a careful agency selection process and increased market penetration in our existing operating territories will contribute to future growth as existing and new agents build their books of business with the Property and Casualty Group. At June 30, 2015, we had nearly 2,200 agencies with over 11,300 licensed property and casualty representatives.

Changes in premium levels attributable to the growth in policies in force and rate changes directly affect the profitability of the Property and Casualty Group and have a direct bearing on Indemnity's management fee. Our continued focus on underwriting discipline and the maturing of our pricing sophistication models has contributed to the Property and Casualty Group's growth in new policies in force, steady policy retention ratios, and increased average premium per policy.

Losses and loss expenses

Current accident year, excluding catastrophe losses – The current accident year loss and loss expense ratio for all lines of business, excluding catastrophe losses, was 66.7% in the second quarter of 2015, compared to 66.6% in the second quarter of 2014, and was 68.5% for the six months ended June 30, 2015, compared to 69.9% for the six months ended June 30, 2014. The improvement in the first six months of 2015 was driven primarily by a lower volume of non-catastrophe weather related claims than in the first six months of 2014. The higher volume of non-catastrophe claims in the first six months of 2014 resulted from more severe winter weather.

Current accident year catastrophe losses – Catastrophic events, destructive weather patterns, or changes in climate conditions are an inherent risk of the property and casualty insurance business and can have a material impact on our property and casualty insurance underwriting results. In addressing this risk, we employ what we believe are reasonable underwriting standards and monitor our exposure by geographic region. The Property and Casualty Group's definition of catastrophes includes those weather-related or other loss events that 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"). The Property and Casualty Group maintains property catastrophe reinsurance coverage from unaffiliated reinsurers to mitigate future potential catastrophe loss exposures and no longer participates in the voluntary assumed reinsurance business, which lowers the variability of the Property and Casualty Group's underwriting results.

Catastrophe losses for the current accident year, as defined by the Property and Casualty Group, totaled $52 million in the second quarter of 2015, compared to $244 million in the second quarter of 2014, and contributed 3.7 points and 18.8 points, respectively, to the loss ratios. Catastrophe losses in the second quarter of 2014 primarily resulted from a large hail storm that occurred in the state of Pennsylvania. For the six months ended June 30, 2015, catastrophe losses for the current accident year totaled $137 million, compared to $337 million for the six months ended June 30, 2014, and contributed 4.9 points and 13.1 points, respectively, to the loss ratios.

Prior accident years, including prior accident year catastrophe losses – The following table provides a breakout of our property and casualty insurance operation's prior year loss reserve development, including prior accident year catastrophe loss reserves, by type of business:

	Property and Casualty Group			
	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Direct business, including reserves for catastrophe losses and salvage and subrogation	$(43)	$(10)	$(70)	$(27)
Assumed reinsurance business	2	2	10	10
Ceded reinsurance business	(1)	(1)	(3)	(5)
Total prior year loss development	$(42)	$(9)	$(63)	$(22)

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

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Direct business, including reserves for catastrophe losses and salvage and subrogation – In the second quarter of 2015, the Property and Casualty Group experienced favorable development on direct prior accident year loss reserves of $43 million that improved the combined ratio by 3.0 points, compared to favorable development of $10 million in the second quarter of 2014 that improved the combined ratio by 0.8 points. For the six months ended June 30, 2015, favorable development of direct prior accident year loss reserves totaled $70 million and improved the combined ratio by 2.5 points, compared to favorable development of $27 million that improved the combined ratio by 1.1 points for the six months ended June 30, 2014.

The favorable development in the first six months of 2015 was seen across all major lines of business with the exception of small adverse development on the commercial auto line of business. In the first six months of 2014, the favorable development was primarily due to the workers compensation line of business, offset somewhat by adverse development in the commercial auto line of business.

Assumed reinsurance – The Property and Casualty Group experienced adverse development on prior accident year loss reserves for its assumed reinsurance business totaling $2 million in both the second quarters of 2015 and 2014. In the first six months of 2015 and 2014, adverse development on prior accident year loss reserves for the assumed reinsurance business totaled $10 million for both periods. The adverse development in both the first six months of 2015 and 2014 was primarily from the involuntary private passenger auto and workers compensation lines of business.

Ceded reinsurance – The Property and Casualty Group’s ceded reinsurance reserve recoveries increased by $1 million in both the second quarters of 2015 and 2014, and increased by $3 million and $5 million in the first six months of 2015 and 2014, respectively. An increase in ceded recoveries is reflected as favorable loss development as it represents an increase in recoveries resulting from adverse development on our direct loss reserves, while a decrease in ceded recoveries is reflected as adverse loss development as it represents a decrease in recoveries resulting from favorable development on our direct loss reserves. In the first six months of 2015, the increase in ceded recoveries was primarily due to adverse development related to the commercial multi-peril line of business, whereas the increase in the first six months of 2014 was primarily due to adverse development related to the business catastrophe liability.

Policy acquisition and other underwriting expenses – Our policy acquisition and other underwriting expense ratio increased 0.1 points to 29.4% in the second quarter of 2015, from 29.3% in the second quarter of 2014, and decreased 0.3 points to 28.7% for the six months ended June 30, 2015, from 29.0% for the six months ended June 30, 2014. The management fee rate was 25% for the periods ended June 30, 2015 and 2014.

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Life Insurance Operations

EFL is a Pennsylvania-domiciled life insurance company which underwrites and sells individual and group life insurance policies and fixed annuities and operates in 11 states and the District of Columbia. A summary of the results of our life insurance operations is as follows:

	Erie Family Life Insurance Company					
	Three months ended June 30,			Six months ended June 30,		
(in millions)	2015	2014	% Change	2015	2014	% Change
	(Unaudited)			(Unaudited)		
Individual and group life premiums, gross	$34	$32	4.1 %	$65	$62	4.1 %
Reinsurance premiums – ceded	(12)	(10)	1.4	(21)	(20)	0.2
Individual and group life premiums, net	22	22	7.1	44	42	6.3
Other revenue	1	0	NM	1	1	NM
Total net policy revenue	23	22	6.5	45	43	6.3
Net investment income	24	23	1.8	48	47	1.5
Net realized gains on investments	1	0	NM	1	5	NM
Impairment losses recognized in earnings	0	0	NM	0	0	NM
Equity in earnings of limited partnerships	0	1	NM	1	1	NM
Total revenues	48	46	3.7	95	96	(0.2)
Benefits and other changes in policy reserves	25	27	(7.6)	53	55	(3.7)
Amortization of deferred policy acquisition costs	4	3	5.6	7	6	3.0
Other operating expenses	6	6	NM	12	12	NM
Total benefits and expenses	35	36	(3.5)	72	73	(1.8)
Income before taxes – Exchange[(1)]	$13	$10	31.1 %	$23	$23	4.8 %

NM = not meaningful

(1) The Exchange retains 100% of the income from the life insurance operations.

Policy revenue

Gross policy revenues increased 4.1% to $34 million in the second quarter 2015, from $32 million in the second quarter of 2014. EFL uses, and has used, a variety of reinsurance programs to reduce claims volatility and for other financial benefits. While the amount of risk that EFL retains can vary based upon the type of policy issued and the year it was issued, EFL generally does not retain more than $1 million of risk on any individual life. Ceded reinsurance premiums totaled $12 million in the second quarter of 2015 and $10 million in the second quarter of 2014. For the six months ended June 30, 2015, compared to 2014, gross policy revenues totaled $65 million and $62 million, respectively, while ceded reinsurance premiums totaled $21 million and $20 million for the six months ended June 30, 2015 and 2014, respectively.

Annuity and universal life premiums that are recorded as deposits totaled $16 million in both the second quarters of 2015 and 2014, and $31 million and $32 million for the six months ended June 30, 2015 and 2014, respectively, and therefore are not reflected in individual and group life premiums in the table above.

Investment revenue

EFL's investment revenue remained relatively flat in the second quarter of 2015 compared to the second quarter of 2014, and decreased slightly in the first six months of 2015 due to lower net realized gains on investments, compared to the first six months of 2014. See the “Investment Operations” segment discussion that follows for further information.

Benefits and expenses

In the second quarter and first six months of 2015, total benefits and expenses remained relatively flat compared to the second quarter and first six months of 2014.

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Investment Operations

The investment results related to our life insurance operations are included in the investment operations segment discussion as part of the Exchange's investment results. A summary of the results of our investment operations is as follows:

	Erie Insurance Group					
(in millions)	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Indemnity	(Unaudited)			(Unaudited)		
Net investment income	$5	$4	20.2 %	$9	$8	11.0 %
Net realized investment gains	0	0	NM	0	1	NM
Net impairment losses recognized in earnings	0	0	NM	0	0	NM
Equity in earnings of limited partnerships	11	3	NM	13	9	41.1
Net revenue from investment operations – Indemnity	$16	$7	NM %	$22	$18	20.4 %
Exchange						
Net investment income	$125	$112	10.6 %	$237	$220	7.8 %
Net realized investments (losses) gains	(7)	133	NM	49	188	(74.2)
Net impairment losses recognized in earnings	(2)	0	NM	(4)	0	NM
Equity in earnings of limited partnerships	61	24	NM	87	68	28.5
Net revenue from investment operations – Exchange(1)	$177	$269	(34.3) %	$369	$476	(22.4) %

NM = not meaningful

(1) The Exchange's investment results for the second quarters of 2015 and 2014 include net investment revenues from EFL's operations of $25 million and $24 million, respectively. The Exchange's investment results for the first six months of 2015 and 2014 include net investment revenues from EFL's operations of $50 million and $53 million, respectively.

Net investment income

Net investment income primarily includes interest and dividends on our fixed maturity and equity security portfolios net of investment expenses. Indemnity's net investment income increased by $1 million in the second quarter of 2015, compared to the second quarter of 2014, while the Exchange's net investment income increased by $13 million. Indemnity's net investment income increased by $1 million for the six months ended June 30, 2015, compared to the six months ended June 30, 2014, while the Exchange's net investment income increased by $17 million. The increases in net investment income for both Indemnity and the Exchange during these periods were primarily due to higher invested balances.

Net impairment losses recognized in earnings

Net impairment losses recorded in earnings for Indemnity were less than $0.1 million for the second quarter, and $0.2 million for the six months ended June 30, 2015, compared to $0.1 million for both the second quarter and six months ended June 30, 2014. Net impairment losses recorded in earnings for the Exchange were $2 million for the second quarter, and $4 million for the six months ended June 30, 2015, compared to $0.1 million for the second quarter of 2014 and $0.3 million for the six months ended June 30, 2014. The impairment activity during 2015 for the Exchange was primarily due to securities in an unrealized loss position that we intended to sell prior to an expected recovery of fair value to cost.

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Net realized gains on investments

A breakdown of our net realized gains (losses) on investments is as follows:

	Erie Insurance Group			
(in millions)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Indemnity	(Unaudited)		(Unaudited)	
Securities sold:				
Fixed maturities	$0	$0	$0	$0
Equity securities	0	0	0	1
Total net realized gains – Indemnity[1]	$0	$0	$0	$1
Exchange				
Securities sold:				
Fixed maturities	$3	$4	$5	$9
Equity securities	5	1	10	8
Common stock equity securities	38	45	143	112
Common stock (decreases) increases in fair value[2]	(53)	83	(109)	59
Total net realized (losses) gains – Exchange[1] [3]	$(7)	$133	$49	$188

(1) See Item 1. "Financial Statements – Note 7. Investments," contained within this report for additional disclosures regarding net realized gains (losses) on investments.

(2) The fair value on our common stock portfolio is based upon exchange traded prices provided by a nationally recognized pricing service.

(3) The Exchange's results for the second quarter of 2015 and 2014 include net realized gains from EFL's operations of $0.2 million. The Exchange's results for the first six months of 2015 and 2014 include net realized gains from EFL's operations of $0.5 million and $5 million, respectively.

Net realized gains and losses on investments include the changes in fair value of common stocks designated as trading securities, and gains and losses resulting from the actual sales of all security categories. Indemnity generated net realized gains of $0.6 million in the second quarter of 2015, compared to gains of $0.2 million in the second quarter of 2014, while the Exchange generated net realized losses of $7 million, compared to gains of $133 million, in the same respective periods. Indemnity generated net realized gains of $0.4 million for the six months ended June 30, 2015, compared to gains of $1 million for the six months ended June 30, 2014, while the Exchange generated net realized gains of $49 million, compared to gains of $188 million, in the same respective periods.

Net realized gains for Indemnity during these periods represented modest realized gains and losses from sales of fixed maturity and equity securities. Net realized losses for the Exchange in the second quarter of 2015 were due to decreases in fair value of common stocks which more than offset realized gains from sales of securities, while net gains in the second quarter of 2014 reflected increases in fair value of common stock as well as realized gains from sales of securities. Net realized gains for the Exchange decreased for the six months ended June 30, 2015, compared to the six months ended June 30, 2014, primarily due to decreases in fair value of common stocks compared to increases in fair value during the respective periods.

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Equity in earnings of limited partnerships
The components of equity in earnings of limited partnerships are as follows:

	Erie Insurance Group			
(in millions)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Indemnity	(Unaudited)		(Unaudited)	
Private equity	$10	$0	$10	$4
Mezzanine debt	0	1	1	1
Real estate	1	2	2	4
Total equity in earnings of limited partnerships – Indemnity	$11	$3	$13	$9
Exchange				
Private equity	$54	$6	$62	$33
Mezzanine debt	4	5	10	11
Real estate	3	13	15	24
Total equity in earnings of limited partnerships – Exchange (1)	$61	$24	$87	$68

(1) The Exchange’s results for the second quarter of 2015 and 2014 include equity in earnings of limited partnerships from EFL's operations of $0.1 million and $0.3 million, respectively. The Exchange’s results for the first six months of 2015 and 2014 include equity in earnings of limited partnerships from EFL's operations of $1 million and $0.6 million, respectively.

Indemnity’s equity in earnings of limited partnerships increased $8 million in the second quarter of 2015, compared to the second quarter of 2014, while the Exchange’s equity in earnings of limited partnerships increased $37 million. Indemnity’s equity in earnings of limited partnerships increased $4 million for the six months ended June 30, 2015, compared to the six months ended June 30, 2014, while the Exchange’s equity in earnings of limited partnerships increased $19 million. The increases in earnings for both Indemnity and the Exchange during these periods were primarily due to higher earnings from private equity investments partially offset by lower earnings from real estate investments.

Limited partnership earnings pertain to investments in U.S. and foreign private equity, mezzanine debt, and real estate partnerships. Valuation adjustments are recorded to reflect the changes in fair value of the underlying investments held by the limited partnerships. These adjustments are recorded as a component of equity in earnings of limited partnerships in the Consolidated Statements of Operations.

Limited partnership earnings tend to be cyclical based upon market conditions, the age of the partnership, and the nature of the investments. Generally, limited partnership earnings are recorded on a quarter lag from financial statements we receive from our general partners. As a consequence, earnings from limited partnerships reported at June 30, 2015 reflect investment valuation changes resulting from the financial markets and the economy in the fourth quarter of 2014 and the first quarter of 2015.

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FINANCIAL CONDITION

Investments
We generate revenues from our fixed maturity, equity security, and limited partnership investment portfolios to support our underwriting business. The Indemnity and Exchange portfolios are managed with the objective of maximizing after-tax returns on a risk-adjusted basis, while the EFL portfolio is managed to be closely aligned to its liabilities and to maintain a sufficient yield to meet profitability targets.

Distribution of investments

	Erie Insurance Group					
(in millions)	Carrying value at June 30, 2015	% to total		Carrying value at December 31, 2014	% to total	
Indemnity	(Unaudited)					
Fixed maturities	$561	82	%	$564	80	%
Equity securities:						
Preferred stock	10	1		12	2	
Common stock	12	2		13	2	
Limited partnerships:						
Private equity	54	8		52	7	
Mezzanine debt	13	2		14	2	
Real estate	34	5		47	7	
Real estate mortgage loans	1	0		1	0	
Total investments – Indemnity	$685	100	%	$703	100	%
Exchange						
Fixed maturities	$9,372	66	%	$9,007	65	%
Equity securities:						
Preferred stock	721	5		710	5	
Common stock	3,240	23		3,363	24	
Limited partnerships:						
Private equity	437	3		418	3	
Mezzanine debt	166	1		170	1	
Real estate	239	2		278	2	
Life policy loans	19	0		18	0	
Real estate mortgage loans	2	0		2	0	
Total investments – Exchange	$14,196	100	%	$13,966	100	%
Total investments – Erie Insurance Group	$14,881			$14,669		

We continually review our investment portfolio 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 the fair value is below cost and the amount the fair value is below cost.

We individually analyze all positions with emphasis on those that have, in management’s opinion, declined significantly below cost. In compliance with impairment guidance for debt securities, we perform further analysis 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 is included in earnings and no impairments are recorded in other comprehensive income. 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. (See the “Investment Operations” section contained within this report for further information.) Management believes its investment valuation philosophy and accounting practices result in appropriate and timely measurement of value and recognition of impairment.

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Fixed maturities

Under our investment strategy, we maintain a fixed maturity portfolio that is of high quality and well diversified within each market sector. This investment strategy also achieves a balanced maturity schedule. Our fixed maturity portfolio is managed with the goal of achieving reasonable returns while limiting exposure to risk. Our municipal bond portfolio accounts for $225 million, or 40%, of the total fixed maturity portfolio for Indemnity and $1.5 billion, or 16%, of the fixed maturity portfolio for the Exchange at June 30, 2015. The overall credit rating of the municipal portfolio without consideration of the underlying insurance is AA.

Fixed maturities classified as available-for-sale are carried at fair value with unrealized gains and losses, net of deferred taxes, included in shareholders' equity. Indemnity's net unrealized gains on fixed maturities, net of deferred taxes, amounted to $5 million at June 30, 2015, compared to $6 million at December 31, 2014. At June 30, 2015, the Exchange had net unrealized gains on fixed maturities of $216 million, compared to $303 million at December 31, 2014.

The following table presents a breakdown of the fair value of our fixed maturity portfolio by sector and rating for Indemnity and the Exchange, respectively:

(in millions)	Erie Insurance Group[1] At June 30, 2015 (Unaudited)					
Industry Sector	AAA	AA	A	BBB	Non-investment grade	Fair value
Indemnity						
Basic materials	$0	$0	$3	$3	$3	$9
Communications	0	0	2	20	9	31
Consumer	0	0	7	14	27	48
Diversified	0	0	0	0	0	0
Energy	0	0	3	6	14	23
Financial	0	2	42	34	11	89
Government-municipal	110	95	19	1	0	225
Industrial	0	0	1	5	8	14
Structured securities[2]	30	26	29	15	1	101
Technology	0	0	2	2	4	8
Utilities	0	0	8	3	2	13
Total – Indemnity	$140	$123	$116	$103	$79	$561
Exchange						
Basic materials	$0	$0	$62	$191	$59	$312
Communications	0	0	173	412	129	714
Consumer	0	39	392	777	249	1,457
Diversified	0	0	19	1	6	26
Energy	7	94	160	520	119	900
Financial	0	130	1,187	1,453	163	2,933
Foreign government	0	6	11	67	10	94
Government-municipal	468	852	143	29	0	1,492
Government sponsored entity	0	4	0	0	0	4
Industrial	0	0	137	240	76	453
Structured securities[2]	40	46	31	42	0	159
Technology	0	57	100	99	32	288
U.S. Treasury	0	7	0	0	0	7

Utilities	0	3	172	325	33	533
Total – Exchange	$515	$1,238	$2,587	$4,156	$876	$9,372

(1) Ratings are supplied by S&P, Moody's, and Fitch. The table is based upon the lowest rating for each security.

(2) Structured securities include residential mortgage-backed securities, commercial mortgage-backed securities, collateralized debt obligations, and asset-backed securities.

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Equity securities

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

The following table presents an analysis of the fair value of our preferred and common stock securities by sector for Indemnity and Exchange, respectively:

	Erie Insurance Group Fair value at:			
(in millions)	June 30, 2015 (Unaudited)		December 31, 2014	
Industry sector	Preferred stock	Common stock	Preferred stock	Common stock
Indemnity				
Communications	$0	$0	$1	$0
Financial	6	0	7	0
Funds [(1)]	0	12	0	13
Utilities	4	0	4	0
Total – Indemnity	$10	$12	$12	$13
Exchange				
Basic materials	$0	$90	$0	$88
Communications	0	245	6	278
Consumer	27	998	16	980
Diversified	0	14	0	19
Energy	0	160	0	187
Financial	584	635	587	590
Funds [(1)]	0	342	0	435
Government sponsored enterprises	14	0	0	0
Industrial	0	423	0	456
Technology	1	283	1	268
Utilities	95	50	100	62
Total – Exchange	$721	$3,240	$710	$3,363

(1) Includes certain exchange traded funds with underlying holdings of fixed maturity securities totaling $12 million for Indemnity and $96 million for the Exchange at June 30, 2015, and $13 million for Indemnity and $140 million for the Exchange at December 31, 2014. These securities meet the criteria of a common stock under U.S. GAAP, and are included on the balance sheet as available-for-sale equity securities. Remaining common stock investments are classified as trading securities.

Equity securities classified as available-for-sale include preferred and certain common stock securities, and are carried at fair value on the Consolidated Statements of Financial Position with all changes in unrealized gains and losses reflected in other comprehensive income. The net unrealized gain on equity securities classified as available-for-sale, net of deferred taxes, for Indemnity was $0.1 million at June 30, 2015, compared to a net unrealized gain of $0.6 million at December 31, 2014. The net unrealized gain on equity securities classified as available-for-sale, net of deferred taxes, for the Exchange was $33 million at June 30, 2015, compared to a net unrealized gain of $40 million at December 31, 2014.

Our common stocks classified as trading securities are measured at fair value with all changes in fair value reflected in the Consolidated Statements of Operations.

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Limited partnerships

In the second quarter of 2015, investments in limited partnerships decreased for both Indemnity and the Exchange from the investment levels at December 31, 2014. Changes in partnership values are a function of contributions and distributions, adjusted for market value changes in the underlying investments. The decrease in limited partnership investments was due to net distributions received from the partnerships, which were partially offset by partnership earnings. Indemnity has made no new limited partnership commitments since 2006, and the balance of its limited partnership investments is expected to decline over time as additional distributions are received. The results from our limited partnerships are based upon financial statements received from our general partners, which are generally received on a quarter lag. As a result, the market values and earnings recorded during the second quarter of 2015 reflect the partnership activity experienced in the first quarter of 2015.

The components of limited partnership investments are as follows:

	Erie Insurance Group	
(in millions)	At June 30, 2015	At December 31, 2014
Indemnity	(Unaudited)	
Private equity	$54	$52
Mezzanine debt	13	14
Real estate	34	47
Total limited partnerships – Indemnity	$101	$113
Exchange		
Private equity	$437	$418
Mezzanine debt	166	170
Real estate	239	278
Total limited partnerships – Exchange	$842	$866

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Liabilities

Property and casualty losses and loss expense reserves

Loss reserves are established to account for the estimated ultimate costs of losses and loss expenses for claims that have been reported but not yet settled and claims that have been incurred but not reported. While we exercise professional diligence to establish reserves at the end of each period that are fully reflective of the ultimate value of all claims incurred, these reserves are, by their nature, only estimates and cannot be established with absolute certainty.

The factors which may potentially cause the greatest variation between current reserve estimates and the actual future paid amounts include 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, inflation, and claims patterns on current business that differ significantly from historical claims patterns.

Losses and loss expense reserves are presented on the Consolidated Statements of Financial Position on a gross basis. The following table represents the direct and assumed losses and loss expense reserves by major line of business for our property and casualty insurance operations. The reinsurance recoverable amount represents the related ceded amounts which results in the net liability attributable to the Property and Casualty Group.

(in millions)	Property and Casualty Group	
	At June 30, 2015 (Unaudited)	At December 31, 2014
Gross reserve liability[(1)]:		
Private passenger auto	$1,278	$1,245
Automobile massive injury	309	330
Homeowners	338	279
Workers compensation	651	636
Workers compensation massive injury	73	82
Commercial auto	400	388
Commercial multi-peril	648	630
All other lines of business	181	179
Assumed reinsurance	85	84
Gross reserves	3,963	3,853
Less: reinsurance recoverable	141	142
Net reserve liability — Exchange	$3,822	$3,711

(1) Loss reserves are set at estimated ultimate costs, except for workers compensation loss reserves which have been discounted using an interest rate of 2.5%. This discounting reduced unpaid losses and loss expenses by $91 million at June 30, 2015 and $89 million at December 31, 2014.

The reserves that have the greatest potential for variation are the massive injury lifetime medical claim reserves. The Property and Casualty Group is currently reserving for 241 claimants requiring lifetime medical care, of which 93 involve massive injuries. The reserve carried by the Property and Casualty Group for the massive injury claimants, which includes automobile massive injury and workers compensation massive injury reserves, totaled $245 million at June 30, 2015, which is net of $137 million of anticipated reinsurance recoverables, compared to $274 million at December 31, 2014, which is net of $138 million of anticipated reinsurance recoverables.

Life insurance reserves

EFL's primary commitment is its obligation to pay future policy benefits under the terms of its life insurance and annuity contracts. To meet these future obligations, EFL establishes life insurance reserves based upon the type of policy, the age, gender, and risk class of the insured, and the number of years the policy has been in force. EFL also establishes annuity and universal life reserves primarily based upon the amount of policyholder deposits (less applicable insurance and expense charges) plus interest earned on those deposits. Life insurance and annuity reserves are supported primarily by EFL's long-term, fixed income investments as the underlying policy reserves are generally also of a long-term nature.

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IMPACT OF INFLATION

Property and casualty insurance premiums are established before losses occur and before loss expenses are incurred, and therefore, before the extent to which inflation may impact such costs is known. Consequently, in establishing premium rates, we attempt to anticipate the potential impact of inflation, including medical cost inflation, construction and auto repair cost inflation, and tort issues. Medical costs are a broad element of inflation that impacts personal and commercial auto, general liability, workers compensation, and commercial multi-peril lines of insurance written by the Property and Casualty Group. Inflation assumptions take the form of explicit numerical values in the survival ratio, individual claim, and massive injury lifetime medical reserving methods. Inflation assumptions are implicitly derived through the selection of applicable loss development patterns for all other reserving methods. Occasionally, unusual aberrations in loss development patterns are caused by external and internal factors such as changes in claim reporting, settlement patterns, unusually large losses, process changes, legal or regulatory changes, and other influences. In these instances, analyses of alternate development factor selections are performed to evaluate the effect of these factors and actuarial judgment is applied to make appropriate assumptions needed to develop a best estimate of ultimate losses.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

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 and growth needs. Our liquidity requirements have been met primarily by funds generated from premiums collected and income from investments. Our insurance operations provide liquidity in that premiums are collected in advance of paying losses under the policies purchased with those premiums. Cash outflows for the property and casualty insurance business are generally variable since settlement dates for liabilities for unpaid losses and the potential for large losses, whether individual or in the aggregate, cannot be predicted with absolute certainty. Accordingly, after satisfying our operating cash requirements, excess cash flows are used to build our investment operation's portfolios in order to increase future investment income, which then may be used as a source of liquidity if cash from our insurance operations would not be sufficient to meet our obligations. Cash provided from these sources is used primarily to fund losses and policyholder benefits, fund the costs of our management operations including commissions, salaries and wages, 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.

Volatility in the financial markets presents challenges to us as we do occasionally access our investment portfolio as a source of cash. Some of our fixed income investments, despite being publicly traded, are illiquid. 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 significantly less liquid. We believe we have sufficient liquidity to meet our needs from other sources even if market volatility persists throughout 2015.

Cash flow activities — Erie Insurance Group

The following table provides condensed consolidated cash flow information for the six months ended June 30:

(in millions)	Erie Insurance Group	
	2015	2014
	(Unaudited)	(Unaudited)
Net cash provided by operating activities	$311	$245
Net cash used in investing activities	(350)	(332)
Net cash used in financing activities	(54)	(65)
Net decrease in cash and cash equivalents	$(93)	$(152)

Net cash provided by operating activities totaled $311 million and $245 million for the first six months of 2015 and 2014, respectively. Increased cash from operating activities for the first six months of 2015 was driven primarily by an increase in premiums collected by the Exchange due to the increase in premiums written. This cash inflow was somewhat offset by higher income taxes paid and commissions and bonuses paid to agents compared to the first six months of 2014.

At June 30, 2015, we recorded a net deferred tax asset of $44 million attributable to Indemnity and a net deferred tax liability of $413 million attributable to the Exchange. There was no deferred tax valuation allowance recorded at June 30, 2015. Our capital gain and loss strategies take into consideration our ability to offset gains and losses in future periods, carry-back of

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capital loss opportunities to the three preceding years, and capital loss carry-forward opportunities to apply against future capital gains over the next five years.

Net cash used in investing activities totaled $350 million and $332 million for the first six months of 2015 and 2014, respectively. Investing activities in the first six months of 2015 primarily included increased fixed maturity purchases, offset somewhat by increased cash generated from fixed maturity sales and maturities and common stock sales compared to the first six months of 2014. At June 30, 2015, we had contractual commitments to invest up to $550 million related to our limited partnership investments to be funded as required by the partnerships' agreements. Of this amount, the total remaining commitment to fund limited partnerships that invest in private equity securities was $134 million, mezzanine debt securities was $197 million, and real estate activities was $219 million.

For a discussion of net cash used in financing activities, see the following section "Cash flow activities — Indemnity," for the primary drivers of the financing cash flows related to the Indemnity shareholder interest.

Cash flow activities — Indemnity
The following table is a summary of cash flows for Indemnity for the six months ended June 30:

(in millions)	Indemnity Shareholder Interest			
	2015		2014	
	(Unaudited)		(Unaudited)	
Net cash provided by operating activities	$42		$36	
Net cash provided by investing activities	6		57	
Net cash used in financing activities	(63	)	(79	)
Net (decrease) increase in cash and cash equivalents	$(15	)	$14	

See Item 1. "Financial Statements - Note 15. Indemnity Supplemental Information," contained within this report for more detail on Indemnity's cash flows.

Net cash provided by Indemnity's operating activities totaled $42 million for the first six months of 2015, compared to $36 million for the first six months of 2014. The increase in cash provided by operating activities for the first six months of 2015 was primarily due to an increase in management fee revenue received, offset somewhat by increases in commissions and bonuses paid to agents and general operating expenses compared to the first six months of 2014. Management fee revenues were higher reflecting the increase in the premiums written or assumed by the Exchange. Cash paid for agent commissions and bonuses increased to $436 million in the first six months of 2015, compared to $397 million for the first six months of 2014, as a result of an increase in cash paid for scheduled commissions and bonus awards. Indemnity made a $17 million contribution to its pension plan in the first quarter of 2015, compared to $15 million in the first quarter of 2014. Our funding policy is generally to contribute an amount equal to the greater of the target normal cost for the plan year or the amount necessary to fund the plan to 100% plus interest to the date the contribution is made. Indemnity is reimbursed approximately 56% of the net periodic benefit cost of the pension plan from its affiliates, which represents pension benefits for Indemnity employees performing claims and EFL functions.

At June 30, 2015, Indemnity recorded a net deferred tax asset of $44 million. There was no deferred tax valuation allowance recorded at June 30, 2015.

Net cash provided by Indemnity's investing activities totaled $6 million for the first six months of 2015, compared to $57 million for the first six months of 2014. Indemnity's investing activities in the first six months of 2015 primarily included increased fixed maturity purchases and decreased cash generated from common stock sales, offset somewhat by increased cash generated from limited partnership sales, compared to the first six months of 2014. Also impacting

Indemnity's future investing activities are limited partnership commitments, which totaled $23 million at June 30, 2015, and will be funded as required by the partnerships' agreements. Of this amount, the total remaining commitment to fund limited partnerships that invest in private equity securities was $10 million, mezzanine debt securities was $9 million, and real estate activities was $4 million.

Net cash used in Indemnity's financing activities totaled $63 million for the first six months of 2015, compared to $79 million for the first six months of 2014. The decrease in cash used in financing activities for the first six months of 2015 was driven by a decrease in the cash outlay for share repurchases, offset somewhat by a slight increase in dividends paid to shareholders.

Indemnity did not repurchase any shares of its Class A nonvoting common stock in conjunction with its stock repurchase program in the first six months of 2015. In the first six months of 2014, shares repurchased under this program totaled 275,173 at a total cost of $19.4 million, based upon settlement date. In October 2011, our Board of Directors approved a continuation of the current stock repurchase program for a total of $150 million with no time limitation. This repurchase authority includes, and is not in addition to, any unspent amounts remaining under the prior authorization. Indemnity had approximately $18 million of repurchase authority remaining under this program at June 30, 2015, based upon trade date.

Additionally, in June 2015, we repurchased 1,567 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $128,355, or $81.91 per share, for the vesting of stock-based awards in conjunction with our long-term incentive plan. These shares were delivered to plan participants in June 2015.

In January 2014, we repurchased 2,800 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $201,411, or $71.93 per share, for the vesting of stock-based awards for executive management. These shares were delivered to executive management in January 2014.

In May 2014, we repurchased 7,227 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $552,503, or $76.45 per share, for the vesting of stock-based awards for a former outside director. These shares were delivered in May 2014.

In May and June 2014, we repurchased 54,371 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $4,143,544, or $76.21 per share, for the vesting of stock-based awards in conjunction with our long-term incentive plan. These shares were delivered to plan participants in June 2014.

Dividends paid to shareholders totaled $63 million for the first six months of 2015, compared to $59 million dividends paid for the first six months of 2014. Additionally, Indemnity increased both its Class A and Class B shareholder quarterly dividends by 7.2% for 2015, compared to 2014. There are no regulatory restrictions on the payment of dividends to Indemnity's shareholders.

Capital Outlook
We regularly prepare forecasts evaluating the current and future cash requirements of Indemnity and the Exchange for both normal and extreme risk events. Should an extreme risk event result in a cash requirement exceeding normal cash flows, we have the ability to meet our future funding requirements through various alternatives available to us.

Indemnity
Outside of Indemnity's normal operating and investing cash activities, future funding requirements could be met through:
1) Indemnity's cash and cash equivalents, which total approximately $77 million at June 30, 2015, 2) a $100 million bank revolving line of credit held by Indemnity, and 3) liquidation of assets held in Indemnity's investment portfolio, including common stock, preferred stock, and investment grade bonds which totaled approximately $395 million at June 30, 2015. Volatility in the financial markets could impair Indemnity's ability to sell certain of its fixed income securities or cause such securities to sell at deep discounts. Additionally, Indemnity has the ability to curtail or modify discretionary cash outlays such as those related to shareholder dividends and share repurchase activities.

As of June 30, 2015, Indemnity has access to a $100 million bank revolving line of credit with a $25 million letter of credit sublimit that expires on November 3, 2018. As of June 30, 2015, a total of $98 million remains available under the facility due to $2 million outstanding letters of credit, which reduce the availability for letters of credit to $23 million. Indemnity had no borrowings outstanding on its line of credit as of June 30, 2015. Bonds with a fair value of

$109 million were pledged as collateral on the line at June 30, 2015. These securities have no trading restrictions and are reported as available-for-sale fixed maturities in the Consolidated Statements of Financial Position. The bank requires compliance with certain covenants, which include leverage ratios. Indemnity was in compliance with its bank covenants at June 30, 2015.

Exchange

Outside of the Exchange’s normal operating and investing cash activities, future funding requirements could be met through:

1) the Exchange’s cash and cash equivalents, which total approximately $344 million at June 30, 2015, 2) a $300 million bank revolving line of credit held by the Exchange, and 3) liquidation of assets held in the Exchange’s investment portfolio, including common stock, preferred stock, and investment grade bonds which totaled approximately $12.1 billion at June 30, 2015. Volatility in the financial markets could impair the Exchange’s ability to sell certain of its fixed income securities or cause such securities to sell at deep discounts.

As of June 30, 2015, the Exchange has access to a $300 million bank revolving line of credit with a $25 million letter of credit sublimit that expires on October 25, 2018. As of June 30, 2015, a total of $299 million remains available under the facility due to $1 million outstanding letters of credit, which reduce the availability for letters of credit to $24 million. The Exchange had

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no borrowings outstanding on its line of credit as of June 30, 2015. Bonds with a fair value of $321 million were pledged as collateral on the line at June 30, 2015. These securities have no trading restrictions and are reported as available-for-sale fixed maturities in the Consolidated Statements of Financial Position. The bank requires compliance with certain covenants, which include statutory surplus and risk based capital ratios. The Exchange was in compliance with its bank covenants at June 30, 2015.

Indemnity has no rights to the assets, capital, or line of credit of the Exchange and, conversely, the Exchange has no rights to the assets, capital, or line of credit of Indemnity. We believe we have the funding sources available to us to support our cash flow requirements in 2015.

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. We have no material off-balance sheet obligations or guarantees, other than limited partnership investment commitments.

Surplus Notes

Indemnity holds a surplus note for $25 million from EFL that is payable on demand on or after December 31, 2018; however, no principal or interest payments may be made without prior approval of the Pennsylvania Insurance Commissioner. Interest payments are scheduled to be paid semi-annually. For the six months ended June 30, 2015 and 2014, Indemnity recognized interest income on the note of $0.8 million.

The Exchange holds a surplus note for $20 million from EFL that is payable on demand on or after December 31, 2025; however, no principal or interest payments may be made without prior approval of the Pennsylvania Insurance Commissioner. Interest payments are scheduled to be paid semi-annually. For the six months ended June 30, 2015 and 2014, the Exchange recognized interest income on the note of $0.6 million.

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 the property and casualty insurance losses and loss expense reserves, life insurance and annuity policy reserves, investment valuation, deferred acquisition costs related to life insurance and investment-type contracts, deferred taxes, and retirement benefit plans for employees. 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,” for the year ended December 31, 2014 of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 26, 2015. See Item 1. “Financial Statements - Note 6. Fair Value,” contained within this report for additional information on our valuation of investments.

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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, interest rates, and other risk exposures for the year ended December 31, 2014 are included in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 26, 2015.

There have been no material changes that impact our portfolio or reshape our periodic investment reviews of asset allocations during the six months ended June 30, 2015. For a recent discussion of conditions surrounding our investment portfolio, see the "Operating Overview," "Investment Operations," and "Financial Condition, Investments" discussions contained in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained within this report.

ITEM 4. 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 six months ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

State Court Lawsuit Against Erie Indemnity Company
Erie Indemnity Company ("Indemnity") was named as a defendant in a complaint filed on August 1, 2012 by alleged subscribers of the Erie Insurance Exchange (the "Exchange") in the Court of Common Pleas Civil Division of Fayette County, Pennsylvania captioned Erie Insurance Exchange, an unincorporated association, by Joseph S. Sullivan and Anita Sullivan, Patricia R. Beltz, and Jenna L. DeBord, trustees ad litem v. Erie Indemnity Co. (the "Sullivan" lawsuit).

As subsequently amended, the complaint alleges that, beginning on September 1, 1997, Indemnity retained "Service Charges" (installment fees) and "Added Service Charges" (late fees and policy reinstatement charges) on policies written by the Exchange and its insurance subsidiaries, which allegedly should have been paid to the Exchange, in the amount of approximately $308 million. In addition to their claim for monetary relief on behalf of the Exchange, the plaintiffs seek an accounting of all so-called intercompany transactions between Indemnity and the Exchange from 1996 to date. Plaintiffs allege that Indemnity breached its contractual, fiduciary, and equitable duties by retaining Service Charges and Added Service Charges that should have been retained by the Exchange. Plaintiffs bring these same claims under three separate derivative-type theories. First, plaintiffs purport to bring suit as members of the Exchange on behalf of the Exchange. Second, plaintiffs purport to bring suit as trustees ad litem on behalf of the Exchange. Third, plaintiffs purport to bring suit on behalf of the Exchange pursuant to Rule 1506 of the Pennsylvania Rules of Civil Procedure, which allows shareholders to bring suit derivatively on behalf of a corporation or similar entity.

Indemnity filed a motion in the state court in November 2012 seeking dismissal of the lawsuit. On December 19, 2013, the court granted Indemnity's motion in part, holding that the Pennsylvania Insurance Holding Company Act "provides the [Pennsylvania Insurance] Department with special competence to address the subject matter of plaintiff's claims" and referring "all issues" in the Sullivan lawsuit to the Pennsylvania Insurance Department (the "Department") for "its views and any determination." The court stayed all further proceedings and reserved decision on all other grounds for dismissal raised by Indemnity. Plaintiffs sought reconsideration of the court's order, and on January 13, 2014, the court entered a revised order affirming its prior order and clarifying that the Department "shall decide any and all issues within its jurisdiction." On January 30, 2014, Plaintiffs asked the court to certify its order to permit an immediate appeal to the Superior Court of Pennsylvania and to stay any proceedings in the Department pending completion of any appeal. On February 18, 2014, the court issued an order denying Plaintiffs' motion. On March 20, 2014, Plaintiffs filed a petition for review with the Superior Court, which was denied by the Superior Court on May 5, 2014.

The Sullivan matter was assigned to an Administrative Judge within the Department for determination. The parties agreed that an evidentiary hearing was not required and they entered into a stipulated record and submitted briefing to the Department. Oral argument was held before the Administrative Judge on January 6, 2015. On April 29, 2015, the Department issued a declaratory opinion and order (1) finding that the transactions between Exchange and Indemnity in which Indemnity retained or received revenue from installment and other service charges from Exchange subscribers complied with applicable insurance laws and regulations and that Indemnity properly retained charges paid by Exchange policyholders for certain installment premium payment plans, dishonored payments, policy cancellations and policy reinstatements and (2) returning jurisdiction for the matter to the Fayette County Court of Common Pleas.

On May 26, 2015, Plaintiffs appealed the Department's decision to the Pennsylvania Commonwealth Court. Briefing for this appeal is currently scheduled to be completed by October 5, 2015.

Indemnity believes that it has meritorious legal and factual defenses and intends to vigorously defend against all allegations and requests for relief.

Federal Court Lawsuit Against Directors

On February 6, 2013, a lawsuit was filed in the United States District Court for the Western District of Pennsylvania, captioned Erie Insurance Exchange, an unincorporated association, by members Patricia R. Beltz, Joseph S. Sullivan and Anita Sullivan, and Patricia R. Beltz, on behalf of herself and others similarly situate v. Richard L. Stover; J. Ralph Borneman, Jr; Terrence W. Cavanaugh; Jonathan Hirt Hagen; Susan Hirt Hagen; Thomas B. Hagen; C. Scott Hartz; Claude C. Lilly, III; Lucian L. Morrison; Thomas W. Palmer; Martin P. Sheffield; Elizabeth H. Vorsheck; and Robert C. Wilburn (the "Beltz" lawsuit), by alleged policyholders of the Exchange who are also the plaintiffs in the Sullivan lawsuit. The individuals named as defendants in the Beltz lawsuit were the then-current Directors of Indemnity.

As subsequently amended, the Beltz lawsuit asserts many of the same allegations and claims for monetary relief as in the Sullivan lawsuit. Plaintiffs purport to sue on behalf of all policyholders of the Exchange, or, alternatively, on behalf of the Exchange itself. Indemnity filed a motion to intervene as a Party Defendant in the Beltz lawsuit in July 2013, and the Directors filed a motion to dismiss the lawsuit in August 2013. On February 10, 2014, the court entered an order granting Indemnity's motion to intervene and permitting Indemnity to join the Directors' motion to dismiss; granting in part the Directors' motion to dismiss; referring the matter to the Department to decide any and all issues within its jurisdiction; denying all other relief sought in the Directors' motion as moot; and dismissing the case without prejudice. To avoid duplicative proceedings and expedite the Department's review, the Parties have stipulated that only the Sullivan action will proceed before the Department and any final and non-appealable determinations made by the Department in the Sullivan action will be applied to the Beltz action.

On March 7, 2014, Plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit. Indemnity filed a motion to dismiss the appeal on March 26, 2014. On November 17, 2014, the Third Circuit deferred ruling on Indemnity's motion to dismiss the appeal and instructed the parties to address that motion, as well as the merits of Plaintiffs' appeal, in the parties' briefing. Briefing was completed on April 2, 2015. In light of the Department's April 29, 2015 decision in Sullivan, the Parties then jointly requested that the Beltz appeal be voluntarily dismissed as moot on June 5, 2015. The Third Circuit did not rule on the Parties' request for dismissal and instead held oral argument as scheduled on June 8, 2015. On July 16, 2015, the Third Circuit issued an opinion and judgment dismissing the appeal. The Third Circuit found that it lacked appellate jurisdiction over the appeal, because the District Court's February 10, 2014 order referring the matter to the Department was not a final, appealable order.

Indemnity believes that it has meritorious legal and factual defenses and intends to vigorously defend against all allegations and requests for relief in the Beltz lawsuit. The Directors have also advised Indemnity that they intend to vigorously defend against the claims in the Beltz lawsuit and have sought indemnification and advancement of expenses from the Company in connection with the Beltz lawsuit.

West Virginia Lawsuit Against EFL

EFL has been named in a lawsuit filed by the State Treasurer of West Virginia. The Complaint alleges that EFL has failed to comply with the West Virginia Uniform Unclaimed Property Act. EFL filed a motion to dismiss and a favorable decision was rendered in December 2013 with the Court dismissing the Complaint with prejudice. The State Treasurer appealed the dismissal of the lawsuit in January 2014. Briefing was completed in the fall of 2014. The West Virginia Supreme Court heard oral argument in the case on April 8, 2015 and rendered a decision on June 16, 2015, holding that West Virginia's Unclaimed Property Act creates an implied duty for insurers to investigate and discover whether their insureds remain alive. The Court also held that the "dormancy period" for escheatment of unclaimed funds begins with the insured's death, rather than upon receipt by the insurer of "due proof of death," as provided in the West Virginia Insurance Code and policies issued in the State. A Petition for Rehearing was filed with the Court on July 16, 2015 and the Treasurer has until July 30, 2015 to respond.

For additional information on contingencies, see Part I, Item 1. "Financial Statements - Note 14. Commitments and Contingencies."

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, 2014 as filed with the Securities and Exchange Commission on February 26, 2015.

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

Issuer Purchases of Equity Securities

In October 2011, our Board of Directors approved a continuation of the current stock repurchase program, authorizing repurchases for a total of $150 million with no time limitation. This repurchase authority included, and was not in addition to, any unspent amounts remaining under the prior authorization. There were no repurchases of Indemnity's Class A common stock during the quarter ending June 30, 2015 under the repurchase program. We had approximately $18 million of repurchase authority remaining under this program at June 30, 2015. During the quarter ending June 30, 2015, we repurchased 1,567 shares of our outstanding Class A nonvoting common stock outside of our publicly announced share repurchase program at a total cost of $128,355, or $81.91 per share, for the vesting of stock-based awards in conjunction with our long-term incentive plan. These shares were delivered to plan participants in June 2015.

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ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
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.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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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: July 30, 2015	By:	/s/ Terrence W. Cavanaugh Terrence W. Cavanaugh, President & CEO
	By:	/s/ Marcia A. Dall Marcia A. Dall, Executive Vice President & CFO

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