

COMCAST CORP
Form 10-Q
April 22, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2014

OR

☐ **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period from to

Registrant; State of

Incorporation; Address and Telephone

Commission File Number
001-32871

Number

I.R.S. Employer Identification No.
27-0000798

COMCAST CORPORATION
PENNSYLVANIA

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Philadelphia, PA 19103-2838

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NBCUNIVERSAL MEDIA, LLC

14-1682529

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DELAWARE

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Comcast Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
NBCUniversal Media, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such period that the registrant was required to submit and post such files).

Comcast Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
NBCUniversal Media, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Comcast Corporation	Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
NBCUniversal Media, LLC	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Comcast Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
NBCUniversal Media, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

As of March 31, 2014, there were 2,146,295,093 shares of Comcast Corporation Class A common stock, 444,064,771 shares of Comcast Corporation Class A Special common stock and 9,444,375 shares of Comcast Corporation Class B common stock outstanding.

Indicate the number of shares outstanding of each of the registrant's classes of stock, as of the latest practical date: Not applicable for NBCUniversal Media, LLC.

NBCUniversal Media, LLC meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format.

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Explanatory Note

This Quarterly Report on Form 10-Q is a combined report being filed separately by Comcast Corporation ("Comcast") and NBCUniversal Media, LLC ("NBCUniversal"). Comcast owns all of the common equity interests in NBCUniversal, and NBCUniversal meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing its information within this Form 10-Q with the reduced disclosure format. Each of Comcast and NBCUniversal is filing on its own behalf the information contained in this report that relates to itself, and neither company makes any representation as to information relating to the other company. Where information or an explanation is provided that is substantially the same for each company, such information or explanation has been combined in this report. Where information or an explanation is not substantially the same for each company, separate information and explanation has been provided. In addition, separate condensed consolidated financial statements for each company, along with notes to the condensed consolidated financial statements, are included in this report. Unless indicated otherwise, throughout this Quarterly Report on Form 10-Q, we refer to Comcast Corporation as "Comcast"; Comcast and its consolidated subsidiaries, including NBCUniversal and its consolidated subsidiaries, as "we," "us" and "our"; Comcast Cable Communications, LLC and its consolidated subsidiaries as "Comcast Cable"; Comcast Holdings Corporation as "Comcast Holdings"; and NBCUniversal, LLC as "NBCUniversal Holdings".

This Quarterly Report on Form 10-Q is for the three months ended March 31, 2014. This Quarterly Report modifies and supersedes documents filed prior to this Quarterly Report. The Securities and Exchange Commission ("SEC") allows us to incorporate by reference information that we file with it, which means that we can disclose important information to you by referring you directly to those documents. Information incorporated by reference is considered to be part of this Quarterly Report. In addition, information that we file with the SEC in the future will automatically update and supersede information contained in this Quarterly Report.

You should carefully review the information contained in this Quarterly Report and particularly consider any risk factors set forth in this Quarterly Report and in other reports or documents that we file from time to time with the SEC. In this Quarterly Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify these so-called forward-looking statements by words such as "may," "will," "should," "expects," "believes," "potential," "or continue," or the negative of those words, and other comparable words. You should be aware that these statements are only our predictions. In evaluating these statements, you should specifically consider various factors, including the risks outlined below and in other reports we file with the SEC. Actual events or our actual results may differ materially from any of our forward-looking statements. We undertake no obligation to update any forward-looking statements.

Our businesses may be affected by, among other things, the following:

our businesses currently face a wide range of competition, and our businesses and results of operations could be adversely affected if we do not compete effectively

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changes in consumer behavior driven by new technologies may adversely affect our businesses

our businesses depend on keeping pace with technological developments

programming expenses for our video services are increasing, which could adversely affect our businesses

we are subject to regulation by federal, state, local and foreign authorities, which may impose additional costs and restrictions on our businesses

weak economic conditions may have a negative impact on our businesses

a decline in advertising expenditures or changes in advertising markets could negatively impact our businesses

NBCUniversal's success depends on consumer acceptance of its content, which is difficult to predict, and its businesses may be adversely affected if its content fails to achieve sufficient consumer acceptance or the costs to create or acquire content increase

the loss of NBCUniversal's programming distribution agreements, or the renewal of these agreements on less favorable terms, could adversely affect its businesses

our businesses depend on using and protecting certain intellectual property rights and on not infringing the intellectual property rights of others

we rely on network and information systems and other technologies, as well as key properties, and a disruption, cyber attack, failure or destruction of such networks, systems, technologies or properties may disrupt our businesses

we may be unable to obtain necessary hardware, software and operational support

labor disputes, whether involving employees or sports organizations, may disrupt our operations and adversely affect our businesses

the loss of key management personnel or popular on-air and creative talent could have an adverse effect on our businesses

we face risks relating to doing business internationally that could adversely affect our businesses

acquisitions and other strategic transactions, including the proposed transaction with Time Warner Cable, present many risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction

our Class B common stock has substantial voting rights and separate approval rights over several potentially material transactions, and our Chairman and CEO has considerable influence over our company through his beneficial ownership of our Class B common stock

Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1: FINANCIAL STATEMENTS**

Comcast Corporation

Condensed Consolidated Balance Sheet**(Unaudited)**

(in millions, except share data)	March 31, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,054	\$ 1,718
Investments	2,389	3,573
Receivables, net	6,151	6,376
Programming rights	863	928
Other current assets	1,586	1,480
Total current assets	14,043	14,075
Film and television costs	5,058	4,994
Investments	3,090	3,770
Property and equipment, net of accumulated depreciation of \$43,381 and \$42,574	29,588	29,840
Franchise rights	59,364	59,364
Goodwill	27,103	27,098
Other intangible assets, net of accumulated amortization of \$9,141 and \$8,874	17,145	17,329
Other noncurrent assets, net	2,382	2,343
Total assets	\$ 157,773	\$ 158,813
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued expenses related to trade creditors	\$ 5,534	\$ 5,528
Accrued participations and residuals	1,256	1,239
Deferred revenue	776	898
Accrued expenses and other current liabilities	7,418	7,967
Current portion of long-term debt	2,819	3,280
Total current liabilities	17,803	18,912
Long-term debt, less current portion	44,581	44,567
Deferred income taxes	31,595	31,935
Other noncurrent liabilities	11,109	11,384
Commitments and contingencies (Note 10)		
Redeemable noncontrolling interests and redeemable subsidiary preferred stock	1,053	957
Equity:		
Preferred stock authorized, 20,000,000 shares; issued, zero		
Class A common stock, \$0.01 par value authorized, 7,500,000,000 shares; issued, 2,511,755,843 and 2,503,535,883; outstanding, 2,146,295,093 and 2,138,075,133	25	25
Class A Special common stock, \$0.01 par value authorized, 7,500,000,000 shares; issued, 514,999,535 and 529,964,944; outstanding, 444,064,771 and 459,030,180	5	5
Class B common stock, \$0.01 par value authorized, 75,000,000 shares; issued and outstanding, 9,444,375		
Additional paid-in capital	38,985	38,890
Retained earnings	19,737	19,235
Treasury stock, 365,460,750 Class A common shares and 70,934,764 Class A Special common shares	(7,517)	(7,517)
Accumulated other comprehensive income (loss)	33	56
Total Comcast Corporation shareholders equity	51,268	50,694
Noncontrolling interests	364	364

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Total equity	51,632	51,058
Total liabilities and equity	\$ 157,773	\$ 158,813

See accompanying notes to condensed consolidated financial statements.

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Comcast Corporation

Condensed Consolidated Statement of Income**(Unaudited)**

	Three Months Ended March 31	
(in millions, except per share data)	2014	2013
Revenue	\$ 17,408	\$ 15,310
Costs and Expenses:		
Programming and production	5,908	4,663
Other operating and administrative	4,752	4,466
Advertising, marketing and promotion	1,210	1,147
Depreciation	1,569	1,566
Amortization	401	401
	13,840	12,243
Operating income	3,568	3,067
Other Income (Expense):		
Interest expense	(642)	(653)
Investment income (loss), net	113	72
Equity in net income (losses) of investees, net	32	11
Other income (expense), net	(15)	73
	(512)	(497)
Income before income taxes	3,056	2,570
Income tax expense	(1,118)	(925)
Net income	1,938	1,645
Net (income) loss attributable to noncontrolling interests and redeemable subsidiary preferred stock	(67)	(208)
Net income attributable to Comcast Corporation	\$ 1,871	\$ 1,437
Basic earnings per common share attributable to Comcast Corporation shareholders	\$ 0.72	\$ 0.55
Diluted earnings per common share attributable to Comcast Corporation shareholders	\$ 0.71	\$ 0.54
Dividends declared per common share	\$ 0.225	\$ 0.195

See accompanying notes to condensed consolidated financial statements.

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Comcast Corporation

Condensed Consolidated Statement of Comprehensive Income**(Unaudited)**

(in millions)	Three Months Ended March 31	
	2014	2013
Net income	\$ 1,938	\$ 1,645
Unrealized gains (losses) on marketable securities, net of deferred taxes of \$(17) and \$(12)	30	20
Deferred gains (losses) on cash flow hedges, net of deferred taxes of \$1 and \$21	(2)	(36)
Amounts reclassified to net income:		
Realized (gains) losses on marketable securities, net of deferred taxes of \$30 and \$12	(50)	(23)
Realized (gains) losses on cash flow hedges, net of deferred taxes of \$2 and \$(27)	(3)	46
Employee benefit obligations, net of deferred taxes of \$ and \$(1)		1
Currency translation adjustments, net of deferred taxes of \$(1) and \$5	2	(17)
Comprehensive income	1,915	1,636
Net (income) loss attributable to noncontrolling interests and redeemable subsidiary preferred stock	(67)	(208)
Other comprehensive (income) loss attributable to noncontrolling interests		9
Comprehensive income attributable to Comcast Corporation	\$ 1,848	\$ 1,437

See accompanying notes to condensed consolidated financial statements.

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Comcast Corporation

Condensed Consolidated Statement of Cash Flows**(Unaudited)**

	Three Months Ended	
	March 31	
(in millions)	2014	2013
Net cash provided by (used in) operating activities	\$ 4,486	\$ 4,369
Investing Activities		
Capital expenditures	(1,448)	(1,361)
Cash paid for intangible assets	(217)	(182)
Acquisitions and construction of real estate properties		(1,311)
Proceeds from sales of businesses and investments	300	74
Purchases of investments	(37)	(88)
Other	(103)	105
Net cash provided by (used in) investing activities	(1,505)	(2,763)
Financing Activities		
Proceeds from (repayments of) short-term borrowings, net	(364)	491
Proceeds from borrowings	2,187	2,933
Repurchases and repayments of debt	(2,260)	(1,811)
Repurchases and retirements of common stock	(750)	(500)
Dividends paid	(508)	(429)
Issuances of common stock	20	13
Purchase of NBCUniversal noncontrolling common equity interest		(10,747)
Distributions to noncontrolling interests and dividends for redeemable subsidiary preferred stock	(66)	(49)
Settlement of Station Venture liability		(602)
Other	96	(17)
Net cash provided by (used in) financing activities	(1,645)	(10,718)
Increase (decrease) in cash and cash equivalents	1,336	(9,112)
Cash and cash equivalents, beginning of period	1,718	10,951
Cash and cash equivalents, end of period	\$ 3,054	\$ 1,839

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statement of Changes in Equity**(Unaudited)**

(in millions)	Redeemable Noncontrolling Interests and Redeemable Subsidiary Preferred Stock	Common Stock				Additional Paid-In Capital	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	Total Equity
		A	A Special	B							
Balance, January 1, 2013	\$ 16,998	\$ 25	\$ 6	\$		\$ 40,547	\$ 16,280	\$ (7,517)	\$ 15	\$ 440	\$ 49,796
Stock compensation plans						146	(125)				21
Repurchases and retirements of common stock						(152)	(348)				(500)
Employee stock purchase plans						22					22
Dividends declared							(514)				(514)
Other comprehensive income (loss)	(9)										
Purchase of NBCUniversal noncontrolling common equity interest	(17,006)					(1,482)			(26)		(1,508)
Redeemable subsidiary preferred stock	725										
Contributions from (distributions to) noncontrolling interests, net	(9)									(31)	(31)
Other	(4)					(124)				3	(121)
Net income (loss)	159						1,437			49	1,486
Balance, March 31, 2013	\$ 854	\$ 25	\$ 6	\$		\$ 38,957	\$ 16,730	\$ (7,517)	\$ (11)	\$ 461	\$ 48,651
Balance, January 1, 2014	\$ 957	\$ 25	\$ 5	\$		\$ 38,890	\$ 19,235	\$ (7,517)	\$ 56	\$ 364	\$ 51,058
Stock compensation plans						242	(206)				36
Repurchases and retirements of common stock						(172)	(578)				(750)
Employee stock purchase plans						26					26
Dividends declared							(585)				(585)
Other comprehensive income (loss)									(23)		(23)
Issuance of subsidiary shares to noncontrolling interests	82										
Contributions from (distributions to) noncontrolling interests, net	(5)									(37)	(37)
Other	(5)					(1)				(6)	(7)
Net income (loss)	24						1,871			43	1,914
Balance, March 31, 2014	\$ 1,053	\$ 25	\$ 5	\$		\$ 38,985	\$ 19,737	\$ (7,517)	\$ 33	\$ 364	\$ 51,632

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**(Unaudited)****Note 1: Condensed Consolidated Financial Statements****Basis of Presentation**

We have prepared these unaudited condensed consolidated financial statements based on Securities and Exchange Commission (SEC) rules that permit reduced disclosure for interim periods. These financial statements include all adjustments that are necessary for a fair presentation of our consolidated results of operations, financial condition and cash flows for the periods shown, including normal, recurring accruals and other items. The consolidated results of operations for the interim periods presented are not necessarily indicative of results for the full year.

The year-end condensed consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles in the United States of America (GAAP). For a more complete discussion of our accounting policies and certain other information, refer to our consolidated financial statements included in our 2013 Annual Report on Form 10-K.

Note 2: Earnings Per Share**Computation of Diluted EPS**

	2014			2013		
	Net Income Attributable to Comcast Corporation	Shares	Per Share Amount	Net Income Attributable to Comcast Corporation	Shares	Per Share Amount
(in millions, except per share data)						
Basic EPS attributable to Comcast Corporation shareholders	\$ 1,871	2,603	\$ 0.72	\$ 1,437	2,634	\$ 0.55
Effect of dilutive securities:						
Assumed exercise or issuance of shares relating to stock plans		42			41	
Diluted EPS attributable to Comcast Corporation shareholders	\$ 1,871	2,645	\$ 0.71	\$ 1,437	2,675	\$ 0.54

Our potentially dilutive securities include potential common shares related to our stock options and our restricted share units (RSUs). Diluted earnings per common share attributable to Comcast Corporation shareholders (diluted EPS) considers the impact of potentially dilutive securities using the treasury stock method. Diluted EPS excludes the impact of potential common shares related to our stock options in periods in which the combination of the option exercise price and the associated unrecognized compensation expense is greater than the average market price of our Class A common stock or our Class A Special common stock, as applicable.

Diluted EPS for the three months ended March 31, 2014 and 2013 excludes 2 million of potential common shares related to our share-based compensation plans, because the inclusion of the potential common shares would have had an antidilutive effect.

Note 3: Significant Transactions**Time Warner Cable Transaction**

On February 12, 2014, we entered into an agreement and plan of merger with Time Warner Cable Inc. (Time Warner Cable). As a result of this agreement, we will acquire 100% of Time Warner Cable 's outstanding shares of common stock in exchange for shares of our Class A common stock. Time Warner Cable stockholders will receive, in exchange for each share of Time Warner Cable common stock owned immediately prior to the

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transaction, 2.875 shares of our Class A common stock. Time Warner Cable stockholders will then own approximately 23% of our common stock, estimated based on the number of shares outstanding as of the date of the agreement. Because the exchange ratio was fixed at the time of the merger agreement and the market value of our Class A common stock will continue to fluctuate, the number of shares of Class A common stock to be issued and the total value of the consideration exchanged will not be determinable until the closing date. Following the close of the transaction, Time Warner Cable will be our wholly owned subsidiary. The transaction remains subject to shareholder approval at both companies, regulatory review and other customary conditions and is expected to close by the end of 2014.

Note 4: Film and Television Costs

(in millions)	March 31, 2014	December 31, 2013
Film Costs:		
Released, less amortization	\$ 1,480	\$ 1,630
Completed, not released	40	70
In production and in development	865	658
	2,385	2,358
Television Costs:		
Released, less amortization	1,169	1,155
In production and in development	363	370
	1,532	1,525
Programming rights, less amortization	2,004	2,039
	5,921	5,922
Less: Current portion of programming rights	863	928
Film and television costs	\$ 5,058	\$ 4,994

Note 5: Investments

(in millions)	March 31, 2014	December 31, 2013
Fair Value Method	\$ 2,448	\$ 4,345
Equity Method:		
The Weather Channel	331	333
Hulu	191	187
Other	496	469
	1,018	989
Cost Method:		
AirTouch	1,556	1,553
Other	457	456
	2,013	2,009
Total investments	5,479	7,343
Less: Current investments	2,389	3,573
Noncurrent investments	\$ 3,090	\$ 3,770

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Investment Income (Loss), Net

(in millions)	Three Months Ended March 31	
	2014	2013
Gains on sales and exchanges of investments, net	\$ 83	\$ 35
Investment impairment losses	(5)	(9)
Unrealized gains (losses) on securities underlying prepaid forward sale agreements	(113)	605
Mark to market adjustments on derivative component of prepaid forward sale agreements and indexed debt instruments	117	(602)
Interest and dividend income	28	30
Other, net	3	13
Investment income (loss), net	\$ 113	\$ 72

Fair Value Method

As of March 31, 2014, the majority of our fair value method investments were equity securities held as collateral that were related to our obligations under prepaid forward sale agreements.

Prepaid Forward Sale Agreements

(in millions)	March 31, 2014	December 31, 2013
Assets:		
Fair value equity securities held as collateral	\$ 2,164	\$ 3,959
Liabilities:		
Obligations under prepaid forward sale agreements	\$ 463	\$ 811
Derivative component of prepaid forward sale agreements	1,501	2,800
Total liabilities	\$ 1,964	\$ 3,611

During the three months ended March 31, 2014, we settled \$1.5 billion of obligations under certain of our prepaid forward sale agreements by delivering equity securities. As of March 31, 2014, our remaining prepaid forward sale obligations had an estimated fair value of \$2 billion. The estimated fair values are based on Level 2 inputs using pricing models whose inputs are derived primarily from or corroborated by observable market data through correlation or other means for substantially the full term of the financial instrument.

Cost Method**AirTouch**

We hold two series of preferred stock of AirTouch Communications, Inc. (AirTouch), a subsidiary of Verizon Communications Inc., which are redeemable in April 2020. As of March 31, 2014, the estimated fair values of the AirTouch preferred stock and the associated liability related to the redeemable preferred shares issued by one of our consolidated subsidiaries were each \$1.7 billion. The estimated fair values are based on Level 2 inputs using pricing models whose inputs are derived primarily from or corroborated by observable market data through correlation or other means for substantially the full term of the financial instrument.

Note 6: Long-Term Debt

As of March 31, 2014, our debt had a carrying value of \$47.4 billion and an estimated fair value of \$52.5 billion. The estimated fair value of our publicly traded debt is based on quoted market values for the debt. To estimate the fair value of debt for which there are no quoted market prices,

we use interest rates available to us for debt with similar terms and remaining maturities.

Debt Borrowings and Repayments

In February 2014, we issued \$1.2 billion aggregate principal amount of 3.60% senior notes due 2024 and \$1 billion aggregate principal amount of 4.75% senior notes due 2044. The proceeds from this offering were used for working capital and general corporate purposes, including the repayment of a portion of our outstanding commercial paper and our \$900 million aggregate principal amount of 2.10% senior notes in April 2014 at maturity.

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In January 2014, we repaid at maturity \$1 billion aggregate principal amount of 5.30% senior notes due 2014. In February 2014, we repaid \$1.25 billion of borrowings outstanding under NBCUniversal Enterprise Inc.'s (NBCUniversal Enterprise) revolving credit facility with the proceeds from \$990 million of borrowings under its new commercial paper program and cash on hand.

Revolving Credit Facilities

As of March 31, 2014, amounts available under our consolidated revolving credit facilities, net of amounts outstanding under our commercial paper program and outstanding letters of credit, totaled \$6.3 billion, which included \$360 million available under NBCUniversal Enterprise's credit facility.

Commercial Paper Program

In February 2014, NBCUniversal Enterprise entered into a commercial paper program. The maximum borrowing capacity under this commercial paper program is \$1.35 billion, and it is supported by NBCUniversal Enterprise's existing \$1.35 billion revolving credit facility due March 2018. The commercial paper program is fully and unconditionally guaranteed by us and our 100% owned cable holding company subsidiaries, Comcast Cable Communications, LLC (CCCL Parent), Comcast MO Group, Inc. (Comcast MO Group), Comcast Cable Holdings, LLC (CCH) and Comcast MO of Delaware, LLC (Comcast MO of Delaware) (collectively, the cable guarantors). As of March 31, 2014, NBCUniversal Enterprise had \$990 million face amount of commercial paper outstanding.

Note 7: Fair Value Measurements

The accounting guidance related to financial assets and financial liabilities (financial instruments) establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach and cost approach). Level 1 consists of financial instruments whose values are based on quoted market prices for identical financial instruments in an active market. Level 2 consists of financial instruments that are valued using models or other valuation methodologies. These models use inputs that are observable either directly or indirectly. Level 3 consists of financial instruments whose values are determined using pricing models that use significant inputs that are primarily unobservable, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Our financial instruments that are accounted for at fair value on a recurring basis are presented in the table below.

Recurring Fair Value Measures

(in millions)	Fair Value as of				December 31,
	Level 1	Level 2	Level 3	Total	2013 Total
Assets					
Trading securities	\$ 2,168	\$	\$	\$ 2,168	\$ 3,956
Available-for-sale securities	151	117	11	279	389
Interest rate swap agreements		101		101	110
Other		74	1	75	81
Total	\$ 2,319	\$ 292	\$ 12	\$ 2,623	\$ 4,536
Liabilities					
Derivative component of prepaid forward sale agreements and indexed debt instruments	\$	\$ 1,515	\$	\$ 1,515	\$ 2,816
Contractual obligation			761	761	747
Contingent consideration			677	677	684
Other		17		17	16
Total	\$	\$ 1,532	\$ 1,438	\$ 2,970	\$ 4,263

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Fair Value of Redeemable Subsidiary Preferred Stock Financial Instrument

As of March 31, 2014, the fair value of the NBCUniversal Enterprise redeemable subsidiary preferred stock was \$750 million. The estimated fair value is based on Level 2 inputs using pricing models whose inputs are derived primarily from or corroborated by observable market data through correlation or other means for substantially the full term of the financial instrument.

Contractual Obligation and Contingent Consideration

The fair values of the contractual obligation and contingent consideration in the table above are primarily based on certain expected future discounted cash flows, the determination of which involves the use of significant unobservable inputs. The most significant unobservable inputs we use are our estimates of the future revenue we expect to generate from certain NBCUniversal businesses, which are related to our contractual obligation, and future net tax benefits that will affect payments to GE, which are related to contingent consideration. The discount rates used in the measurements of fair value were between 5% and 13% and are based on the underlying risk associated with our estimate of future revenue and the terms of the respective contracts, and the uncertainty in the timing of our payments to GE. The fair value adjustments to contractual obligation and contingent consideration are sensitive to the assumptions related to future revenue and tax benefits, respectively, as well as to current interest rates, and therefore, the adjustments are recorded to other income (expense), net in our condensed consolidated statement of income.

Changes in Contractual Obligation and Contingent Consideration

(in millions)	Contractual Obligation	Contingent Consideration
Balance, December 31, 2013	\$ 747	\$ 684
Fair value adjustments	27	7
Payments	(13)	(14)
Balance, March 31, 2014	\$ 761	\$ 677

Note 8: Share-Based Compensation

Our share-based compensation primarily consists of awards of stock options and RSUs to certain employees and directors as part of our approach to long-term incentive compensation. Additionally, through our employee stock purchase plans, employees are able to purchase shares of Comcast Class A common stock at a discount through payroll deductions.

In March 2014, we granted 16.4 million stock options and 5.4 million RSUs related to our annual management awards. The weighted-average fair values associated with these grants were \$11.09 per stock option and \$46.57 per RSU.

Recognized Share-Based Compensation Expense

(in millions)	Three Months Ended March 31	
	2014	2013
Stock options	\$ 36	\$ 32
Restricted share units	48	38
Employee stock purchase plans	6	6
Total	\$ 90	\$ 76

As of March 31, 2014, we had unrecognized pretax compensation expense of \$428 million and \$575 million related to nonvested stock options and nonvested RSUs, respectively.

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Note 9: Supplemental Financial Information**Receivables**

(in millions)	March 31, 2014	December 31, 2013
Receivables, gross	\$ 6,645	\$ 6,972
Less: Allowance for returns and customer incentives	285	375
Less: Allowance for doubtful accounts	209	221
Receivables, net	\$ 6,151	\$ 6,376

Accumulated Other Comprehensive Income (Loss)

(in millions)	March 31, 2014	March 31, 2013
Unrealized gains (losses) on marketable securities	\$ 47	\$ 180
Deferred gains (losses) on cash flow hedges	(50)	(57)
Unrecognized gains (losses) on employee benefit obligations	71	(109)
Cumulative translation adjustments	(35)	(25)
Accumulated other comprehensive income (loss), net of deferred taxes	\$ 33	\$ (11)

Net Cash Provided by Operating Activities

(in millions)	Three Months Ended March 31	
	2014	2013
Net income	\$ 1,938	\$ 1,645
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,970	1,967
Amortization of film and television costs	2,876	1,972
Share-based compensation	119	102
Noncash interest expense (income), net	42	42
Equity in net (income) losses of investees, net	(32)	(11)
Cash received from investees	18	23
Net (gain) loss on investment activity and other	(59)	(132)
Deferred income taxes	(226)	(373)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Change in current and noncurrent receivables, net	195	465
Change in film and television costs	(2,722)	(1,577)
Change in accounts payable and accrued expenses related to trade creditors	82	(281)
Change in other operating assets and liabilities	285	527
Net cash provided by operating activities	\$ 4,486	\$ 4,369

Cash Payments for Interest and Income Taxes

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(in millions)	Three Months Ended	
	March 31	
	2014	2013
Interest	\$ 623	\$ 617
Income taxes	\$ 186	\$ 461

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Noncash Investing and Financing Activities

During the three months ended March 31, 2014:

we acquired \$741 million of property and equipment and intangible assets that were accrued but unpaid

we recorded a liability of \$585 million for a quarterly cash dividend of \$0.225 per common share paid in April 2014

we used \$1.5 billion of equity securities to settle our obligations under prepaid forward sale agreements

Note 10: Commitments and Contingencies

Contingencies

Antitrust Cases

We are defendants in two purported class actions originally filed in December 2003 in the United States District Courts for the District of Massachusetts and the Eastern District of Pennsylvania. The potential class in the Massachusetts case, which has been transferred to the Eastern District of Pennsylvania, is our customer base in the Boston Cluster area, and the potential class in the Pennsylvania case is our customer base in the Philadelphia and Chicago Clusters, as those terms are defined in the complaints. In each case, the plaintiffs allege that certain customer exchange transactions with other cable providers resulted in unlawful horizontal market restraints in those areas and seek damages under antitrust statutes, including treble damages.

Classes of Chicago Cluster and Philadelphia Cluster customers were certified in October 2007 and January 2010, respectively. We appealed the class certification in the Philadelphia Cluster case to the Third Circuit Court of Appeals, which affirmed the class certification in August 2011. In June 2012, the U.S. Supreme Court granted our petition to review the Third Circuit Court of Appeals' ruling and in March 2013, the Supreme Court ruled that the class had been improperly certified and reversed the judgment of the Third Circuit. The matter has been returned to the District Court for action consistent with the Supreme Court's opinion. In August 2013, the plaintiffs in the Philadelphia Cluster case moved to certify a new, smaller class. The District Court denied our September 2013 motion to strike the plaintiffs' motion on procedural grounds. In April 2014, the District Court granted our unopposed motion to de-certify the Chicago class and the plaintiffs' unopposed motion to amend the Pennsylvania case so as to dismiss claims relating to the Chicago cluster.

In addition, we are the defendant in 22 purported class actions filed in federal district courts throughout the country. All of these actions have been consolidated by the Judicial Panel on Multidistrict Litigation in the United States District Court for the Eastern District of Pennsylvania for pre-trial proceedings. In a consolidated complaint filed in November 2009 on behalf of all plaintiffs in the multidistrict litigation, the plaintiffs allege that we improperly tie the rental of set-top boxes to the provision of premium cable services in violation of Section 1 of the Sherman Antitrust Act, various state antitrust laws and unfair/deceptive trade practices acts in California, Illinois and Alabama. The plaintiffs also allege a claim for unjust enrichment and seek relief on behalf of a nationwide class of our premium cable customers and on behalf of subclasses consisting of premium cable customers from California, Alabama, Illinois, Pennsylvania and Washington. In January 2010, we moved to compel arbitration of the plaintiffs' claims for unjust enrichment and violations of the unfair/deceptive trade practices acts of Illinois and Alabama. In September 2010, the plaintiffs filed an amended complaint alleging violations of additional state antitrust laws and unfair/deceptive trade practices acts on behalf of new subclasses in Connecticut, Florida, Minnesota, Missouri, New Jersey, New Mexico and West Virginia. In the amended complaint, plaintiffs omitted their unjust enrichment claim, as well as their state law claims on behalf of the Alabama, Illinois and Pennsylvania subclasses. In June 2011, the plaintiffs filed another amended complaint alleging only violations of Section 1 of the Sherman Antitrust Act, antitrust law in Washington and unfair/deceptive trade practices acts in California and Washington. The plaintiffs seek relief on behalf of a nationwide class of our premium cable customers and on behalf of subclasses consisting of premium cable customers from California

and Washington. In July 2011, we moved to compel arbitration of most of

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the plaintiffs' claims and to stay the remaining claims pending arbitration. The West Virginia Attorney General also filed a complaint in West Virginia state court in July 2009 alleging that we improperly tie the rental of set-top boxes to the provision of digital cable services in violation of the West Virginia Antitrust Act and the West Virginia Consumer Credit and Protection Act. The Attorney General also alleges a claim for unjust enrichment/restitution. We removed the case to the United States District Court for West Virginia, and it was subsequently transferred to the United States District Court for the Eastern District of Pennsylvania and consolidated with the multidistrict litigation described above. In June 2013, a comprehensive settlement agreement for all 23 cases was submitted to the District Court for preliminary approval. Regardless of whether this settlement agreement is approved, we do not expect these cases to have a material effect on our results of operations, cash flows or financial position.

We believe the claims in each of the pending actions described above in this item are without merit, except as otherwise set forth above, and intend to defend the actions vigorously. We cannot predict the outcome of any of the actions described above, including a range of possible loss, or how the final resolution of any such actions would impact our results of operations or cash flows for any one period or our financial position. In addition, as any action nears a trial, there is an increased possibility that the action may be settled by the parties. Nevertheless, the final disposition of any of the above actions is not expected to have a material adverse effect on our consolidated financial position, but could possibly be material to our consolidated results of operations or cash flows for any one period.

Other

We are a defendant in several unrelated lawsuits claiming infringement of various patents relating to various aspects of our businesses. In certain of these cases other industry participants are also defendants, and also in certain of these cases we expect that any potential liability would be in part or in whole the responsibility of our equipment and technology vendors under applicable contractual indemnification provisions. We are also subject to other legal proceedings and claims that arise in the ordinary course of our business. While the amount of ultimate liability with respect to such actions is not expected to materially affect our results of operations, cash flows or financial position, any litigation resulting from any such legal proceedings or claims could be time consuming, costly and injure our reputation.

Note 11: Financial Data by Business Segment

We present our operations in five reportable business segments:

Cable Communications: Consists of the operations of Comcast Cable, which is the nation's largest provider of video, high-speed Internet and voice services (cable services) to residential customers under the XFINITY brand, and we also provide similar services to businesses and sell advertising.

Cable Networks: Consists primarily of our national cable networks, our regional sports networks, our international cable networks and our cable television production operations.

Broadcast Television: Consists primarily of the NBC and Telemundo broadcast networks, our NBC and Telemundo owned local broadcast television stations, and our broadcast television production operations.

Filmed Entertainment: Consists primarily of the studio operations of Universal Pictures, which produces, acquires, markets and distributes filmed entertainment worldwide.

Theme Parks: Consists primarily of our Universal theme parks in Orlando and Hollywood.

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In evaluating the profitability of our operating segments, the components of net income (loss) below operating income (loss) before depreciation and amortization are not separately evaluated by our management. Our financial data by business segment is presented in the tables below.

Three Months Ended March 31, 2014					
Operating Income (Loss)					
(in millions)	Revenue ^(e)	Before Depreciation and Amortization ^(f)	Depreciation and Amortization	Operating Income (Loss)	Capital Expenditures
Cable Communications ^(a)	\$ 10,757	\$ 4,400	\$ 1,584	\$ 2,816	\$ 1,145
NBCUniversal					
Cable Networks ^(b)	2,505	895	189	706	11
Broadcast Television	2,621	122	27	95	11
Filmed Entertainment ^(b)	1,351	288	5	283	1
Theme Parks	487	170	69	101	144
Headquarters and Other ^(c)	2	(163)	75	(238)	124
Eliminations ^(d)	(90)	(1)		(1)	
NBCUniversal	6,876	1,311	365	946	291
Corporate and Other	174	(153)	21	(174)	12
Eliminations ^(d)	(399)	(20)		(20)	
Comcast Consolidated	\$ 17,408	\$ 5,538	\$ 1,970	\$ 3,568	\$ 1,448

Three Months Ended March 31, 2013					
Operating Income (Loss)					
(in millions)	Revenue ^(e)	Before Depreciation and Amortization ^(f)	Depreciation and Amortization	Operating Income (Loss)	Capital Expenditures
Cable Communications ^(a)	\$ 10,217	\$ 4,219	\$ 1,608	\$ 2,611	\$ 1,094
NBCUniversal					
Cable Networks ^(b)	2,225	859	184	675	24
Broadcast Television	1,517	(35)	25	(60)	8
Filmed Entertainment ^(b)	1,216	69	4	65	2
Theme Parks	462	173	72	101	138
Headquarters and Other ^(c)	9	(112)	59	(171)	91
Eliminations ^(d)	(89)	(1)		(1)	
NBCUniversal	5,340	953	344	609	263
Corporate and Other	162	(83)	15	(98)	4
Eliminations ^(d)	(409)	(55)		(55)	
Comcast Consolidated	\$ 15,310	\$ 5,034	\$ 1,967	\$ 3,067	\$ 1,361

(a) For the three months ended March 31, 2014 and 2013, Cable Communications segment revenue was derived from the following sources:

	Three Months Ended March 31	
	2014	2013
Residential:		
Video	48.1%	50.0%
High-speed Internet	25.6%	24.7%

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Voice	8.5%	8.8%
Business services	8.5%	7.2%
Advertising	4.8%	4.8%
Other	4.5%	4.5%
Total	100%	100%

Subscription revenue received from customers who purchase bundled services at a discounted rate is allocated proportionally to each service based on the individual service's price on a stand-alone basis.

For the three months ended March 31, 2014 and 2013, 2.8% and 2.9%, respectively, of Cable Communications revenue was derived from franchise and other regulatory fees.

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- (b) Beginning in 2014, Fandango, our movie ticketing and entertainment business that was previously presented in our Cable Networks segment, is now presented in the Filmed Entertainment segment to reflect the change in our management reporting presentation. Due to immateriality, prior period amounts have not been adjusted. The change in presentation resulted in the reclassification of \$195 million of goodwill from our Cable Networks segment to our Filmed Entertainment segment.
- (c) NBCUniversal Headquarters and Other activities includes costs associated with overhead, allocations, personnel costs and headquarter initiatives.
- (d) Included in Eliminations are transactions that our segments enter into with one another. The most common types of transactions are the following:
- our Cable Networks and Broadcast Television segments generate revenue by selling programming to our Cable Communications segment, which represents a substantial majority of the revenue elimination amount
- our Cable Communications segment generates revenue by selling advertising and by selling the use of satellite feeds to our Cable Networks segment
- our Filmed Entertainment and Broadcast Television segments generate revenue by licensing content to our Cable Networks segment
- our Cable Communications segment receives incentives offered by our Cable Networks segment in connection with its distribution of the Cable Networks content that are recorded as a reduction to programming expenses
- (e) No single customer accounted for a significant amount of revenue in any period.
- (f) We use operating income (loss) before depreciation and amortization, excluding impairment charges related to fixed and intangible assets and gains or losses on the sale of assets, if any, as the measure of profit or loss for our operating segments. This measure eliminates the significant level of noncash depreciation and amortization expense that results from the capital-intensive nature of certain of our businesses and from intangible assets recognized in business combinations. Additionally, it is unaffected by our capital structure or investment activities. We use this measure to evaluate our consolidated operating performance and the operating performance of our operating segments and to allocate resources and capital to our operating segments. It is also a significant performance measure in our annual incentive compensation programs. We believe that this measure is useful to investors because it is one of the bases for comparing our operating performance with that of other companies in our industries, although our measure may not be directly comparable to similar measures used by other companies. This measure should not be considered a substitute for operating income (loss), net income (loss) attributable to Comcast Corporation, net cash provided by operating activities, or other measures of performance or liquidity we have reported in accordance with GAAP.

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Note 12: Condensed Consolidating Financial Information

Comcast Corporation (Comcast Parent), our cable guarantors and NBCUniversal Media, LLC (referred to as NBCUniversal Media Parent in the tables below) have fully and unconditionally guaranteed each other's debt securities. Comcast MO Group, CCH and Comcast MO of Delaware are collectively referred to as the Combined CCHMO Parents.

Comcast Parent and the cable guarantors also fully and unconditionally guarantee NBCUniversal Enterprise's \$4 billion aggregate principal amount of senior notes, its \$1.35 billion credit facility due March 2018 and the associated commercial paper program. NBCUniversal Media Parent does not guarantee the NBCUniversal Enterprise senior notes, credit facility or commercial paper program.

Comcast Parent provides an unconditional subordinated guarantee of the \$185 million principal amount currently outstanding of Comcast Holdings ZONES due October 2029. Neither the cable guarantors nor NBCUniversal Media Parent guarantee the Comcast Holdings ZONES due October 2029. None of Comcast Parent, the cable guarantors nor NBCUniversal Media Parent guarantee the \$62 million principal amount currently outstanding of Comcast Holdings ZONES due November 2029.

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Condensed Consolidating Balance Sheet**March 31, 2014**

(in millions)	Comcast Parent	Comcast Holdings	CCCL Parent	Combined CCHMO Parents	NBCUniversal Media Parent	Non- Guarantor Subsidiaries	Elimination and Consolidation Adjustments	Consolidated Comcast Corporation
Assets								
Cash and cash equivalents	\$	\$	\$	\$	\$ 506	\$ 2,548	\$	\$ 3,054
Investments						2,389		2,389
Receivables, net						6,151		6,151
Programming rights						863		863
Other current assets	229				29	1,328		1,586
Total current assets	229				535	13,279		14,043
Film and television costs						5,058		5,058
Investments	21				378	2,691		3,090
Investments in and amounts due from subsidiaries eliminated upon consolidation	80,474	99,606	105,083	55,737	41,042	87,497	(469,439)	
Property and equipment, net	213					29,375		29,588
Franchise rights						59,364		59,364
Goodwill						27,103		27,103
Other intangible assets, net	10					17,135		17,145
Other noncurrent assets, net	1,114	145			101	1,937	(915)	2,382
Total assets	\$ 82,061	\$ 99,751	\$ 105,083	\$ 55,737	\$ 42,056	\$ 243,439	\$ (470,354)	\$ 157,773
Liabilities and Equity								
Accounts payable and accrued expenses related to trade creditors	\$ 7	\$	\$	\$	\$	5,527	\$	\$ 5,534
Accrued participations and residuals						1,256		1,256
Accrued expenses and other current liabilities	1,430	266	318	21	398	5,761		8,194
Current portion of long-term debt	900				902	1,017		2,819
Total current liabilities	2,337	266	318	21	1,300	13,561		17,803
Long-term debt, less current portion	26,455	130	1,827	1,504	10,232	4,433		44,581
Deferred income taxes		758			58	31,553	(774)	31,595
Other noncurrent liabilities	2,001				937	8,312	(141)	11,109
Redeemable noncontrolling interests and redeemable subsidiary preferred stock						1,053		1,053
Equity:								
Common stock	30							30
Other shareholders' equity	51,238	98,597	102,938	54,212	29,529	184,163	(469,439)	51,238
Total Comcast Corporation shareholders' equity	51,268	98,597	102,938	54,212	29,529	184,163	(469,439)	51,268
Noncontrolling interests						364		364
Total equity	51,268	98,597	102,938	54,212	29,529	184,527	(469,439)	51,632
Total liabilities and equity	\$ 82,061	\$ 99,751	\$ 105,083	\$ 55,737	\$ 42,056	\$ 243,439	\$ (470,354)	\$ 157,773

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Comcast Corporation

Condensed Consolidating Balance Sheet**December 31, 2013**

(in millions)	Comcast Parent	Comcast Holdings	CCCL Parent	Combined CCHMO Parents	NBCUniversal Media Parent	Non- Guarantor Subsidiaries	Elimination and Consolidation Adjustments	Consolidated Comcast Corporation
Assets								
Cash and cash equivalents	\$	\$	\$	\$	\$ 336	\$ 1,382	\$	\$ 1,718
Investments						3,573		3,573
Receivables, net						6,376		6,376
Programming rights						928		928
Other current assets	237				35	1,208		1,480
Total current assets	237				371	13,467		14,075
Film and television costs						4,994		4,994
Investments	11				374	3,385		3,770
Investments in and amounts due from subsidiaries eliminated upon consolidation	79,956	97,429	102,673	54,724	40,644	85,164	(460,590)	
Property and equipment, net	220					29,620		29,840
Franchise rights						59,364		59,364
Goodwill						27,098		27,098
Other intangible assets, net	11					17,318		17,329
Other noncurrent assets, net	1,078	145			103	1,899	(882)	2,343
Total assets	\$ 81,513	\$ 97,574	\$ 102,673	\$ 54,724	\$ 41,492	\$ 242,309	\$ (461,472)	\$ 158,813
Liabilities and Equity								
Accounts payable and accrued expenses related to trade creditors	\$ 8	\$	\$	\$	\$	5,520	\$	\$ 5,528
Accrued participations and residuals						1,239		1,239
Accrued expenses and other current liabilities	1,371	266	180	47	323	6,678		8,865
Current portion of long-term debt	2,351				903	26		3,280
Total current liabilities	3,730	266	180	47	1,226	13,463		18,912
Long-term debt, less current portion	25,170	132	1,827	1,505	10,236	5,697		44,567
Deferred income taxes		777			59	31,840	(741)	31,935
Other noncurrent liabilities	1,919				931	8,675	(141)	11,384
Redeemable noncontrolling interests and redeemable subsidiary preferred stock						957		957
Equity:								
Common stock	30							30
Other shareholders' equity	50,664	96,399	100,666	53,172	29,040	181,313	(460,590)	50,664
Total Comcast Corporation shareholders' equity	50,694	96,399	100,666	53,172	29,040	181,313	(460,590)	50,694
Noncontrolling interests						364		364
Total equity	50,694	96,399	100,666	53,172	29,040	181,677	(460,590)	51,058
Total liabilities and equity	\$ 81,513	\$ 97,574	\$ 102,673	\$ 54,724	\$ 41,492	\$ 242,309	\$ (461,472)	\$ 158,813

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Comcast Corporation

Condensed Consolidating Statement of Income**For the Three Months Ended March 31, 2014**

(in millions)	Comcast Parent	Comcast Holdings	CCCL Parent	Combined CCHMO Parents	NBCUniversal Media Parent	Non- Guarantor Subsidiaries	Elimination and Consolidation Adjustments	Consolidated Comcast Corporation
Revenue:								
Service revenue	\$	\$	\$	\$	\$	\$ 17,408	\$	\$ 17,408
Management fee revenue	230		223	141			(594)	
	230		223	141		17,408	(594)	17,408
Costs and Expenses:								
Programming and production						5,908		5,908
Other operating and administrative	93		223	141	257	4,632	(594)	4,752
Advertising, marketing and promotion						1,210		1,210
Depreciation	7					1,562		1,569
Amortization	1					400		401
	101		223	141	257	13,712	(594)	13,840
Operating income (loss)	129				(257)	3,696		3,568
Other Income (Expense):								
Interest expense	(387)	(3)	(45)	(29)	(124)	(54)		(642)
Investment income (loss), net	1	3			1	108		113
Equity in net income (losses) of investees, net	2,038	2,267	2,165	1,511	1,071	714	(9,734)	32
Other income (expense), net					(4)	(11)		(15)
	1,652	2,267	2,120	1,482	944	757	(9,734)	(512)
Income (loss) before income taxes	1,781	2,267	2,120	1,482	687	4,453	(9,734)	3,056
Income tax (expense) benefit	90		16	10	(5)	(1,229)		(1,118)
Net income (loss)	1,871	2,267	2,136	1,492	682	3,224	(9,734)	1,938
Net (income) loss attributable to noncontrolling interests and redeemable subsidiary preferred stock						(67)		(67)
Net income (loss) attributable to Comcast Corporation	\$ 1,871	\$ 2,267	\$ 2,136	\$ 1,492	\$ 682	\$ 3,157	\$ (9,734)	\$ 1,871
Comprehensive income (loss) attributable to Comcast Corporation	\$ 1,848	\$ 2,269	\$ 2,138	\$ 1,493	\$ 685	\$ 3,134	\$ (9,719)	\$ 1,848

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Comcast Corporation

Condensed Consolidating Statement of Income**For the Three Months Ended March 31, 2013**

						Non-	Elimination and	Consolidated
(in millions)	Comcast Parent	Comcast Holdings	CCCL Parent	Combined CCHMO Parents	NBCUniversal Media Parent	Guarantor Subsidiaries	Consolidation Adjustments	Comcast Corporation
Revenue:								
Service revenue	\$	\$	\$	\$	\$	\$ 15,310	\$	\$ 15,310
Management fee revenue	218		212	133			(563)	
	218		212	133		15,310	(563)	15,310
Costs and Expenses:								
Programming and production						4,663		4,663
Other operating and administrative	98		212	133	225	4,361	(563)	4,466
Advertising, marketing and promotion						1,147		1,147
Depreciation	7					1,559		1,566
Amortization	1					400		401
	106		212	133	225	12,130	(563)	12,243
Operating income (loss)	112				(225)	3,180		3,067
Other Income (Expense):								
Interest expense	(376)	(3)	(78)	(33)	(120)	(43)		(653)
Investment income (loss), net	1	(3)			(4)	78		72
Equity in net income								
(losses) of investees, net	1,608	1,742	1,763	1,262	709	366	(7,439)	11
Other income (expense), net	(1)					74		73
	1,232	1,736	1,685	1,229	585	475	(7,439)	(497)
Income (loss) before income taxes	1,344	1,736	1,685	1,229	360	3,655	(7,439)	2,570
Income tax (expense) benefit	93	2	27	11	(5)	(1,053)		(925)
Net income (loss)	1,437	1,738	1,712	1,240	355	2,602	(7,439)	1,645
Net (income) loss attributable to noncontrolling interests and redeemable subsidiary preferred stock						(208)		(208)
Net income (loss) attributable to Comcast Corporation	\$ 1,437	\$ 1,738	\$ 1,712	\$ 1,240	\$ 355	\$ 2,394	\$ (7,439)	\$ 1,437
Comprehensive income (loss) attributable to Comcast Corporation	\$ 1,437	\$ 1,738	\$ 1,714	\$ 1,240	\$ 333	\$ 2,407	\$ (7,432)	\$ 1,437

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Condensed Consolidating Statement of Cash Flows

For the Three Months Ended March 31, 2014

	Combined					Elimination	Consolidated
	Comcast	Comcast	CCCL	CCHMO	NBCUniversal	Non-	and
	Parent	Holdings	Parent	Parents	Media Parent	Guarantor Subsidiaries	Consolidation Adjustments
(in millions)							Comcast Corporation
Net cash provided by (used in) operating activities	\$ (96)	\$ (2)	\$ 110	\$ (47)	\$ (306)	\$ 4,827	\$ 4,486
Investing Activities							
Net transactions with affiliates	1,370	2	(110)	47	483	(1,792)	
Capital expenditures						(1,448)	(1,448)
Cash paid for intangible assets						(217)	(217)
Acquisitions and construction of real estate properties							
Proceeds from sales of businesses and investments						300	300
Purchases of investments	(10)				(6)	(21)	(37)
Other						(103)	(103)
Net cash provided by (used in) investing activities	1,360	2	(110)	47	477	(3,281)	(1,505)
Financing Activities							
Proceeds from (repayments of) short-term borrowings, net	(1,350)					986	(364)
Proceeds from borrowings	2,184					3	2,187
Repurchases and repayments of debt	(1,000)				(1)	(1,259)	(2,260)
Repurchases and retirements of common stock	(750)						(750)
Dividends paid	(508)						(508)
Issuances of common stock	20						20
Distributions to noncontrolling interests and dividends for redeemable subsidiary preferred stock						(66)	(66)
Other	140					(44)	96
Net cash provided by (used in) financing activities	(1,264)				(1)	(380)	(1,645)
Increase (decrease) in cash and cash equivalents					170	1,166	1,336
Cash and cash equivalents, beginning of period					336	1,382	1,718
Cash and cash equivalents, end of period	\$				506	2,548	3,054

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Comcast Corporation

Condensed Consolidating Statement of Cash Flows**For the Three Months Ended March 31, 2013**

	Combined						Elimination	Consolidated
	Comcast	Comcast	CCCL	CCHMO	NBCUniversal		and	Comcast
(in millions)	Parent	Holdings	Parent	Parents	Media Parent	Non-Guarantor Subsidiaries	Consolidation Adjustments	Corporation
Net cash provided by (used in) operating activities	\$ (112)	\$ 3	\$ 49	\$ (53)	\$ (227)	\$ 4,709	\$	\$ 4,369
Investing Activities								
Net transactions with affiliates	(2,480)	(6)	1,665	53	(1,251)	2,019		
Capital expenditures						(1,361)		(1,361)
Cash paid for intangible assets						(182)		(182)
Acquisitions and construction of real estate properties						(1,311)		(1,311)
Proceeds from sales of businesses and investments						74		74
Purchases of investments					(1)	(87)		(88)
Other		3			(10)	112		105
Net cash provided by (used in) investing activities	(2,480)	(3)	1,665	53	(1,262)	(736)		(2,763)
Financing Activities								
Proceeds from (repayments of) short-term borrowings, net	500					(9)		491
Proceeds from borrowings	2,933							2,933
Repurchases and repayments of debt			(1,714)		(87)	(10)		(1,811)
Repurchases and retirements of common stock	(500)							(500)
Dividends paid	(429)							(429)
Issuances of common stock	13							13
Purchase of NBCUniversal noncontrolling common equity interest					(3,200)	(7,547)		(10,747)
Distributions to noncontrolling interests and dividends for redeemable subsidiary preferred stock						(49)		(49)
Settlement of Station Venture liability						(602)		(602)
Other	75				(40)	(52)		(17)
Net cash provided by (used in) financing activities	2,592		(1,714)		(3,327)	(8,269)		(10,718)
Increase (decrease) in cash and cash equivalents					(4,816)	(4,296)		(9,112)
Cash and cash equivalents, beginning of period					5,129	5,822		10,951
Cash and cash equivalents, end of period	\$	\$	\$	\$	\$ 313	\$ 1,526	\$	\$ 1,839

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

Overview

We are a global media and technology company with two primary businesses, Comcast Cable and NBCUniversal. We present our operations for Comcast Cable in one reportable business segment, referred to as Cable Communications, and our operations for NBCUniversal in four reportable business segments.

Cable Communications Segment

Comcast Cable is the nation's largest provider of video, high-speed Internet and voice services (cable services) to residential customers under the XFINITY brand, and we also provide similar and other services to small and medium-sized businesses. As of March 31, 2014, our cable systems served 22.6 million video customers, 21.1 million high-speed Internet customers and 10.9 million voice customers and passed more than 54 million homes and businesses. Our Cable Communications segment generates revenue primarily from subscriptions to our cable services, which we market individually and in packages, and from the sale of advertising. During the three months ended March 31, 2014, our Cable Communications segment generated 62% of our consolidated revenue and 79% of our operating income before depreciation and amortization.

NBCUniversal Segments

NBCUniversal is one of the world's leading media and entertainment companies that develops, produces and distributes entertainment, news and information, sports, and other content for global audiences. The Cable Networks, Broadcast Television, Filmed Entertainment and Theme Parks segments comprise the NBCUniversal businesses and are collectively referred to as the NBCUniversal segments.

Cable Networks

Our Cable Networks segment consists primarily of a diversified portfolio of cable television networks. Our cable networks are comprised of our national cable networks, which provide a variety of entertainment, news and information, and sports content, our regional sports networks, various international cable networks, and our cable television production operations. Our Cable Networks segment generates revenue primarily from the distribution of our cable network programming to multichannel video providers, the sale of advertising on our cable networks and related digital media properties, and the licensing of our owned programming.

Broadcast Television

Our Broadcast Television segment consists primarily of the NBC and Telemundo broadcast networks, our NBC and Telemundo owned local broadcast television stations, and our broadcast television production operations. Our Broadcast Television segment generates revenue primarily from the sale of advertising on our broadcast networks, owned local broadcast television stations and related digital media properties, the licensing of our owned programming, and fees received under retransmission consent agreements.

Filmed Entertainment

Our Filmed Entertainment segment primarily produces, acquires, markets and distributes filmed entertainment worldwide. We also develop, produce and license live stage plays. Our Filmed Entertainment segment generates revenue primarily from the worldwide distribution of our owned and acquired films for exhibition in movie theaters, the licensing of our owned and acquired films through various distribution platforms, and the sale of our owned and acquired films on standard-definition video discs and Blu-ray discs (together, DVDs) and through digital distributors. Our Filmed Entertainment segment also generates revenue from producing and licensing live stage plays, from distributing filmed entertainment produced by third parties, and from various digital media properties.

Theme Parks

Our Theme Parks segment consists primarily of our Universal theme parks in Orlando and Hollywood. Our Theme Parks segment generates revenue primarily from theme park attendance and per capita spending. Per

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capita spending includes ticket price and in-park spending on food, beverages and merchandise. We also receive fees from third parties that own and operate Universal Studios Japan and Universal Studios Singapore for intellectual property licenses and other services.

Other

Our other business interests primarily include Comcast-Spectacor, which owns the Philadelphia Flyers and the Wells Fargo Center arena in Philadelphia and operates arena management-related businesses.

Time Warner Cable Transaction

On February 12, 2014, we entered into an agreement and plan of merger with Time Warner Cable Inc. ("Time Warner Cable"). As a result of this agreement, we will acquire 100% of Time Warner Cable's outstanding shares of common stock in exchange for shares of our Class A common stock. Time Warner Cable stockholders will receive, in exchange for each share of Time Warner Cable common stock owned immediately prior to the transaction, 2.875 shares of our Class A common stock. Time Warner Cable stockholders will then own approximately 23% of our common stock, estimated based on the number of shares outstanding as of the date of the agreement. Because the exchange ratio was fixed at the time of the merger agreement and the market value of our Class A common stock will continue to fluctuate, the number of shares of Class A common stock to be issued and the total value of the consideration exchanged will not be determinable until the closing date. Following the close of the transaction, Time Warner Cable will be our wholly owned subsidiary. The transaction remains subject to shareholder approval at both companies, regulatory review and other customary conditions and is expected to close by the end of 2014.

Competition

The results of operations of our reportable business segments are affected by competition, as all of our businesses operate in competitive, consumer-driven and rapidly changing environments and compete with a growing number of companies that provide a broad range of communications products and services and entertainment, news and information content to consumers. Additionally, there continue to be new companies with significant financial resources that potentially may compete on a larger scale with our cable services, as well as with our cable and broadcast networks and filmed entertainment businesses.

Competition for the cable services we offer consists primarily of direct broadcast satellite ("DBS") providers, which have a national footprint and compete in all our service areas, and phone companies, which overlap approximately 45% of our service areas and are continuing to expand their fiber-based networks. We also compete with other providers of traditional cable services. All of these companies typically offer features, pricing and packaging for services comparable to our cable services.

Each of NBCUniversal's businesses also faces substantial and increasing competition from providers of similar types of content, as well as from other forms of entertainment and recreational activities. NBCUniversal also must compete to obtain talent, programming and other resources required in operating these businesses.

Technological changes are further intensifying and complicating the competitive landscape for all of our businesses by challenging existing business models and affecting consumer behavior. Newer services and devices that enable online digital distribution of movies, television shows, and other cable and broadcast video programming continue to gain consumer acceptance and evolve, including some services that charge a nominal or no fee for such programming. These services and devices may potentially negatively affect demand for our video services, as well as demand for our cable network, broadcast television and filmed entertainment content, as the number of entertainment choices available to consumers increases and as video programming is more reliably delivered over the Internet and more easily viewed via the Internet on televisions. Wireless services and devices also continues to evolve allowing consumers to access information, entertainment and communication services, which could negatively impact demand for our cable services, including for our voice services as people substitute mobile phones for landline phones. In addition, delayed viewing and advertising skipping have become more common as the penetration of digital video recorders ("DVRs") and similar products has increased and as content has become increasingly available via video-on-demand services and Internet sources, which may have a negative impact on our advertising revenue.

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In our Cable Communications segment, we believe that adding more content and delivering it on an increasing variety of platforms will assist in attracting and retaining customers for our cable services. We are also developing and launching new technology initiatives, such as our X1 platform, and deploying new wireless gateway devices, to further enhance our video and high-speed Internet services. In our NBCUniversal segments, to compete for consumers of our content and for customers at our theme parks, we have invested, and will continue to invest, substantial amounts in acquiring content and producing original content for our cable networks and broadcast television networks, including the acquisition of sports rights, and will continue to invest in our film productions and in the development of new theme park attractions.

Seasonality and Cyclicity

Each of our businesses is subject to seasonal and cyclical variations. In our Cable Communications segment, our results are impacted by the seasonal nature of customers receiving our cable services in college and vacation markets. This generally results in a reduction in net customer additions in the second calendar quarter and increased net customer additions in the third and fourth quarters of each year.

Revenue in our Cable Communications, Cable Networks and Broadcast Television segments is subject to cyclicity, with a benefit in even-numbered years from advertising related to candidates running for political office and issue-oriented advertising. Our Cable Networks and Broadcast Television segments revenue and operating costs and expenses are also cyclical as a result of our periodic broadcasts of the Olympic Games and the Super Bowl. Our advertising revenue generally increases in the period of these broadcasts from increased demand for advertising time, and our operating costs and expenses also increase as a result of our production costs and the amortization of the related rights fees.

Revenue in our Filmed Entertainment segment fluctuates due to the timing of the release of films in movie theaters and the release of our films on DVD and through digital distributors. Release dates are determined by several factors, including competition and the timing of vacation and holiday periods. As a result, revenue tends to be seasonal, with increases experienced each year during the summer months and around the holidays. Revenue in our Cable Networks and Broadcast Television segments fluctuates depending on the timing of when our programming is aired on television, which typically results in higher advertising revenue in the second and fourth calendar quarter of each year. Revenue in our Cable Networks, Broadcast Television and Filmed Entertainment segments also fluctuates due to the timing of when our owned content is made available to licensees.

Revenue in our Theme Parks segment fluctuates with changes in theme park attendance that result from the seasonal nature of vacation travel, local entertainment offerings and seasonal weather variations. Our theme parks generally experience peak attendance during the summer months when schools are closed and during early winter and spring holiday periods.

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	Three Months Ended March 31		Increase/ (Decrease)
(in millions)	2014	2013	
Revenue	\$ 17,408	\$ 15,310	13.7%
Costs and Expenses:			
Programming and production	5,908	4,663	26.7
Other operating and administrative	4,752	4,466	6.4
Advertising, marketing and promotion	1,210	1,147	5.5
Depreciation	1,569	1,566	0.2
Amortization	401	401	(0.2)
Operating income	3,568	3,067	16.3
Other income (expense) items, net	(512)	(497)	3.1
Income before income taxes	3,056	2,570	18.9
Income tax expense	(1,118)	(925)	20.8
Net income	1,938	1,645	17.8
Net (income) loss attributable to noncontrolling interests and redeemable subsidiary preferred stock	(67)	(208)	(67.9)
Net income attributable to Comcast Corporation	\$ 1,871	\$ 1,437	30.2%

All percentages are calculated based on actual amounts. Minor differences may exist due to rounding.

Percentage changes that are considered not meaningful are denoted with NM.

Consolidated Revenue

All of our reportable business segments accounted for the increase in consolidated revenue for the three months ended March 31, 2014. The increase in revenue in our Cable Networks and Broadcast Television segments was primarily due to improved performance and our broadcast of the 2014 Sochi Olympics. Excluding \$1.1 billion of revenue associated with the broadcast of the 2014 Sochi Olympics, consolidated revenue increased 6.5% for the three months ended March 31, 2014. Revenue for our Cable Communications and NBCUniversal segments is discussed separately below under the heading Segment Operating Results.

Consolidated Costs and Expenses

Our Cable Communications, Cable Networks, Broadcast Television and Theme Parks segments accounted for substantially all of the increase in consolidated costs and expenses, excluding depreciation and amortization (operating costs and expenses) for the three months ended March 31, 2014. Operating costs and expenses for our Cable Communications and NBCUniversal segments are discussed separately below under the heading Segment Operating Results.

Consolidated depreciation and amortization remained flat for the three months ended March 31, 2014 compared to the same period in 2013.

Segment Operating Results

Our segment operating results are presented based on how we assess operating performance and internally report financial information. We use operating income (loss) before depreciation and amortization, excluding impairment charges related to fixed and intangible assets and gains or losses on the sale of assets, if any, as the measure of profit or loss for our operating segments. This measure eliminates the significant level of noncash depreciation and amortization expense that results from the capital-intensive nature of certain of our businesses and from intangible assets recognized in business combinations. Additionally, it is unaffected by our capital structure or investment activities. We use this measure to evaluate our consolidated operating performance and the operating performance of our operating segments and to allocate resources and capital to our operating segments. It is also a significant performance measure in our annual incentive compensation programs. We believe that this measure is useful to investors because it is one of the bases for comparing our operating performance with that of other companies in our industries, although our measure may not be directly

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comparable to similar measures used by other companies. Because we use operating income (loss) before depreciation and amortization to measure our segment profit or loss, we reconcile it to operating income, the most directly comparable financial measure calculated and presented in accordance with GAAP, in the business segment footnote to our condensed consolidated financial statements (see Note 11 to Comcast's condensed consolidated financial statements and Note 9 to NBCUniversal's condensed consolidated financial statements). This measure should not be considered a substitute for operating income (loss), net income (loss) attributable to Comcast Corporation or NBCUniversal, net cash provided by operating activities or other measures of performance or liquidity we have reported in accordance with GAAP.

Beginning in 2014, Fandango, our movie ticketing and entertainment business that was previously presented in our Cable Networks segment, is now presented in the Filmed Entertainment segment to reflect the change in our management reporting presentation. Due to immateriality, prior period amounts have not been adjusted.

Cable Communications Segment Results of Operations

(in millions)	Three Months Ended March 31		Increase/ (Decrease)	
	2014	2013	\$	%
Revenue				
Residential:				
Video	\$ 5,178	\$ 5,113	\$ 65	1.3%
High-speed Internet	2,750	2,523	227	9.0
Voice	920	900	20	2.1
Business services	917	741	176	23.9
Advertising	519	488	31	6.2
Other	473	452	21	4.8
Total revenue	10,757	10,217	540	5.3
Operating costs and expenses				
Programming	2,452	2,253	199	8.8
Technical and product support	1,377	1,320	57	4.3
Customer service	548	521	27	5.2
Franchise and other regulatory fees	321	308	13	4.2
Advertising, marketing and promotion	704	669	35	5.2
Other	955	927	28	3.1
Total operating costs and expenses	6,357	5,998	359	6.0
Operating income before depreciation and amortization	\$ 4,400	\$ 4,219	\$ 181	4.3%

Beginning in 2014, our Cable Communications segment revised its methodology for counting customers related to how we count and report customers who reside in multiple dwelling units (MDUs) that are billed under bulk contracts (the billable customers method). For MDUs whose residents have the ability to receive additional cable services, such as additional programming choices or our high-definition (HD) or DVR services, we now count and report customers based on the number of potential billable relationships within each MDU. For MDUs whose residents are not able to receive additional cable services, the MDU is now counted as a single customer. Previously, we had counted and reported these customers on an equivalent billing unit basis by dividing monthly revenue received under an MDU's bulk contract by the standard monthly residential rate where the MDU was located (the EBU method). We believe the billable customers method is consistent with the methodology used by other companies in our industry, including Time Warner Cable, to count and report customers.

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The tables below present customer metrics using the billable customers method. Because the differences in the number of customers using the billable customers method and the EBU method for high-speed Internet and voice customers were not material, high-speed Internet and voice customers metrics as of and for the three months ended March 31, 2013 are presented using the EBU method.

Customer Metrics Billable Customers Method

	Total Customers		Net Additional Customers	
	March 31	March 31	Three Months Ended	
(in thousands)	2014	2013	March 31, 2014	March 31, 2013
Video customers	22,601	22,819	24	(25)
High-speed Internet customers	21,068	19,799	383	433
Voice customers	10,865	10,166	142	211
Total customer relationships	26,800	26,596	124	
Single product customers	8,605	9,206	(147)	
Double product customers	8,656	8,568	116	
Triple product customers	9,539	8,821	155	

Customer data includes residential and business customers. Customer relationships represent the number of residential and business customers that subscribe to at least one of our cable services and are presented based on actual amounts. Single product, double product and triple product customers represent customers that subscribe to one, two or three of our cable services, respectively.

Cable Communications Segment Revenue

Our Cable Communications segment leverages our existing cable distribution system to grow revenue by, among other things, adding new customers, encouraging existing customers to add additional or higher-tier services, and growing other services such as our business services offerings and our home security and automation services. We offer our cable services in bundles and often provide promotional incentives. We seek to balance promotional offers and rate increases with their expected effects on the number of customers and overall revenue.

Video

Video revenue increased 1.3% for the three months ended March 31, 2014 compared to the same period in 2013. An increase in the number of customers receiving additional and higher levels of video service and rate adjustments accounted for an increase in revenue of 2.8%. As of March 31, 2014, the number of customers who subscribed to our advanced services, which are HD and DVR services, increased 4.6% to 12.6 million customers compared to the same period in 2013. The increase in revenue was partially offset by fewer residential video customers compared to the prior year period. These decreases were primarily due to competitive pressures in our service areas from phone and satellite competitors and the impact of rate adjustments. We may experience further declines in the number of residential video customers.

High-Speed Internet

High-speed Internet revenue increased 9.0% for the three months ended March 31, 2014 compared to the same period in 2013. An increase in the number of residential customers receiving our high-speed Internet service accounted for an increase in revenue of 6.0%. The remaining increase in revenue for the three months ended March 31, 2014 was primarily due to higher rates from customers receiving higher levels of service and rate adjustments. Our customer base continues to grow as consumers choose our high-speed Internet service and seek higher-speed offerings.

Voice

Voice revenue increased 2.1% for the three months ended March 31, 2014 compared to the same period in 2013. An increase in the number of residential customers receiving our services through our discounted bundled offerings accounted for an increase in revenue of 6.4% for the three months ended March 31, 2014. This increase was partially offset by the impact of the allocation of voice revenue for our bundled customers because revenue attributable to voice services represents a lower proportion of the bundled rate. The amounts allocated to voice revenue in the bundled rate have decreased because video and high-speed Internet rates have increased, while voice rates have remained relatively flat.

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Business Services

Business services revenue increased 23.9% for the three months ended March 31, 2014 compared to the same period in 2013. The increase was primarily due to a higher number of business customers receiving our cable services. The remaining increase was primarily due to continued growth in the number of medium-sized business customers, including those receiving our Ethernet network and cellular backhaul services. During the three months ended March 31, 2014, our medium-sized business customers represented 22% of total business services revenue. We believe the increase in business customers is primarily the result of our efforts to gain market share from competitors by offering competitive services and pricing.

Advertising

Advertising revenue increased 6.2% for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to an increase in political advertising revenue, as well as an increase in revenue primarily in our core national and local advertising markets.

Other

Other revenue increased 4.8% for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to increases in franchise and other regulatory fees and in revenue from other services, including our home security and automation services.

Cable Communications Segment Operating Costs and Expenses

Our most significant operating cost is the programming expense we incur to provide content to our video customers. We anticipate that our programming expenses will continue to increase. We have and will continue to attempt to offset increases in programming expenses through rate increases, the sale of additional video and other services, and through operating efficiencies.

Programming costs increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to increases in programming license fees, including retransmission consent fees and sports programming costs, and fees to secure rights for additional programming for our customers across an increasing number of platforms.

Technical and product support expenses increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to expenses related to customer fulfillment activities, expenses related to the development, delivery and support of our products and services, continued growth in our products, and weather related expenses.

Customer service expenses increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to increases in total labor costs associated with increases in customer service activity. The increases in customer service activity were primarily due to increases in the number of customers as well as sales and related support activity associated with the continued deployment of enhanced services and devices, including our X1 platform and wireless gateways, and continued growth in business services.

Franchise and other regulatory fees increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to increases in residential and business services revenue.

Advertising, marketing and promotion expenses increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to increases in spending associated with attracting new residential and business services customers and encouraging existing customers to add additional or higher-tier services.

Other costs and expenses increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to increases in other administrative costs and costs related to advertising sales activities.

Table of Contents**NBCUniversal Segments Results of Operations**

(in millions)	Three Months Ended March 31		Increase/ (Decrease)	
	2014	2013	\$	%
Revenue				
Cable Networks	\$ 2,505	\$ 2,225	\$ 280	12.6%
Broadcast Television	2,621	1,517	1,104	72.8
Filmed Entertainment	1,351	1,216	135	11.1
Theme Parks	487	462	25	5.4
Headquarters, other and eliminations	(88)	(80)	(8)	NM
Total revenue	\$ 6,876	\$ 5,340	\$ 1,536	28.8%
Operating Income (Loss) Before Depreciation and Amortization				
Cable Networks	\$ 895	\$ 859	\$ 36	4.2%
Broadcast Television	122	(35)	157	NM
Filmed Entertainment	288	69	219	319.1
Theme Parks	170	173	(3)	(1.5)
Headquarters, other and eliminations	(164)	(113)	(51)	(46.1)
Total operating income (loss) before depreciation and amortization	\$ 1,311	\$ 953	\$ 358	37.6%

Cable Networks Segment Results of Operations

(in millions)	Three Months Ended March 31		Increase/ (Decrease)	
	2014	2013	\$	%
Revenue				
Distribution	\$ 1,473	\$ 1,241	\$ 232	18.6%
Advertising	896	828	68	8.2
Content licensing and other	136	156	(20)	(12.3)
Total revenue	2,505	2,225	280	12.6
Operating costs and expenses				
Programming and production	1,187	908	279	30.7
Other operating and administrative	303	338	(35)	(10.3)
Advertising, marketing and promotion	120	120		0.2
Total operating costs and expenses	1,610	1,366	244	17.9
Operating income before depreciation and amortization	\$ 895	\$ 859	\$ 36	4.2%

Cable Networks Segment Revenue

Cable Networks revenue increased for the three months ended March 31, 2014 compared to the same period in 2013 due to increases in distribution revenue and advertising revenue. The increase in distribution revenue was primarily due to the 2014 Sochi Olympics and increases in the contractual rates charged under distribution agreements. Advertising revenue increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to higher advertising revenue associated with the 2014 Sochi Olympics. Advertising revenue was also affected by higher prices and an increase in the volume of advertising units sold, offset by continuing declines in audience ratings at some of our networks. Excluding \$257 million of revenue associated with the 2014 Sochi Olympics, Cable Networks segment revenue increased 1.0%.

For the three months ended March 31, 2014 and 2013, 12% and 14%, respectively, of the revenue from our Cable Networks segment was generated from our Cable Communications segment. These amounts are eliminated in our condensed consolidated financial statements but are included in the amounts presented above.

Cable Networks Segment Operating Costs and Expenses

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Operating costs and expenses increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to an increase in programming and production costs, which was partially offset by a decrease in other operating and administrative expenses. The increase in programming and production costs was

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primarily due to the 2014 Sochi Olympics and other sports programming rights costs, and our continued investment in original programming at certain of our cable networks. The decrease in other operating and administrative costs was primarily due to a decrease in employee-related costs and the absence of Fandango in the current year period.

Broadcast Television Segment Results of Operations

(in millions)	Three Months Ended		Increase/ (Decrease)	
	March 31 2014	2013	\$	%
Revenue				
Advertising	\$ 1,833	\$ 952	\$ 881	92.5%
Content licensing	496	397	99	24.7
Other	292	168	124	74.5
Total revenue	2,621	1,517	1,104	72.8
Operating costs and expenses				
Programming and production	2,028	1,160	868	74.9
Other operating and administrative	323	292	31	10.4
Advertising, marketing and promotion	148	100	48	47.4
Total operating costs and expenses	2,499	1,552	947	61.0
Operating income (loss) before depreciation and amortization	\$ 122	\$ (35)	\$ 157	NM
Broadcast Television Segment Revenue				

Broadcast Television revenue increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to an increase in advertising revenue associated with our broadcast of the 2014 Sochi Olympics in the current year period, as well as increases in content licensing and other revenue. Excluding \$846 million of revenue associated with the 2014 Sochi Olympics, Broadcast Television revenue increased 17% primarily due to higher advertising revenue related to an increase in audience ratings. The increase in content licensing revenue was primarily due to the timing of a licensing agreement related to certain of our programming. The increase in other revenue was primarily due to fees recognized under our retransmission consent agreements and other revenue associated with the 2014 Sochi Olympics.

Broadcast Television Segment Operating Costs and Expenses

Operating costs and expenses increased for the three months ended March 31, 2014 compared to the same period in 2013 due to higher programming and production costs associated with our broadcast of the 2014 Sochi Olympics in the current year period.

Filmed Entertainment Segment Results of Operations

(in millions)	Three Months Ended		Increase/ (Decrease)	
	March 31 2014	2013	\$	%
Revenue				
Theatrical	\$ 376	\$ 313	\$ 63	20.0%
Content licensing	465	438	27	6.1
Home entertainment	351	371	(20)	(5.4)
Other	159	94	65	70.3
Total revenue	1,351	1,216	135	11.1
Operating costs and expenses				
Programming and production	604	698	(94)	(13.4)
Other operating and administrative	188	168	20	11.9
Advertising, marketing and promotion	271	281	(10)	(3.8)
Total operating costs and expenses	1,063	1,147	(84)	(7.3)
Operating income before depreciation and amortization	\$ 288	\$ 69	\$ 219	319.1%

Table of Contents**Filmed Entertainment Segment Revenue**

Filmed Entertainment revenue increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to increases in theatrical, other and content licensing revenue, which were partially offset by a decrease in home entertainment revenue. The increase in theatrical revenue was primarily due to the performance of our current period releases, including *Ride Along* and *Lone Survivor* and the international performance of *The Wolf of Wall Street*. The increase in other revenue was primarily due to the inclusion, in 2014, of Fandango, which was previously presented in our Cable Networks segment. The increase in content licensing revenue was primarily due to the timing of licensing agreements related to our film library.

Filmed Entertainment Segment Operating Costs and Expenses

Operating costs and expenses decreased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to a decrease in the amortization of film costs. Operating costs and expenses for the three months ended March 31, 2013 included \$66 million of expense associated with fair value adjustments to capitalized film production costs, which did not occur in the current year period.

Theme Parks Segment Results of Operations

(in millions)	Three Months Ended March 31		Increase/ (Decrease)	
	2014	2013	\$	%
Revenue	\$ 487	\$ 462	\$ 25	5.4%
Operating costs and expenses	317	289	28	9.5
Operating income before depreciation and amortization	\$ 170	\$ 173	\$ (3)	(1.5)%
Theme Parks Segment Revenue				

Theme Parks revenue increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to an increase in per capita spending at our Hollywood and Orlando theme parks. Guest attendance at our Orlando and Hollywood theme parks has remained stable despite the effect of a shift in the timing of holidays from the first quarter of 2013 to the second quarter of 2014.

Theme Parks Segment Operating Costs and Expenses

Theme Parks segment operating costs and expenses increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to costs at our Orlando and Hollywood theme parks associated with additional attractions and an increase in per capita spending.

NBCUniversal Headquarters, Other and Eliminations

The change in operating income (loss) before depreciation and amortization for headquarters, other and eliminations for the three months ended March 31, 2014 compared to the same period in 2013 was primarily due to higher employee-related costs, including severance costs.

Corporate and Other Results of Operations

(in millions)	Three Months Ended March 31		Increase/ (Decrease)	
	2014	2013	\$	%
Revenue	\$ 174	\$ 162	\$ 12	7.6%
Operating costs and expenses	327	245	82	33.1
Operating income (loss) before depreciation and amortization	\$ (153)	\$ (83)	\$ (70)	82.5%
Corporate and Other Revenue				

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Other revenue primarily relates to Comcast-Spectacor, which owns the Philadelphia Flyers and the Wells Fargo Center arena in Philadelphia and operates arena management-related businesses.

Other revenue increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to an increase in revenue associated with Leisure Arts, a subsidiary acquired in October 2013, as well as an increase in ticketing revenue associated with our Comcast-Spectacor business.

Table of Contents**Corporate and Other Operating Costs and Expenses**

Corporate and Other operating costs and expenses primarily include overhead, personnel costs, the cost of corporate initiatives and branding, and operating costs and expenses associated with Comcast-Spectacor.

Corporate and Other operating costs and expenses increased for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to company-wide branding initiatives, including those initiatives associated with the 2014 Sochi Olympics, \$17 million of transaction-related costs recorded during the three months ended March 31, 2014 associated with the Time Warner Cable transaction, and an increase in labor costs in our Comcast-Spectacor business.

Consolidated Other Income (Expense) Items, Net

(in millions)	Three Months Ended March 31	
	2014	2013
Interest expense	\$ (642)	\$ (653)
Investment income (loss), net	113	72
Equity in net income (losses) of investees, net	32	11
Other income (expense), net	(15)	73
Total	\$ (512)	\$ (497)
Investment Income (Loss), Net		

The components of investment income (loss), net for the three months ended March 31, 2014 and 2013 are presented in a table in Note 5 to Comcast's condensed consolidated financial statements.

Other Income (Expense), Net

The change in other income (expense), net for the three months ended March 31, 2014 compared to the same period in 2013 was primarily due to the \$108 million gain recognized in the prior year period related to our sale of wireless communications spectrum licenses and a \$27 million favorable settlement of a contingency related to the AT&T Broadband transaction recorded in the current year period.

Consolidated Income Tax Expense

Income tax expense for the three months ended March 31, 2014 and 2013 reflects an effective income tax rate that differs from the federal statutory rate primarily due to state income taxes, adjustments associated with uncertain tax positions and foreign income taxes. We expect our 2014 annual effective tax rate to be in the range of 37% to 39%, absent changes in tax laws or significant changes in uncertain tax positions. It is reasonably possible that certain statutes of limitations for the years 2000 through 2006 will expire and/or judicial decisions related to litigation could be issued within the next 12 months that may result in a decrease in our effective tax rate.

Consolidated Net (Income) Loss Attributable to Noncontrolling Interests and Redeemable Subsidiary Preferred Stock

The decrease in net (income) loss attributable to noncontrolling interests and redeemable subsidiary preferred stock for the three months ended March 31, 2014 was primarily due to our acquisition of GE's remaining 49% common equity interest in NBCUniversal Holdings in March 2013.

Liquidity and Capital Resources

Our businesses generate significant cash flows from operating activities. We believe that we will be able to continue to meet our current and long-term liquidity and capital requirements, including fixed charges, through our cash flows from operating activities, existing cash, cash equivalents and investments, available borrowings under our existing credit facilities, and our ability to obtain future external financing. We anticipate that we will continue to use a substantial portion of our cash flows to meet our debt repayment obligations, to fund our capital expenditures, to invest in business opportunities and to return capital to shareholders.

Table of Contents**Operating Activities****Components of Net Cash Provided by Operating Activities**

	Three Months Ended	
	March 31	
(in millions)	2014	2013
Operating income	\$ 3,568	\$ 3,067
Depreciation and amortization	1,970	1,967
Operating income before depreciation and amortization	5,538	5,034
Noncash share-based compensation	119	102
Changes in operating assets and liabilities	(267)	369
Cash basis operating income	5,390	5,505
Payments of interest	(623)	(617)
Payments of income taxes	(186)	(461)
Excess tax benefits under share-based compensation	(151)	(94)
Other	56	36
Net cash provided by operating activities	\$ 4,486	\$ 4,369

The changes in operating assets and liabilities for the three months ended March 31, 2014 compared to the same period in 2013 were primarily related to the timing of operating items associated with our broadcast of the 2014 Sochi Olympics and an increase in film and television costs.

The decrease in income tax payments for the three months ended March 31, 2014 compared to the same period in 2013 was primarily due to lower tax payments made in 2014 that related to 2013.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2014 consisted primarily of cash paid for capital expenditures and cash paid for intangible assets, which were partially offset by proceeds from the sales of businesses and investments.

Financing Activities

Net cash used in financing activities for the three months ended March 31, 2014 consisted primarily of repayments of debt, repurchases of our common stock and dividend payments.

In February 2014, we issued \$1.2 billion aggregate principal amount of 3.60% senior notes due 2024 and \$1 billion aggregate principal amount of 4.75% senior notes due 2044. The proceeds from this offering were used for working capital and general corporate purposes, including the repayment of a portion of our outstanding commercial paper and our \$900 million aggregate principal amount of 2.10% senior notes in April 2014 at maturity.

In January 2014, we repaid at maturity \$1 billion aggregate principal amount of 5.30% senior notes due 2014. In February 2014, we repaid \$1.25 billion of borrowings outstanding under NBCUniversal Enterprise's revolving credit facility with the proceeds from \$990 million of borrowings under its new commercial paper program and cash on hand.

We have made, and may from time to time in the future make, optional repayments on our debt obligations, which may include repurchases of our outstanding public notes and debentures, depending on various factors, such as market conditions.

Available Borrowings Under Credit Facilities

We also maintain significant availability under our lines of credit and our commercial paper program to meet our short-term liquidity requirements.

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In February 2014, NBCUniversal Enterprise established a commercial paper program. The maximum borrowing capacity under this commercial paper program is \$1.35 billion, and it is supported by NBCUniversal Enterprise's existing \$1.35 billion revolving credit facility due March 2018. The commercial paper program is fully and unconditionally guaranteed by us and the cable guarantors. As of March 31, 2014, NBCUniversal Enterprise had

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\$990 million face amount of commercial paper outstanding. The proceeds from NBCUniversal Enterprise's issuance of commercial paper were used to repay the \$1.25 billion borrowings outstanding under its revolving credit facility.

As of March 31, 2014, amounts available under our consolidated revolving credit facilities, net of amounts outstanding under our commercial paper program and undrawn letters of credit, totaled \$6.3 billion, which included \$360 million available under NBCUniversal Enterprise's credit facility.

Share Repurchases and Dividends

In January 2014, our Board of Directors increased our share repurchase authorization to \$7.5 billion, which does not have an expiration date. Under this authorization, we may repurchase shares in the open market or in private transactions. During the three months ended March 31, 2014, we repurchased 15 million shares of our Class A Special common stock for \$750 million. We intend to repurchase a total of \$3 billion of shares in 2014, subject to market conditions. In addition, after shareholder approval has been obtained by both Comcast and Time Warner Cable related to the merger, we intend to repurchase an additional \$2.5 billion of shares during 2014, subject to market conditions.

In January 2014, our Board of Directors approved a 15% increase in our dividend to \$0.90 per share on an annualized basis and approved our first quarter dividend of \$0.225 per share to be paid in April 2014. We expect to continue to pay quarterly dividends, although each dividend is subject to approval by our Board of Directors.

Critical Accounting Judgments and Estimates

The preparation of our condensed consolidated financial statements requires us to make estimates that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and contingent liabilities. We base our judgments on our historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a more complete discussion of the accounting judgments and estimates that we have identified as critical in the preparation of our condensed consolidated financial statements, please refer to our Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2013 Annual Report on Form 10-K.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have evaluated the information required under this item that was disclosed in our 2013 Annual Report on Form 10-K and there have been no significant changes to this information.

ITEM 4: CONTROLS AND PROCEDURES

Comcast Corporation

Conclusions regarding disclosure controls and procedures

Our principal executive and principal financial officers, after evaluating the effectiveness of Comcast's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15, Comcast's disclosure controls and procedures were effective.

Changes in internal control over financial reporting

There were no changes in Comcast's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during Comcast's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, Comcast's internal control over financial reporting.

Table of Contents**NBCUniversal Media, LLC*****Conclusions regarding disclosure controls and procedures***

Our principal executive and principal financial officers, after evaluating the effectiveness of NBCUniversal's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15, NBCUniversal's disclosure controls and procedures were effective.

Changes in internal control over financial reporting

There were no changes in NBCUniversal's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during NBCUniversal's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, NBCUniversal's internal control over financial reporting.

PART II: OTHER INFORMATION**ITEM 1: LEGAL PROCEEDINGS**

Refer to Note 10 to Comcast's condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a discussion of recent developments related to our legal proceedings. There have been no material developments in the matter reported in our 2013 Annual Report on Form 10-K regarding the California Attorney General and the Alameda County, California District Attorney's investigation of certain of our waste disposal policies, procedures and practices.

NBCUniversal Media, LLC is subject to legal proceedings and claims that arise in the ordinary course of its business. It does not expect the final disposition of any of these matters to have a material adverse effect on its results of operations, cash flows or financial condition, although any such matters could be time consuming and costly and could injure its reputation.

ITEM 1A: RISK FACTORS

There have been no significant changes from the risk factors previously disclosed in Item 1A of our 2013 Annual Report on Form 10-K.

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

The table below summarizes Comcast's Class A Special common stock repurchases under its Board-authorized share repurchase program during the three months ended March 31, 2014.

Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Authorization	Total Dollar Amount Purchased Under the Authorization	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Authorization ^(a)
January 1-31, 2014	289	\$ 52.72		\$	\$ 7,500,000,000
February 1-28, 2014	4,903,055	\$ 50.99	4,903,055	\$ 250,000,000	\$ 7,250,000,000
March 1-31, 2014	10,188,367	\$ 49.72	10,062,354	\$ 500,000,000	\$ 6,750,000,000
Total	15,091,711	\$ 50.13	14,965,409	\$ 750,000,000	\$ 6,750,000,000

(a) In January 2014, our Board of Directors increased our share repurchase authorization to \$7.5 billion, which does not have an expiration date. Under this authorization, we may repurchase shares in the open market or in private transactions. We expect to make \$2.25 billion more in repurchases during the

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remainder of 2014, subject to market conditions. In addition, after shareholder approval has been obtained by both Comcast and Time Warner Cable related to the merger, we intend to repurchase an additional \$2.5 billion of shares during 2014, subject to market conditions.

The total number of shares purchased during the three months ended March 31, 2014 includes 126,302 shares received in the administration of employee share-based compensation plans.

Table of Contents**ITEM 6: EXHIBITS****Comcast**

Exhibit No.	Description	2px;">	(1	)	32	81						
Trading securities:												
Common stock	15				0	0	0	0	0	0	15	
Total trading securities	15				0	0	0	0	0	0	15	
Other investments	102				4	0	0	(3	)	0	103	
Total Level 3 assets – Exchange		\$			143	\$4	\$(1)	\$25	\$(4)	\$32	\$199	
Total Level 3 assets – Erie Insurance Group		\$			162	\$5	\$(1)	\$28	\$(4)	\$32	\$222	

(1) These amounts are reported in the Consolidated Statement of Operations. There is \$5 million included in equity in earnings of limited partnerships for the three months ended September 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 September 30, 2014.

For the Exchange, there were no Level 1 to Level 2 transfers, and Level 2 to Level 1 transfers totaled \$25 million due to trading activity levels for three preferred stock holdings for the three months ended September 30, 2014. Level 2 to Level 3 transfers totaled \$43 million for seven fixed maturity holdings and one preferred stock holding due to the use of unobservable inputs to determine the fair value. Level 3 to Level 2 transfers totaled \$11 million for one fixed maturity holding due to the use of observable market data to determine the fair value at September 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 September 30, 2014
Indemnity							
Available-for-sale securities:							
Corporate debt securities	\$1	\$0	\$ 0	\$ 0	\$0	\$0	\$1
Commercial mortgage-backed securities	0	0	0	3	0	0	3
Collateralized debt obligations	1	0	0	0	(1)	0	0
Total fixed maturities	2	0	0	3	(1)	0	4
Total available-for-sale securities	2	0	0	3	(1)	0	4
Other investments	18	3	0	0	(2)	0	19
Total Level 3 assets – Indemnity	\$20	\$3	\$ 0	\$ 3	\$(3)	\$0	\$23
Exchange							
Available-for-sale securities:							
Corporate debt securities	\$26	\$0	\$ (1)	\$ 25	\$(2)	\$23	\$71
Collateralized debt obligations	5	1	(1)	0	(3)	(2)	0
Other debt securities	0	0	0	0	0	2	2
Total fixed maturities	31	1	(2)	25	(5)	23	73
Nonredeemable preferred stock	0	0	0	1	0	7	8
Total available-for-sale securities	31	1	(2)	26	(5)	30	81
Trading securities:							
Common stock	15	0	0	0	0	0	15
Total trading securities	15	0	0	0	0	0	15
Other investments	98	15	0	0	(10)	0	103
Total Level 3 assets – Exchange	\$144	\$16	\$ (2)	\$ 26	\$(15)	\$30	\$199
Total Level 3 assets – Erie Insurance Group	\$164	\$19	\$ (2)	\$ 29	\$(18)	\$30	\$222

These amounts are reported in the Consolidated Statement of Operations. There is \$1 million included in net (1) realized investment gains (losses) and \$18 million included in equity in earnings of limited partnerships for the nine months ended September 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 nine months ended September 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 Level 2 to Level 1 transfers totaled \$25 million due to trading activity levels for three preferred stock holdings for the nine months ended September 30, 2014. Level 2 to Level 3 transfers totaled \$43 million for seven fixed maturity holdings and one preferred stock holding due to the use of unobservable inputs to determine the fair value. Level 3 to Level 2 transfers totaled \$13 million for two fixed maturity holdings due to the use of observable market data to determine the fair value at September 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 \$5 million for Indemnity and \$122 million for the Exchange at September 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 \$5 million for Indemnity and \$48 million for the Exchange at September 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 September 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
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 September 30, 2015:

(in millions)	Erie Insurance Group September 30, 2015			
	Total	Level 1	Level 2	Level 3
Indemnity				
Fixed maturities:				
Priced via pricing services	\$580	\$0	\$580	\$0
Priced via market comparables/broker quotes ⁽¹⁾	8	0	3	5
Total fixed maturities	588	0	583	5
Nonredeemable preferred stock:				
Priced via pricing services	8	1	7	0
Total nonredeemable preferred stock	8	1	7	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⁾	5	0	0	5
Total other investments	5	0	0	5
Total – Indemnity	\$613	\$13	\$590	\$10
Exchange				
Fixed maturities:				
Priced via pricing services ⁽¹⁾	\$9,237	\$0	\$9,226	\$11
Priced via market comparables/broker quotes ⁽¹⁾	148	0	42	106
Priced via internal modeling	7	0	0	7
Total fixed maturities	9,392	0	9,268	124
Nonredeemable preferred stock:				
Priced via pricing services	617	310	307	0
Priced via market comparables/broker quotes ⁽¹⁾	5	0	0	5
Priced via internal modeling	1	0	0	1
Total nonredeemable preferred stock	623	310	307	6
Common stock:				
Priced via pricing services	3,065	3,065	0	0
Priced via internal modeling	13	0	0	13
Total common stock	3,078	3,065	0	13
Other investments:				
Priced via unobservable inputs ⁽²⁾	48	0	0	48
Total other investments	48	0	0	48
Total – Exchange	\$13,141	\$3,375	\$9,575	\$191
Total – Erie Insurance Group	\$13,754	\$3,388	\$10,165	\$201

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

Other investments measured at fair value represent real estate funds included on the balance sheet as limited (2) 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 nine months ended September 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 September 30, 2015:

(in millions)	Erie Insurance Group September 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Indemnity				
Available-for-sale securities:				
States & political subdivisions	\$226	\$ 11	\$ 0	\$237
Corporate debt securities	248	1	4	245
Residential mortgage-backed securities	11	0	0	11
Commercial mortgage-backed securities	45	0	1	44
Collateralized debt obligations	46	0	0	46
Other debt securities	5	0	0	5
Total fixed maturities	581	12	5	588
Nonredeemable preferred stock	7	1	0	8
Common stock	13	0	1	12
Total available-for-sale securities – Indemnity	\$601	\$ 13	\$ 6	\$608
Exchange				
Available-for-sale securities:				
U.S. treasury	\$8	\$ 0	\$ 0	\$8
Government sponsored enterprises	3	1	0	4
States & political subdivisions	1,402	75	1	1,476
Foreign government securities	91	0	5	86
Corporate debt securities	7,450	314	107	7,657
Residential mortgage-backed securities	30	0	0	30
Commercial mortgage-backed securities	28	1	0	29
Collateralized debt obligations	6	5	0	11
Other debt securities	88	3	0	91
Total fixed maturities	9,106	399	113	9,392
Nonredeemable preferred stock	585	43	5	623
Common stock	96	2	1	97
Total available-for-sale securities – Exchange	\$9,787	\$ 444	\$ 119	\$10,112
Total available-for-sale securities – Erie Insurance Group	\$10,388	\$ 457	\$ 125	\$10,720

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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 September 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 September 30, 2015	
	Amortized cost	Estimated fair value
Indemnity		
Due in one year or less	\$68	\$68
Due after one year through five years	261	261

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Due after five years through ten years	161	165
Due after ten years	91	94
Total fixed maturities – Indemnity	\$581	\$588
Exchange		
Due in one year or less	\$432	\$438
Due after one year through five years	3,364	3,524
Due after five years through ten years	3,849	3,909
Due after ten years	1,461	1,521
Total fixed maturities – Exchange	\$9,106	\$9,392
Total fixed maturities – Erie Insurance Group	\$9,687	\$9,980

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

(dollars in millions)	Erie Insurance Group September 30, 2015		12 months or longer		Total		No. of holdings
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	
Indemnity							
Available-for-sale securities:							
States & political subdivisions	\$4	\$0	\$0	\$0	\$4	\$0	2
Corporate debt securities	134	1	17	3	151	4	292
Residential mortgage-backed securities	2	0	1	0	3	0	4
Commercial mortgage-backed securities	16	0	23	1	39	1	26
Collateralized debt obligations	22	0	7	0	29	0	15
Other debt securities	5	0	0	0	5	0	3
Total fixed maturities	183	1	48	4	231	5	342
Nonredeemable preferred stock	3	0	0	0	3	0	2
Common stock	13	1	0	0	13	1	1
Total available-for-sale securities – Indemnity	\$199	\$2	\$48	\$4	\$247	\$6	345
Quality breakdown of fixed maturities:							
Investment grade	\$131	\$0	\$35	\$1	\$166	\$1	80
Non-investment grade	52	1	13	3	65	4	262
Total fixed maturities – Indemnity	\$183	\$1	\$48	\$4	\$231	\$5	342
Exchange							
Available-for-sale securities:							
U.S. treasury	\$0	\$0	\$0	\$0	\$0	\$0	1
States & political subdivisions	75	1	5	0	80	1	20
Foreign government securities	77	5	0	0	77	5	51
Corporate debt securities	1,951	84	151	23	2,102	107	987
Residential mortgage-backed securities	0	0	13	0	13	0	3
Other debt securities	6	0	7	0	13	0	4
Total fixed maturities	2,109	90	176	23	2,285	113	1,066
Nonredeemable preferred stock	146	4	24	1	170	5	29
Common stock	31	1	0	0	31	1	1
Total available-for-sale securities – Exchange	\$2,286	\$95	\$200	\$24	\$2,486	\$119	1,096
Quality breakdown of fixed maturities:							
Investment grade	\$1,521	\$62	\$109	\$9	\$1,630	\$71	434
Non-investment grade	588	28	67	14	655	42	632
Total fixed maturities – Exchange	\$2,109	\$90	\$176	\$23	\$2,285	\$113	1,066

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.

(dollars in millions)	Erie Insurance Group December 31, 2014		12 months or longer		Total		No. of holdings
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	
Indemnity							
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:

(in millions)	Erie Insurance Group		Nine months ended September	
	Three months ended September 30,		30,	
	2015	2014	2015	2014
Indemnity				
Fixed maturities	\$4	\$4	\$12	\$10
Equity securities	1	0	1	1
Cash equivalents and other	0	0	1	1
Total investment income	5	4	14	12
Less: investment expenses	1	0	1	0
Investment income, net of expenses – Indemnity	\$4	\$4	\$13	\$12
Exchange				
Fixed maturities	\$97	\$90	\$287	\$261
Equity securities	29	30	91	89
Cash equivalents and other	1	0	2	1
Total investment income	127	120	380	351
Less: investment expenses	11	9	33	28
Investment income, net of expenses – Exchange	\$116	\$111	\$347	\$323
Investment income, net of expenses – Erie Insurance Group	\$120	\$115	\$360	\$335

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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		Nine months ended September	
	Three months ended September 30,		30,	
	2015	2014	2015	2014
Indemnity				
Available-for-sale securities:				
Fixed maturities:				
Gross realized gains	\$0	\$0	\$0	\$0
Gross realized losses	(1	) 0	(1	) 0
Net realized (losses) gains	(1	) 0	(1	) 0
Equity securities:				
Gross realized gains	1	0	1	1
Gross realized losses	0	0	0	0
Net realized gains	1	0	1	1
Net realized investment gains – Indemnity	\$0	\$0	\$0	\$1
Exchange				
Available-for-sale securities:				
Fixed maturities:				
Gross realized gains	\$4	\$8	\$17	\$18
Gross realized losses	(9	) (2	) (17	) (3
Net realized (losses) gains	(5	) 6	0	15
Equity securities:				
Gross realized gains	7	0	18	10
Gross realized losses	0	0	(1	) (2
Net realized gains	7	0	17	8
Trading securities:				
Common stock:				
Gross realized gains	52	89	218	211
Gross realized losses	(19	) (5	) (42	) (15
(Decreases) increases in fair value ⁽¹⁾	(327	) (175	) (436	) (116
Net realized (losses) gains	(294	) (91	) (260	) 80
Net realized investment (losses) gains – Exchange	\$(292	) \$(85	) \$(243	) \$103
Net realized investment (losses) gains – Erie Insurance Group	\$(292	) \$(85	) \$(243	) \$104

(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 \$0.5 million for the third quarter, and \$0.6 million for the nine months ended September 30, 2015, compared to less than \$0.1 million for the third quarter and \$0.1 million for the nine months ended September 30, 2014. Net impairment losses recorded in earnings for the Exchange were \$3 million for the third quarter, and \$7 million for the nine months ended September 30, 2015, compared to \$1 million for both the third quarter and the nine months ended September 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 September 30, 2015 are comprised of partnership financial results for the fourth quarter of 2014 and the first two quarters of 2015. Given the lag in reporting, our limited partnership results do not reflect the market conditions of the third 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	September 30,	Nine months ended	September 30,
	2015	2014	2015	2014
Indemnity				
Equity in earnings of limited partnerships accounted for under the equity method	\$3	\$3	\$17	\$10
Change in fair value of limited partnerships accounted for under the fair value option	1	1	0	3
Equity in earnings of limited partnerships – Indemnity	\$4	\$4	\$17	\$13
Exchange				
Equity in earnings of limited partnerships accounted for under the equity method	\$37	\$26	\$121	\$83
Change in fair value of limited partnerships accounted for under the fair value option	2	4	5	15
Equity in earnings of limited partnerships – Exchange	\$39	\$30	\$126	\$98
Equity in earnings of limited partnerships – Erie Insurance Group	\$43	\$34	\$143	\$111

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We have provided summarized financial information in the following tables for the nine months ended September 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 September 30, 2015 include partnership financial results for the fourth quarter of 2014 and the first two quarters of 2015.

Erie Insurance Group As of and for the nine months ended September 30, 2015				
(dollars in millions)	Number of partnerships	Asset recorded	Income (loss) recognized due to valuation adjustments by the partnerships	Income (loss) recorded
Investment percentage in limited partnerships				
Indemnity				
Private equity:				
Less than 10%	24	\$23	\$(2)	\$2
Greater than or equal to 10% but less than 50%	3	28	11	2
Total private equity	27	51	9	4
Mezzanine debt:				
Less than 10%	10	8	0	1
Greater than or equal to 10% but less than 50%	3	5	0	1
Greater than 50%	1	0	0	0
Total mezzanine debt	14	13	0	2
Real estate:				
Less than 10%	11	21	(11)	11
Greater than or equal to 10% but less than 50%	2	4	(6)	6
Greater than 50%	2	6	2	0
Total real estate	15	31	(15)	17
Total limited partnerships – Indemnity	56	\$95	\$(6)	\$23
Exchange				
Private equity:				
Less than 10%	43	\$306	\$5	\$32
Greater than or equal to 10% but less than 50%	3	112	45	8
Total private equity	46	418	50	40
Mezzanine debt:				
Less than 10%	21	115	(4)	13
Greater than or equal to 10% but less than 50%	4	24	1	2
Greater than 50%	3	27	1	2
Total mezzanine debt	28	166	(2)	17
Real estate:				
Less than 10%	27	178	(25)	34
Greater than or equal to 10% but less than 50%	4	45	(16)	19

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Greater than 50%	2	25	8	1
Total real estate	33	248	(33) 54
Total limited partnerships – Exchange	107	\$832	\$15	\$111
Total limited partnerships – Erie Insurance Group		\$927	\$9	\$134

Per the limited partnership financial statements, total partnership assets were \$41 billion and total partnership liabilities were \$4 billion at September 30, 2015 (as recorded in the June 30, 2015 limited partnership financial statements). For the nine month period comparable to that presented in the preceding table (fourth quarter of 2014 and first two quarters of 2015), total partnership valuation adjustment gains were \$0.5 billion and total partnership net income was \$5 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)			Income (loss) recognized due to valuation adjustments by the partnerships	Income (loss) recorded
Investment percentage in limited partnerships	Number of partnerships	Asset 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 September 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 September 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 September 30, 2015. Bonds with a fair value of \$111 million were pledged as collateral on the line at September 30, 2015. On October 28, 2015, Indemnity extended the maturity date of the revolving credit facility to November 3, 2020.

As of September 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 September 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 September 30, 2015. Bonds with a fair value of \$326 million were pledged as collateral on the line at September 30, 2015. On October 28, 2015, the Exchange amended the bank revolving line of credit to \$400 million and extended the maturity date to October 28, 2020. The increase in the line of credit to \$400 million was driven by both favorable credit market conditions and increased need based on Exchange's growth in business.

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 September 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 September 30, 2015.

Note 9. Income Taxes

At September 30, 2015, we recorded a net deferred tax liability of \$232 million on our Consolidated Statements of Financial Position. Of this amount, \$51 million is a net deferred tax asset attributable to Indemnity and \$283 million is a net deferred tax liability attributable to the Exchange. There was no deferred tax valuation allowance recorded at September 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 57% 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 September 30, 2015, exists in the event EFL does not honor the annuity contracts.

The cost of our pension plans are as follows:

(in millions)	Erie Insurance Group			
	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Service cost for benefits earned	\$8	\$6	\$23	\$17
Interest cost on benefits obligation	8	7	23	21
Expected return on plan assets	(9	) (8	) (27	) (24
Prior service cost amortization	0	0	1	1
Net actuarial loss amortization	3	2	10	5
Pension plan cost ⁽¹⁾	\$10	\$7	\$30	\$20

⁽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 nine months ended September 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 September 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 nine months ended September 30, 2015:

(in millions)	Indemnity Shareholder Interest			Total
	Unrealized holding gains (losses) on available-for-sale securities	Postretirement plans ⁽²⁾		
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)	) 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	(3)	) 0		(3)
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	(3)	) 0		(3)
Balance at September 30, 2015	\$4	\$(125)	)	\$(121)

(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:

(in millions)	Erie Insurance Group			
	Amounts reclassified from accumulated other comprehensive income (loss) ⁽¹⁾			
	Three months ended		Nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
Unrealized holding gains (losses) on available-for-sale securities:				
Net realized investment gains	\$2	\$6	\$17	\$24
Net impairment losses recognized in earnings	(4)	) (1)	) (8)	) (1)
(Loss) income from operations before income taxes and noncontrolling interest	(2)	) 5	9	23
Provision for income taxes	(1)	) 1	3	8
Net (loss) income	(1)	) 4	6	15
	(1)	) 4	6	14

Less: Net (loss) income attributable to noncontrolling interest in consolidated entity – Exchange

Net income attributable to Indemnity	\$0	\$0	\$0	\$1
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(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 nine months ended September 30, 2015:

(in millions, except per share data)	Erie Insurance Group			
	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	145	221	366	
Change in accumulated other comprehensive income (loss), net of tax	(3) (126) (129)
Dividends declared:				
Class A \$2.043 per share	(94) —	(94)
Class B \$306.45 per share	(1) —	(1)
Balance at September 30, 2015	\$750	\$7,375	\$8,125	

Note 14. Commitments and Contingencies

Indemnity has contractual commitments to invest up to \$20 million related to its limited partnership investments at September 30, 2015. These commitments are split among private equity securities of \$8 million, mezzanine debt securities of \$8 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 September 30, 2015. These commitments are split among private equity securities of \$124 million, mezzanine debt securities of \$208 million, and real estate activities of \$195 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

(in millions)	Erie Insurance Group At September 30, 2015			
	Indemnity shareholder interest	Exchange noncontrolling interest	Reclassifications and eliminations	Erie Insurance Group
Assets				
Investments				
Available-for-sale securities, at fair value:				
Fixed maturities	\$588	\$9,392	\$—	\$9,980
Equity securities	20	720	—	740
Trading securities, at fair value	—	2,981	—	2,981
Limited partnerships	95	832	—	927
Other invested assets	1	21	—	22
Total investments	704	13,946	—	14,650
Cash and cash equivalents	122	496	—	618
Premiums receivable from policyholders	—	1,417	—	1,417
Reinsurance recoverable	—	162	—	162
Deferred income tax asset	51	—	—	51
Deferred acquisition costs	—	656	—	656
Other assets	110	451	—	561
Receivables from the Exchange and other affiliates	385	—	(385) —
Note receivable from EFL	25	—	(25) —
Total assets	\$1,397	\$17,128	\$(410	) \$18,115
Liabilities				
Losses and loss expense reserves	\$—	\$3,923	\$—	\$3,923
Life policy and deposit contract reserves	—	1,848	—	1,848
Unearned premiums	—	3,109	—	3,109
Deferred income tax liability	—	283	—	283
Other liabilities	647	590	(410	) 827
Total liabilities	647	9,753	(410) 9,990
Shareholders' equity and noncontrolling interest				

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Total Indemnity shareholders' equity	750	—	—	750
Noncontrolling interest in consolidated entity – Exchange	—	7,375	—	7,375
Total equity	750	7,375	—	8,125
Total liabilities, shareholders' equity, and noncontrolling interest	\$ 1,397	\$ 17,128	\$(410) \$ 18,115

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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 \$381 million and \$331 million at September 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 September 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 nine months ended September 30, 2015 and 2014, Indemnity recognized interest income on the note of \$1.3 million.

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Income attributable to Indemnity shareholder interest

(in millions)	Indemnity Shareholder Interest			
	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Management operations:				
Management fee revenue, net	\$389	\$362	\$1,127	\$1,047
Service agreement revenue	7	8	22	23
Total revenue from management operations	396	370	1,149	1,070
Cost of management operations	328	308	958	882
Income from management operations before taxes	68	62	191	188
Investment operations:				
Net investment income	4	4	13	12
Net realized investment gains	0	0	0	1
Net impairment losses recognized in earnings	(1	) 0	(1	) 0
Equity in earnings of limited partnerships	4	4	17	13
Income from investment operations before taxes	7	8	29	26
Income from operations before income taxes	75	70	220	214
Provision for income taxes	25	23	75	72
Net income attributable to Indemnity	\$50	\$47	\$145	\$142

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

(in millions)	Indemnity Shareholder Interest	
	Nine months ended September 30,	
	2015	2014
Management fee received	\$1,094	\$1,011
Service agreement fee received	23	23
Net investment income received	19	16
Limited partnership distributions	12	12
Decrease in reimbursements collected from affiliates	(17	) (7
Commissions and bonuses paid to agents	(633	) (576
Salaries and wages paid	(115	) (116
Pension contribution and employee benefits paid	(34	) (42
General operating expenses paid	(144	) (140
Income taxes paid	(74	) (70
Net cash provided by operating activities	131	111
Net cash used in investing activities	(6	) (6
Net cash used in financing activities	(95	) (109
Net increase (decrease) in cash and cash equivalents	30	(4
Cash and cash equivalents at beginning of period	92	49
Cash and cash equivalents at end of period	\$122	\$45

Note 16. Subsequent Events

Other than Indemnity and the Exchange amending their respective bank revolving lines of credit on October 28, 2015, as discussed in Note 8. "Bank Line of Credit," no items were identified in this period subsequent to the financial statement date that required adjustment or additional 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;

- 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 September 30,		Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
Management operations:								
Management fee revenue, net	\$ 389	\$ 362	\$—	\$—	\$(389)	\$(362)	\$—	\$—
Service agreement revenue	7	8	—	—	—	—	7	8
Total revenue from management operations	396	370	—	—	(389)	(362)	7	8
Cost of management operations	328	308	—	—	(328)	(308)	—	—
Income from management operations before taxes	68	62	—	—	(61)	(54)	7	8
Property and casualty insurance operations:								
Net premiums earned	—	—	1,447	1,333	—	—	1,447	1,333
Losses and loss expenses	—	—	912	908	(1)	(1)	911	907
Policy acquisition and underwriting expenses	—	—	420	387	(63)	(56)	357	331
Income from property and casualty insurance operations before taxes	—	—	115	38	64	57	179	95
Life insurance operations: ⁽¹⁾								
Total revenue	—	—	49	48	0	0	49	48
Total benefits and expenses	—	—	38	38	0	0	38	38
Income from life insurance operations before taxes	—	—	11	10	0	0	11	10
Investment operations: ⁽¹⁾								
Net investment income	4	4	95	90	(3)	(3)	96	91
Net realized investment losses	0	0	(292)	(88)	—	—	(292)	(88)
Net impairment losses recognized in earnings	(1)	0	(3)	0	—	—	(4)	0
Equity in earnings of limited partnerships	4	4	39	30	—	—	43	34
Income (loss) from investment operations before taxes	7	8	(161)	32	(3)	(3)	(157)	37
Income (loss) from operations before income taxes and noncontrolling interest	75	70	(35)	80	—	—	40	150
Provision for income taxes	25	23	(18)	19	—	—	7	42
Net income (loss)	\$ 50	\$ 47	\$(17)	\$ 61	\$—	\$—	\$ 33	\$ 108

(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 decreased in the third quarter of 2015 compared to the third quarter of 2014 due to losses experienced from our investment operations, which was somewhat offset by higher underwriting gains from our property and casualty insurance operations. Our investment operations generated higher net realized losses on investments in the third quarter of 2015 compared to 2014. Contributing to the property and casualty insurance operations underwriting results was an 8.5% increase in earned premium in the third quarter of 2015, driven by increases in policies in force and average premium per policy. Lower current accident year non-catastrophe losses also contributed to the improved underwriting results compared to 2014.

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(in millions)	Indemnity shareholder interest		Noncontrolling interest (Exchange)		Eliminations of related party transactions		Erie Insurance Group	
	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
Management operations:								
Management fee revenue, net	\$ 1,127	\$ 1,047	\$—	\$—	\$(1,127)	\$(1,047)	\$—	\$—
Service agreement revenue	22	23	—	—	—	—	22	23
Total revenue from management operations	1,149	1,070	—	—	(1,127)	(1,047)	22	23
Cost of management operations	958	882	—	—	(958)	(882)	—	—
Income from management operations before taxes	191	188	—	—	(169)	(165)	22	23
Property and casualty insurance operations:								
Net premiums earned	—	—	4,239	3,899	—	—	4,239	3,899
Losses and loss expenses	—	—	2,897	3,016	(3)	(4)	2,894	3,012
Policy acquisition and underwriting expenses	—	—	1,222	1,132	(175)	(173)	1,047	959
Income (loss) from property and casualty insurance operations before taxes	—	—	120	(249)	178	177	298	(72)
Life insurance operations: ⁽¹⁾								
Total revenue	—	—	144	144	0	(1)	144	143
Total benefits and expenses	—	—	110	111	0	0	110	111
Income from life insurance operations before taxes	—	—	34	33	0	(1)	34	32
Investment operations: ⁽¹⁾								
Net investment income	13	12	284	263	(9)	(11)	288	264
Net realized investment gains (losses)	0	1	(244)	95	—	—	(244)	96
Net impairment losses recognized in earnings	(1)	0	(7)	0	—	—	(8)	0
Equity in earnings of limited partnerships	17	13	125	97	—	—	142	110
Income from investment operations before taxes	29	26	158	455	(9)	(11)	178	470
Income from operations before income taxes and noncontrolling interest	220	214	312	239	—	—	532	453
Provision for income taxes	75	72	91	61	—	—	166	133
Net income	\$ 145	\$ 142	\$ 221	\$ 178	\$—	\$—	\$ 366	\$ 320

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 ⁽¹⁾ 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 nine months of 2015 compared to the first nine 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 8.7% increase in earned premium in the first nine 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 net realized losses on investments in the first nine months of 2015 compared to gains in 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		Nine months ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
	(Unaudited)		(Unaudited)		
Operating income attributable to Indemnity	\$51	\$47	\$146	\$141	
Net realized investment (losses) gains and impairments	(1	) 0	(1	) 1
Income tax benefit (expense)	0	0	0	0	
Realized (losses) gains and impairments, net of income taxes	(1	) 0	(1	) 1
Net income attributable to Indemnity	\$50	\$47	\$145	\$142	
Per Indemnity Class A common share-diluted:					
Operating income attributable to Indemnity	\$0.95	\$0.90	\$2.76	\$2.70	
Net realized investment (losses) gains and impairments	(0.01	) 0.00	(0.01	) 0.02
Income tax benefit (expense)	0.00	0.00	0.00	(0.01)
Realized (losses) gains and impairments, net of income taxes	(0.01) 0.00	(0.01) 0.01	
Net income attributable to Indemnity	\$0.94	\$0.90	\$2.75	\$2.71	

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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 11,400 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.

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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:

(dollars in millions)	Indemnity Shareholder Interest Three months ended September 30,			Nine months ended September 30,		
	2015 (Unaudited)	2014	% Change	2015 (Unaudited)	2014	% Change
Management fee revenue, net	\$389	\$362	7.5 %	\$1,127	\$1,047	7.6 %
Service agreement revenue	7	8	(3.2)	22	23	(2.4)
Total revenue from management operations	396	370	7.3	1,149	1,070	7.4
Cost of management operations	328	308	6.4	958	882	8.6
Income from management operations – Indemnity ⁽¹⁾	\$68	\$62	11.8 %	\$191	\$188	1.7 %
Gross margin	17.2 %	16.5 %	0.7 pts.	16.6 %	17.5 %	(0.9) pts.

(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:

(dollars in millions)	Indemnity Shareholder Interest Three months ended September 30,			Nine months ended September 30,		
	2015 (Unaudited)	2014	% Change	2015 (Unaudited)	2014	% Change
Property and Casualty Group direct written premium	\$1,557	\$1,449	7.5 %	\$4,520	\$4,202	7.6 %
Management fee rate	25 %	25 %		25 %	25 %	
Management fee revenue, gross	389	363	7.5	1,130	1,051	7.6
Change in allowance for management fee returned on cancelled policies ⁽¹⁾	0	(1)	NM	(3)	(4)	NM
Management fee revenue, net of allowance	\$389	\$362	7.5 %	\$1,127	\$1,047	7.6 %

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 \$27 million, or 7.5%, in the third quarter of 2015, and \$80 million, or 7.6%, in the first nine months of 2015, compared to the same respective periods in 2014. Direct written premium of the Property and Casualty Group increased 7.5% in the third quarter of 2015 and 7.6% in the first nine months of 2015, compared to the same periods in 2014, due to a 3.8% 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 third quarters of 2015 and 2014, respectively, and \$22 million and \$23 million in the nine months ended September 30, 2015 and 2014, respectively. 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

(in millions)	Indemnity Shareholder Interest			Nine months ended September			
	Three months ended September 30, 2015 (Unaudited)	2014	% Change	30, 2015 (Unaudited)	2014	% Change	
Commissions:							
Total commissions	\$223	\$208	7.5	% \$641	\$587	9.1	%
Non-commission expense:							
Sales and advertising	\$15	\$15	NM	\$47	\$45	5.3	
Underwriting and policy processing	34	31	8.9	101	95	6.7	
Information technology	28	32	(12.2)	94	91	3.3	
Customer service	8	7	9.8	22	20	9.7	
Administrative and other	20	15	26.3	53	44	19.6	
Total non-commission expense	105	100	4.2	317	295	7.6	
Total cost of management operations	\$328	\$308	6.4	% \$958	\$882	8.6	%

NM = not meaningful

Commissions – Commissions increased \$15 million in the third quarter of 2015 and \$54 million for the nine months ended September 30, 2015 compared to the same respective periods in 2014. The majority of the increases were driven by the 7.5% and 7.6% increases in direct written premiums of the Property and Casualty Group for the third quarter and nine months ended September 30, 2015, respectively, while about one-third of the increase for the nine months ended September 30, 2015 was due to higher agent incentive costs related to profitable growth. 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 \$5 million in the third quarter of 2015 compared to the third quarter of 2014. Underwriting and policy processing costs increased \$3 million due to increased personnel costs. Information technology costs decreased \$4 million, which included \$5 million in decreased professional fees offset by \$1 million in increased hardware and software costs. Administrative and other expenses increased \$5 million, which included \$4 million in personnel costs and \$1 million in professional fees. Personnel costs in all expense categories include increases of \$1 million in pension costs, \$2 million in medical costs and \$4 million in the estimate for incentive plan compensation related to the underwriting performance in the third quarter of 2015 compared to the same period in 2014.

Non-commission expense increased \$22 million in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. Sales and advertising costs increased \$2 million due to increased personnel costs. Underwriting and policy processing costs increased \$6 million due to increased personnel costs. Information technology costs increased \$3 million, which included \$2 million in hardware and software costs and \$1 million in personnel costs. Administrative and other expenses increased \$9 million, which included \$6 million in personnel costs and \$3 million in professional fees. Personnel costs in all expense categories include increases of \$4 million in pension costs, \$3 million in medical costs and \$5 million in the estimate for incentive plan compensation related to the underwriting performance in the first nine months of 2015 compared to the same period in 2014.

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Gross margin

The gross margin in the third quarter of 2015 was 17.2% compared to 16.5% in the third quarter of 2014, and was 16.6% for the nine months ended September 30, 2015 compared to 17.5% for the nine months ended September 30, 2014. The 0.9 point decrease in gross margin for the nine months ended September 30, 2015 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:

(dollars in millions)	Property and Casualty Group					
	Three months ended September 30,			Nine months ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(Unaudited)			(Unaudited)		
Premiums:						
Direct written premium	\$1,557	\$1,449	7.5 %	\$4,520	\$4,202	7.6 %
Reinsurance premium – assumed and ceded	(5)	(5)	NM	(17)	(21)	16.0
Net written premium	1,552	1,444	7.5	4,503	4,181	7.7
Change in unearned premium	(105)	(111)	4.6	(264)	(282)	6.2
Net premiums earned	1,447	1,333	8.5	4,239	3,899	8.7
Losses and loss expenses:						
Current accident year, excluding catastrophe losses	872	888	(1.8)	2,783	2,681	3.8
Current accident year catastrophe losses	77	51	49.8	214	388	(45.0)
Prior accident years, including prior year catastrophe losses	(37)	(31)	(19.4)	(100)	(53)	(87.8)
Losses and loss expenses	912	908	0.4	2,897	3,016	(3.9)
Policy acquisition and other underwriting expenses	420	387	8.4	1,222	1,132	7.9
Total losses and expenses	1,332	1,295	2.8	4,119	4,148	(0.7)
Underwriting income (loss) – Exchange ⁽¹⁾	\$115	\$38	NM %	\$120	\$(249)	NM %
Loss and loss expense ratios:						
Current accident year loss ratio, excluding catastrophe losses	60.3 %	66.6 %	(6.3)pts.	65.6 %	68.7 %	(3.1)pts.
Current accident year catastrophe loss ratio	5.3	3.8	1.5	5.1	10.0	(4.9)
Prior accident year loss ratio, including prior year catastrophe losses	(2.5)	(2.3)	(0.2)	(2.4)	(1.4)	(1.0)
Total loss and loss expense ratio	63.1	68.1	(5.0)	68.3	77.3	(9.0)
Policy acquisition and other underwriting expense ratio	29.0	29.0	0.0	28.8	29.0	(0.2)
Combined ratio	92.1 %	97.1 %	(5.0)pts.	97.1 %	106.3 %	(9.2)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 7.5% to \$1.6 billion in the third quarter of 2015, from \$1.4 billion in the third 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 3.8% in the third quarter of

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2015 as the result of continuing strong policyholder retention, compared to an increase of 4.5% in the third quarter of 2014. The year-over-year average premium per policy for all lines of business increased 3.9% at September 30, 2015, compared to 4.1% at September 30, 2014.

Premiums generated from new business decreased 1.0% to \$187 million in the third quarter of 2015, compared to an increase of 8.8% in the third quarter of 2014. Underlying the trend in new business premiums was a 0.2% decrease in new business policies written in the third quarter of 2015, compared to an increase of 5.6% in the third quarter of 2014, while the year-over-year average premium per policy on new business increased 2.8% at September 30, 2015, compared to 1.9% at September 30, 2014.

Premiums generated from renewal business increased 8.8% to \$1.4 billion in the third quarter of 2015, compared to an increase of 8.8% to \$1.3 billion in the third 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 4.1% at September 30, 2015, compared to 4.4% at September 30, 2014. The Property and Casualty Group's year-over-year policy retention ratio was 90.0% at September 30, 2015, 90.3% at December 31, 2014, and 90.5% at September 30, 2014.

Personal lines – Total personal lines premiums written increased 6.5% to \$1.1 billion in the third quarter of 2015, compared to an increase of 8.2% in the third quarter of 2014, driven by an increase of 3.9% in the total personal lines policies in force and an increase of 2.8% in the total personal lines year-over-year average premium per policy.

New business premiums written on personal lines increased 3.0% in the third quarter of 2015, compared to 7.1% in the third quarter of 2014, driven by increases in new business policies written in the private passenger auto and homeowners lines of business and average premium per policy. Personal lines new business policies written increased 0.9% in the third quarter of 2015, compared to 5.3% in the third quarter of 2014, while the year-over-year average premium per policy on personal lines new business increased 2.9% at September 30, 2015, compared to 3.2% at September 30, 2014.

Private passenger auto new business premiums written increased 3.4% in the third quarter of 2015, compared to 8.7% in the third quarter of 2014. New business policies written for private passenger auto increased 0.1% in the third quarter of 2015, compared to 6.2% in the third quarter of 2014, while the new business year-over-year average premium per policy for private passenger auto increased 3.4% at September 30, 2015, compared to 3.5% at September 30, 2014.

Homeowners new business premiums written increased 3.0% in the third quarter of 2015, compared to 3.2% in the third quarter of 2014. New business policies written for homeowners increased 3.6% in the third quarter of 2015, compared to 0.9% in the third quarter of 2014. The new business year-over-year average premium per policy for homeowners increased 1.9% at September 30, 2015, compared to 3.7% at September 30, 2014.

Renewal premiums written on personal lines increased 7.0% in the third quarter of 2015, compared to 8.3% in the third 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 2.8% at September 30, 2015, compared to 3.7% at September 30, 2014. The personal lines year-over-year policy retention ratio was 90.6% at September 30, 2015, 90.9% at December 31, 2014, and 91.0% at September 30, 2014.

Private passenger auto renewal premiums written increased 7.0% in the third quarter of 2015, compared to 6.6% in the third quarter of 2014. The year-over-year average premium per policy on private passenger auto renewal business increased 2.2% at September 30, 2015, compared to 1.8% at September 30, 2014. The private passenger auto year-over-year policy retention ratio was 91.5% at September 30, 2015, 91.7% at December 31, 2014, and 91.8% at

September 30, 2014.

Homeowners renewal premiums written increased 6.7% in the third quarter of 2015, compared to 10.9% in the third quarter of 2014. The year-over-year average premium per policy on homeowners renewal business increased 4.3% at September 30, 2015, compared to 7.3% at September 30, 2014. The homeowners year-over-year policyholder retention ratio was 89.4% at September 30, 2015, 89.8% at December 31, 2014, and 89.9% at September 30, 2014.

Commercial lines – Total commercial lines premiums written increased 10.3% to \$424 million in the third quarter of 2015, from \$385 million in the third quarter of 2014, driven by a 3.4% increase in the total commercial lines policies in force and a 7.0% increase in the total commercial lines year-over-year average premium per policy.

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New business premiums written on commercial lines decreased 10.1% in the third quarter of 2015, compared to an increase of 12.4% in the third quarter of 2014, driven by decreases in new business policies written seen across all commercial lines of business. Commercial lines new business policies written decreased 6.8% in the third quarter of 2015, compared to an increase of 7.7% in the third quarter of 2014, while the year-over-year average premium per policy on commercial lines new business increased 3.8% at September 30, 2015, compared to 0.9% at September 30, 2014.

Renewal premiums for commercial lines increased 14.1% in the third quarter of 2015, compared to 10.2% in the third 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 7.4% at September 30, 2015, compared to 5.9% at September 30, 2014. The year-over-year policy retention ratio for commercial lines was 86.1% at September 30, 2015, 86.5% at December 31, 2014, and 86.7% at September 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 September 30, 2015, we had nearly 2,200 agencies with over 11,400 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 60.3% in the third quarter of 2015, compared to 66.6% in the third quarter of 2014, and was 65.6% for the nine months ended September 30, 2015, compared to 68.7% for the nine months ended September 30, 2014. The improvement in the first nine months of 2015 was driven primarily by a lower volume of non-catastrophe weather related claims than in the first nine months of 2014. The higher volume of non-catastrophe claims in the first nine 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 \$77 million in the third quarter of 2015, compared to \$51 million in the third quarter of 2014, and contributed 5.3 points and 3.8 points, respectively, to the loss ratios. For the nine months ended September 30, 2015, catastrophe losses for the

current accident year totaled \$214 million, compared to \$388 million for the nine months ended September 30, 2014, and contributed 5.1 points and 10.0 points, respectively, to the loss ratios. Catastrophe losses in the first nine months of 2014 primarily resulted from many smaller events across our footprint and a large hail storm that occurred in the state of Pennsylvania.

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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:

(in millions)	Property and Casualty Group			
	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Direct business, including reserves for catastrophe losses and salvage and subrogation	\$(38	) \$(35	) \$(108	) \$(62
Assumed reinsurance business	2	2	12	12
Ceded reinsurance business	(1	) 2	(4	) (3
Total prior year loss development	\$(37	) \$(31	) \$(100	) \$(53

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

Direct business, including reserves for catastrophe losses and salvage and subrogation – In the third quarter of 2015, the Property and Casualty Group experienced favorable development on direct prior accident year loss reserves of \$38 million that improved the combined ratio by 2.6 points, compared to favorable development of \$35 million in the third quarter of 2014 that improved the combined ratio by 2.6 points. For the nine months ended September 30, 2015, favorable development of direct prior accident year loss reserves totaled \$108 million and improved the combined ratio by 2.5 points, compared to favorable development of \$62 million that improved the combined ratio by 1.6 points for the nine months ended September 30, 2014.

The favorable development in the first nine months of 2015 was seen across all major lines of business. In the first nine months of 2014, the favorable development was primarily due to the workers compensation, commercial multi-peril and personal auto lines 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 third quarters of 2015 and 2014. In the first nine months of 2015 and 2014, adverse development on prior accident year loss reserves for the assumed reinsurance business totaled \$12 million for both periods. The adverse development in both the first nine 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 the third quarter of 2015 and decreased by \$2 million in the third quarter of 2014, and increased by \$4 million and \$3 million in the first nine 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 nine months of 2015, the increase in ceded recoveries was primarily due to adverse development related to the commercial multi-peril and workers compensation lines of business, whereas the increase in the first nine months of 2014 was primarily due to adverse development related to the commercial multi-peril line of business.

Policy acquisition and other underwriting expenses – Our policy acquisition and other underwriting expense ratio was 29.0% in both the third quarters of 2015 and 2014, and decreased 0.2 points to 28.8% for the nine months ended

September 30, 2015, from 29.0% for the nine months ended September 30, 2014. The management fee rate was 25% for the periods ended September 30, 2015 and 2014.

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:

(in millions)	Erie Family Life Insurance Company						
	Three months ended September 30,			Nine months ended September 30,			
	2015	2014	% Change	2015	2014	% Change	
	(Unaudited)			(Unaudited)			
Individual and group life premiums, gross	\$32	\$31	3.1 %	\$97	\$93	3.8 %	
Reinsurance premiums – ceded	(7)	(9)	8.0	(28)	(29)	2.6	
Individual and group life premiums, net	25	22	7.4	69	64	6.7	
Other revenue	0	0	NM	1	1	NM	
Total net policy revenue	25	22	7.5	70	65	6.7	
Net investment income	24	24	NM	72	71	0.9	
Net realized gains on investments	0	3	NM	1	8	NM	
Impairment losses recognized in earnings	0	(1)	NM	0	(1)	NM	
Equity in earnings of limited partnerships	0	0	NM	1	1	NM	
Total revenues	49	48	NM	144	144	NM	
Benefits and other changes in policy reserves	28	28	NM	81	83	(2.0)	
Amortization of deferred policy acquisition costs	3	4	NM	10	10	NM	
Other operating expenses	7	6	0.6	19	18	3.3	
Total benefits and expenses	38	38	NM	110	111	(1.2)	
Income before taxes – Exchange ⁽¹⁾	\$11	\$10	NM %	\$34	\$33	1.4 %	

NM = not meaningful

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

Policy revenue

Gross policy revenues increased 3.1% to \$32 million in the third quarter 2015, from \$31 million in the third 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 \$7 million in the third quarter of 2015 and \$9 million in the third quarter of 2014. For the nine months ended September 30, 2015, compared to 2014, gross policy revenues totaled \$97 million and \$93 million, respectively, while ceded reinsurance premiums totaled \$28 million and \$29 million for the nine months ended September 30, 2015 and 2014, respectively.

Annuity and universal life premiums that are recorded as deposits totaled \$14 million and \$18 million in the third quarters of 2015 and 2014, respectively, and \$45 million and \$50 million for the nine months ended September 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 decreased in the third quarter and the first nine months of 2015 due to lower net realized gains on investments, compared to the same respective periods in 2014. See the "Investment Operations" segment discussion that follows for further information.

Benefits and expenses

In the third quarter and first nine months of 2015, total benefits and expenses remained relatively flat compared to the third quarter and first nine 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:

(in millions)	Erie Insurance Group			Nine months ended September 30,		
	Three months ended September 30,			2015 2014 % Change		
	2015	2014	% Change	2015	2014	% Change
	(Unaudited)			(Unaudited)		
Indemnity						
Net investment income	\$4	\$4	NM %	\$13	\$12	9.0 %
Net realized investment gains	0	0	NM	0	1	NM
Net impairment losses recognized in earnings	(1)	0	NM	(1)	0	NM
Equity in earnings of limited partnerships	4	4	NM	17	13	33.5
Net revenue from investment operations – Indemnity	\$7	\$8	(5.0) %	\$29	\$26	13.0 %
Exchange						
Net investment income	\$119	\$114	4.5 %	\$356	\$334	6.7 %
Net realized investments (losses) gains	(292)	(85)	NM	(243)	103	NM
Net impairment losses recognized in earnings	(3)	(1)	NM	(7)	(1)	NM
Equity in earnings of limited partnerships	39	30	28.2	126	98	28.4
Net revenue from investment operations – Exchange ⁽¹⁾	\$(137)	\$58	NM %	\$232	\$534	(56.6) %

NM = not meaningful

- (1) The Exchange's investment results for the third quarters of 2015 and 2014 include net investment revenues from EFL's operations of \$24 million and \$26 million, respectively. The Exchange's investment results for the first nine months of 2015 and 2014 include net investment revenues from EFL's operations of \$74 million and \$79 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 was unchanged in the third quarter of 2015, compared to the third quarter of 2014, while the Exchange's net investment income increased by \$5 million. Indemnity's net investment income increased by \$1 million for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, while the Exchange's net investment income increased by \$22 million. The increases in net investment income for both Indemnity and the Exchange during these periods were primarily due to higher invested balances in fixed maturities.

Net impairment losses recognized in earnings

Net impairment losses recorded in earnings for Indemnity were \$0.5 million for the third quarter, and \$0.6 million for the nine months ended September 30, 2015, compared to less than \$0.1 million for the third quarter, and \$0.1 million for the nine months ended September 30, 2014. Net impairment losses recorded in earnings for the Exchange were \$3 million for the third quarter, and \$7 million for the nine months ended September 30, 2015, compared to \$1 million for both the third quarter and the nine months ended September 30, 2014. The impairment activity for both Indemnity and the Exchange during these periods 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 investment gains (losses)

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

(in millions)	Erie Insurance Group		Nine months ended	
	Three months ended		September 30,	
	September 30,	2014	September 30,	2014
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Indemnity				
Securities sold:				
Fixed maturities	\$(1	) \$0	\$(1	) \$0
Equity securities	1	0	1	1
Total net realized investment gains – Indemnity ⁽¹⁾	\$0	\$0	\$0	\$1
Exchange				
Securities sold:				
Fixed maturities	\$(5	) \$6	\$0	\$15
Equity securities	7	0	17	8
Common stock equity securities	33	84	176	196
Common stock (decreases) increases in fair value ⁽²⁾	(327	) (175	) (436	) (116
Total net realized investment (losses) gains –	\$ (292	) \$(85	) \$(243	) \$103
Exchange ^{(1) (3)}				

(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.

The Exchange’s results for the third quarter of 2015 and 2014 include net realized gains from EFL’s operations of (3) \$0.4 million and \$3 million. The Exchange’s results for the first nine months of 2015 and 2014 include net realized gains from EFL’s operations of \$1 million and \$8 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 losses of \$0.5 million in the third quarter of 2015, compared to gains of \$0.1 million in the third quarter of 2014, while the Exchange generated net realized losses of \$292 million and \$85 million in the same respective periods. Indemnity generated net realized losses of \$0.1 million for the nine months ended September 30, 2015, compared to gains of \$1 million for the nine months ended September 30, 2014, while the Exchange generated net realized losses of \$243 million, compared to gains of \$103 million, in the same respective periods.

Net realized gains and losses 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 third quarter of 2014 and 2015, and the nine months ended September 30, 2015, were due to decreases in fair value of common stocks, which more than offset realized gains from sales of securities. Net realized gains for the Exchange for the nine months ended September 30, 2014 reflected realized gains from the sales of securities, which more than offset decreases in fair value of common stock.

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Equity in earnings of limited partnerships

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

(in millions)	Erie Insurance Group		Nine months ended	
	Three months ended September 30,		September 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Indemnity				
Private equity	\$3	\$0	\$13	\$4
Mezzanine debt	1	1	2	2
Real estate	0	3	2	7
Total equity in earnings of limited partnerships – Indemnity	\$4	\$4	\$17	\$13
Exchange				
Private equity	\$28	\$14	\$90	\$47
Mezzanine debt	5	5	15	16
Real estate	6	11	21	35
Total equity in earnings of limited partnerships – Exchange ⁽¹⁾	\$39	\$30	\$126	\$98

The Exchange's results for the third quarter of 2015 and 2014 include equity in earnings of limited partnerships from EFL's operations of less than \$0.1 million of losses and \$0.5 million of earnings, respectively. The Exchange's results for both the first nine months of 2015 and 2014 include equity in earnings of limited partnerships from EFL's operations of \$1 million.

Indemnity's equity in earnings of limited partnerships was unchanged in the third quarter of 2015, compared to the third quarter of 2014, while the Exchange's equity in earnings of limited partnerships increased \$9 million. Indemnity's equity in earnings of limited partnerships increased \$4 million for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, while the Exchange's equity in earnings of limited partnerships increased \$28 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 September 30, 2015 reflect investment valuation changes resulting from the financial markets and the economy in the fourth quarter of 2014 and the first two quarters 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

(in millions)	Erie Insurance Group				
	Carrying value at September 30, 2015 (Unaudited)	% to total	Carrying value at December 31, 2014	% to total	
Indemnity					
Fixed maturities	\$588	84	% \$564	80	%
Equity securities:					
Preferred stock	8	1	12	2	
Common stock	12	2	13	2	
Limited partnerships:					
Private equity	51	7	52	7	
Mezzanine debt	13	2	14	2	
Real estate	31	4	47	7	
Real estate mortgage loans	1	0	1	0	
Total investments – Indemnity	\$704	100	% \$703	100	%
Exchange					
Fixed maturities	\$9,392	67	% \$9,007	65	%
Equity securities:					
Preferred stock	623	5	710	5	
Common stock	3,078	22	3,363	24	
Limited partnerships:					
Private equity	418	3	418	3	
Mezzanine debt	166	1	170	1	
Real estate	248	2	278	2	
Life policy loans	19	0	18	0	
Real estate mortgage loans	2	0	2	0	
Total investments – Exchange	\$13,946	100	% \$13,966	100	%
Total investments – Erie Insurance Group	\$14,650		\$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 \$237 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 September 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 \$4 million at September 30, 2015, compared to \$6 million at December 31, 2014. At September 30, 2015, the Exchange had net unrealized gains on fixed maturities of \$187 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 September 30, 2015 (Unaudited)					Fair value
	AAA	AA	A	BBB	Non- investment grade	
Indemnity						
Basic materials	\$0	\$0	\$2	\$3	\$2	\$7
Communications	0	0	2	20	10	32
Consumer	0	0	7	23	27	57
Diversified	0	0	0	0	0	0
Energy	0	0	2	6	8	16
Financial	0	2	43	38	12	95
Government-municipal	110	106	20	1	0	237
Industrial	0	0	1	5	9	15
Structured securities ⁽²⁾	35	33	22	15	1	106
Technology	0	0	2	4	4	10
Utilities	0	0	9	3	1	13
Total – Indemnity	\$145	\$141	\$110	\$118	\$74	\$588
Exchange						
Basic materials	\$0	\$0	\$61	\$179	\$51	\$291
Communications	0	0	161	421	141	723
Consumer	0	42	380	777	261	1,460
Diversified	0	0	12	1	7	20
Energy	7	95	143	530	83	858
Financial	0	138	1,213	1,449	173	2,973
Foreign government	0	5	4	55	22	86
Government-municipal	455	863	131	27	0	1,476
Government sponsored enterprises	0	4	0	0	0	4
Industrial	5	0	158	259	76	498
Structured securities ⁽²⁾	51	30	32	43	0	156
Technology	0	58	103	128	31	320
U.S. Treasury	0	8	0	0	0	8

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Utilities	0	3	170	315	31	519
Total – Exchange	\$518	\$1,246	\$2,568	\$4,184	\$876	\$9,392

(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:

(in millions)	Erie Insurance Group Fair value at:		December 31, 2014	
	September 30, 2015 (Unaudited)			
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	2	0	4	0
Total – Indemnity	\$8	\$12	\$12	\$13
Exchange				
Basic materials	\$0	\$70	\$0	\$88
Communications	0	236	6	278
Consumer	24	930	16	980
Diversified	0	12	0	19
Energy	0	133	0	187
Financial	498	580	587	590
Funds ⁽¹⁾	0	432	0	435
Government sponsored enterprises	14	0	0	0
Industrial	0	376	0	456
Technology	1	257	1	268
Utilities	86	52	100	62
Total – Exchange	\$623	\$3,078	\$710	\$3,363

Includes certain exchange traded funds with underlying holdings of fixed maturity securities totaling \$12 million for Indemnity and \$97 million for the Exchange at September 30, 2015, and \$13 million for Indemnity and \$140 (1) 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 loss on equity securities classified as available-for-sale, net of deferred taxes, for Indemnity was less than \$0.1 million at September 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 \$25 million at September 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 third 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 third quarter of 2015 reflect the partnership activity experienced in the second quarter of 2015.

The components of limited partnership investments are as follows:

(in millions)	Erie Insurance Group	
	At September 30, 2015	At December 31, 2014
Indemnity	(Unaudited)	
Private equity	\$51	\$52
Mezzanine debt	13	14
Real estate	31	47
Total limited partnerships – Indemnity	\$95	\$113
Exchange		
Private equity	\$418	\$418
Mezzanine debt	166	170
Real estate	248	278
Total limited partnerships – Exchange	\$832	\$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 September 30, 2015	At December 31, 2014
	(Unaudited)	
Gross reserve liability ⁽¹⁾ :		
Private passenger auto	\$1,283	\$1,245
Automobile massive injury	315	330
Homeowners	284	279
Workers compensation	662	636
Workers compensation massive injury	60	82
Commercial auto	407	388
Commercial multi-peril	639	630
All other lines of business	188	179
Assumed reinsurance	85	84
Gross reserves	3,923	3,853
Less: reinsurance recoverable	141	142
Net reserve liability — Exchange	\$3,782	\$3,711

Loss reserves are set at estimated ultimate costs, except for workers compensation loss reserves which have been (1) discounted using an interest rate of 2.5%. This discounting reduced unpaid losses and loss expenses by \$88 million at September 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 238 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 \$238 million at September 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 nine months ended September 30:

(in millions)	Erie Insurance Group	
	2015 (Unaudited)	2014 (Unaudited)
Net cash provided by operating activities	\$663	\$549
Net cash used in investing activities	(475)	) (533)
Net cash used in financing activities	(84)	) (89)
Net increase (decrease) in cash and cash equivalents	\$104	\$(73)

Net cash provided by operating activities totaled \$663 million and \$549 million for the first nine months of 2015 and 2014, respectively. Increased cash from operating activities for the first nine 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 nine months of 2014.

At September 30, 2015, we recorded a net deferred tax asset of \$51 million attributable to Indemnity and a net deferred tax liability of \$283 million attributable to the Exchange. There was no deferred tax valuation allowance recorded at September 30, 2015. Our capital gain and loss strategies take into consideration our ability to offset gains and losses in future

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periods, carry-back of 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 \$475 million and \$533 million for the first nine months of 2015 and 2014, respectively. Investing activities in the first nine months of 2015 primarily included increased cash generated from fixed maturity sales and maturities combined with decreased preferred stock purchases, offset somewhat by increased fixed maturity and common stock purchases compared to the first nine months of 2014. At September 30, 2015, we had contractual commitments to invest up to \$547 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 \$132 million, mezzanine debt securities was \$216 million, and real estate activities was \$199 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 nine months ended September 30:

(in millions)	Indemnity Shareholder Interest	
	2015 (Unaudited)	2014 (Unaudited)
Net cash provided by operating activities	\$131	\$111
Net cash used in investing activities	(6)	(6)
Net cash used in financing activities	(95)	(109)
Net increase (decrease) in cash and cash equivalents	\$30	\$(4)

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 \$131 million and \$111 million for the first nine months of 2015 and 2014, respectively. The increase in cash provided by operating activities for the first nine 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 compared to the first nine 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 \$633 million in the first nine months of 2015 compared to \$576 million for the first nine 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 nine months of 2015 compared to \$23 million in the first nine months 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 57% 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 September 30, 2015, Indemnity recorded a net deferred tax asset of \$51 million. There was no deferred tax valuation allowance recorded at September 30, 2015.

Net cash used in Indemnity's investing activities totaled \$6 million for both the first nine months of 2015 and 2014. Indemnity's investing activities in the first nine months of 2015 primarily included decreased cash generated from fixed maturity and common and preferred stock sales and maturities, offset by decreased fixed maturity and preferred

stock purchases and increased cash generated from limited partnership sales compared to the first nine months of 2014. Also impacting Indemnity's future investing activities are limited partnership commitments, which totaled \$20 million at September 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 \$8 million, mezzanine debt securities was \$8 million, and real estate activities was \$4 million.

Net cash used in Indemnity's financing activities totaled \$95 million and \$109 million for the first nine months of 2015 and 2014, respectively. The decrease in cash used in financing activities for the first nine 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.

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Indemnity did not repurchase any shares of its Class A nonvoting common stock in conjunction with its stock repurchase program in the first nine months of 2015. In the first nine months of 2014, shares repurchased under this program totaled 276,390 at a total cost of \$19.5 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 September 30, 2015, based upon trade date.

Additionally, in August 2015, 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 \$241,469, or \$86.24 per share, for the vesting of stock-based awards for executive management. These shares were delivered to executive management in August 2015.

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 \$95 million for the first nine months of 2015 compared to \$89 million dividends paid for the first nine 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 \$122 million at September 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 \$423 million at September 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 September 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 September 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 September 30, 2015. Bonds with a fair value of \$111 million were pledged as collateral on the line at September 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 September 30, 2015. On October 28, 2015, Indemnity extended the maturity date of the revolving credit facility to November 3, 2020.

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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 \$496 million at September 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 \$11.9 billion at September 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 September 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 September 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 September 30, 2015. Bonds with a fair value of \$326 million were pledged as collateral on the line at September 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 September 30, 2015. On October 28, 2015, the Exchange amended the bank revolving line of credit to \$400 million and extended the maturity date to October 28, 2020. The increase in the line of credit to \$400 million was driven by both favorable credit market conditions and increased need based on Exchange's growth in business.

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 nine months ended September 30, 2015 and 2014, Indemnity recognized interest income on the note of \$1.3 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 nine months ended September 30, 2015 and 2014, the Exchange recognized interest income on the note of \$0.9 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 nine months ended September 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 Interim 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 Interim Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Our management evaluated, with the participation of the Chief Executive Officer and Interim 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 nine months ended September 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 November 4, 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 situated 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.

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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. The West Virginia Supreme Court denied rehearing and issued its Mandate on September 23, 2015 returning the matter to the trial court. A scheduling/status conference has been set by the trial court for November 18, 2015.

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.

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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 September 30, 2015 under the repurchase program. We had approximately \$18 million of repurchase authority remaining under this program at September 30, 2015. During the quarter ending September 30, 2015, 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 \$241,469, or \$86.24 per share, for the vesting of stock-based awards for executive management. These shares were delivered to executive management in August 2015.

ITEM 5. OTHER INFORMATION

On October 28, 2015, Indemnity extended the maturity date of the revolving credit facility to November 3, 2020, and the Exchange amended the bank revolving line of credit to \$400 million and extended the maturity date to October 28, 2020. The increase in the line of credit to \$400 million was driven by both favorable credit market conditions and increased need based on Exchange's growth in business.

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ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
10.1	First Amendment to Amended and Restated Credit Agreement among JPMorgan Chase Bank, National Association, as Administrative Agent; the Lenders named therein; and Erie Indemnity Company, dated October 28, 2015.
10.2	First Amendment to Second Amended and Restated Credit Agreement among PNC Bank, National Association, as Administrative Agent; the Lenders named therein; and Erie Insurance Exchange, dated October 28, 2015.
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: October 29, 2015

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

By: /s/ Gregory J. Gutting
Gregory J. Gutting, Interim Executive Vice President &
CFO