

and Erie Insurance Exchange (“Erie Exchange”), who collectively are Erie Family Life's majority stockholder, will purchase all outstanding shares of the Company for \$32 per share. Erie Indemnity and Erie Exchange own approximately 75.1% of Erie Family Life’s stock, and will thereby increase their ownership and eliminate the minority shareholders at an inadequate price.

2. The offer has been advanced through unfair procedures, and the consideration offered is an unfair price and does not constitute a maximization of stockholder value for the minority shareholders. The proposed price is designed to benefit Erie Indemnity, Erie Exchange, and each of the named individual directors who serve as directors of both Erie Family Life and director of Erie Indemnity and, thus, have conflicting loyalties.

3. Further, defendants have breached their fiduciary duties owed to Erie Family Life’s minority stockholders to take all necessary steps to ensure that the stockholders will receive the maximum value realizable for their shares in any acquisition of the Company’s assets. Defendants have failed to take any steps to immunize conflicts of interest or independently value the minority shares of Erie Family Life.

JURISDICTION AND VENUE

4. This Court has jurisdiction over this action pursuant to 28 U.S.C. § 1332(a)(1), in that plaintiff Lin Lan and defendants are citizens of different states and the matter in controversy with respect to her exceeds \$75,000, exclusive of interest and costs. This Court has supplemental jurisdiction pursuant to 28 U.S.C. § 1367 with respect to the claims of plaintiff J. William Morris and other members of the Class.

5. Venue is proper in this District because a substantial portion of the actions and wrongs complained of herein occurred in this district, and all defendants share the same business address within this District.

THE PARTIES

6. Plaintiff Lin Lan, a resident of California, is, and at all relevant times has been, the owner of approximately 10,000 shares of Erie Family Life stock. Plaintiff's damages as a result of the conduct alleged herein are reasonably estimated to exceed \$75,000, exclusive of interest and costs.

7. Plaintiff J. William Morris, a resident of Florida, is, and at all relevant times has been, the owner of approximately 2,800 shares of Erie Family Life stock.

8. Defendant Erie Family Life is a corporation organized under the laws of Pennsylvania with its principal executive offices located at 100 Erie Insurance Place, Erie, Pennsylvania 16530. Erie Family Life is engaged in the business of underwriting and selling nonparticipating individual and group life insurance policies and fixed annuities. As of April 26, 2006, Erie Family Life had 9,450,000 shares of stock outstanding. Erie Family Life's stock has traded on the NASDAQ Over-The-Counter Bulletin Board market under the symbol "ERIF."

9. Defendant Erie Indemnity is a corporation organized under the laws of Pennsylvania with its principal executive offices located at 100 Erie Insurance Place, Erie, Pennsylvania 16530. Erie Indemnity owns 21.6% of Erie Family Life and is the attorney-in-fact for co-defendant Erie Exchange. Each and every individual director of Erie Family Life is also a director of Erie Indemnity.

10. Defendant Erie Exchange is a corporation organized under the laws of Pennsylvania with its principal executive offices located at 100 Erie Insurance Place, Erie, Pennsylvania 16530. Erie Indemnity owns 53.5% of Erie Family Life.

11. Defendant Jeffrey A. Ludrof, a resident of Pennsylvania, is, and at all relevant times has been, the Chief Executive Officer, President, and a Director of Erie Family Life, Erie Indemnity, and several other Erie insurance companies.

12. Defendant F. William Hirt, a resident of Pennsylvania, is, and at all relevant times has been, the Chairman of the board of directors for Erie Family Life, Erie Indemnity and several other Erie insurance companies.

13. Defendant Susan Hirt Hagen, a resident of New York, is, and at all relevant times has been, a Director of Erie Family Life, Erie Indemnity, and the Erie Insurance Company. Ms. Hagen is the mother of defendant Jonathan Hirt Hagen.

14. Defendant Jonathan Hirt Hagen, a resident of Pennsylvania, is, and at all relevant times has been, a Director of Erie Family Life and Erie Indemnity.

15. Defendant J. Ralph Borneman, Jr., a resident of Pennsylvania, is, and at all relevant times has been, a Director of Erie Family Life, Erie Indemnity, Erie Insurance Co., and additional Erie insurance companies. Mr. Borneman is a principal shareholder of a Pennsylvania insurance company that receives insurance commissions from insurance companies managed by Erie Family Life. In 2005, Erie Family Life paid him commissions in excess of \$80,000.

16. Defendant John T. Baily, a resident of Connecticut, is, and at all relevant times has been, a Director of both Erie Family Life and Erie Indemnity.

17. Defendant Patricia Garrison-Corbin, a resident of Pennsylvania, is, and at all relevant times has been, a Director of both Erie Family Life and Erie Indemnity.

18. Defendant John R. Graham, a resident of Kansas, is, and at all relevant times has been, a Director of both Erie Family Life and Erie Indemnity.

19. Defendant C. Scott Hartz, a resident of Pennsylvania, is, and at all relevant times has been, a Director of both Erie Family Life and Erie Indemnity.

20. Defendant Claude C. Lilly, III, a resident of North Carolina, is, and at all relevant times has been, a Director of both Erie Family Life and Erie Indemnity.

21. Defendant Lucian L. Morrison, a resident of Texas, is, and at all relevant times has been, a Director of both Erie Family Life and Erie Indemnity.

22. Defendant Thomas W. Palmer, a resident of Ohio, is, and at all relevant times has been, a Director of both Erie Family Life and Erie Indemnity.

23. Defendant Robert C. Wilburn, a resident of Pennsylvania, is, and at all relevant times has been, a Director of both Erie Family Life and Erie Indemnity.

24. The individuals described in paragraphs 11 through 23 are referred to collectively as the “Individual Defendants.” Because of their positions as officers/directors, the Individual Defendants owe fiduciary duties of loyalty, candor and due care to plaintiffs and the other members of the Class.

25. Erie Indemnity and Erie Exchange are collectively the majority shareholders of Erie Family Life and thus owe fiduciary duties to the Company and its minority stockholders, especially where they seek to take Erie Family Life private.

26. Each defendant herein is sued individually as a conspirator, as well as in his/her capacity as an officer, director and/or controlling shareholder of the Company, and the liability of each arises from the fact that each defendant has engaged in all or part of the unlawful acts, plans, schemes or transactions complained of herein.

CLASS ACTION ALLEGATIONS

27. Plaintiffs bring this action on their own behalf and as a class action, pursuant to Fed. R. Civ. P. 23, on behalf of all stockholders of the Company, except defendants herein and any person, firm, trust, corporation, or other entity related to or affiliated with any of the defendants, or any of the Company's principal stockholders, who has and will suffer injury arising from defendants' actions as described more fully below.

28. This action is properly maintainable as a class action.

29. The Class is so numerous that joinder of all members is impracticable. As of April 26, 2006, Erie Family Life had 9.5 million shares of common stock outstanding, approximately 2.3 million of which are not controlled by the majority shareholders or the Individual Defendants. There are hundreds of record and beneficial stockholders.

30. There are questions of law and fact common to the Class and which predominate over individual issues, including, inter alia, whether:

- (a) defendants have breached their fiduciary duties owed by them to plaintiffs and the members of the Class; and
- (b) plaintiffs and the other members of the Class have been damaged by the wrongs complained of herein.

31. Plaintiffs are committed to prosecuting the action and have retained competent counsel experienced in litigation of this nature. Plaintiffs' claims are typical of the claims of the other members of the Class and plaintiffs have the same interests as the other members of the Class. Plaintiffs are adequate representatives of the Class.

32. The prosecution of separate actions by individual members of the Class would create the risk of inconsistent or varying adjudications with respect to individual members of the Class which would establish incompatible standards of conduct for defendants, or adjudications with respect to individual members of the Class which would as a practical matter be dispositive of the interests of the other members not parties to the adjudications or substantially impair or impede their ability to protect their interests. Therefore, a Class action provides a fair and efficient method of adjudication of this matter.

33. Additionally, the defendants have acted, or refused to act, on grounds generally applicable to, and causing injury to, the Class and, therefore, declaratory relief on behalf of the Class as a whole is appropriate.

SUBSTANTIVE ALLEGATIONS

34. On March 21, 2006, Erie Indemnity and Erie Exchange issued a press release announcing their definitive plan to acquire all of the publicly held shares of Erie Family Life and further stating that the Annual Meeting of Shareholders which was previously scheduled for April 18, 2006 would be delayed.

35. The March 21, 2006 press release stated that Erie Indemnity and Erie Exchange would offer and pay \$32.00 per share in cash for all shares of Erie Family Life that they did not presently own or control (the "Offer"). As originally proposed, the Offer required only that

1,187,827 of the 2,350,538 Erie Family Life minority shares be tendered, so that Erie Indemnity and Erie Exchange could thereafter engage in a short form merger without any further shareholder approval and eliminate any non-tendering minority stockholders. The announced Offer was scheduled to close on May 24, 2006.

36. The Offer, as priced, represents only a 6.7% premium over Erie Family Life's closing price on March 21, 2006, which is well-below the premium typically paid when taking a company private and extinguishing the rights of shareholders to participate in the future growth of a company.

37. On April 27, 2006, defendants caused to be filed with the Securities & Exchange Commission ("SEC") a Tender Offer Statement and a Rule 13e-3 Transaction Statement. On May 19, 2006, defendants filed Amendment No. 1 to the Offer (collectively referred to with the April 27, 2006 filings as the "Offering Documents"), stating, *inter alia*, that certain affiliated shareholders had agreed not to tender their 154,482 shares, and that the Offer could be satisfied by the tender of only 1,033,345 Erie Family Life minority shares.

38. The Offering Documents disclose that the Erie Family Life Board of Directors met on April 19, 2006 to consider the Offer and ultimately rendered no opinion whether shareholders should tender their shares. No further information was provided about this meeting. Although the Offering Documents state that defendants have determined to remain neutral, the Offering Documents nevertheless are unreasonably slanted to lead the minority stockholders to believe that the \$32 Offer price is fair, and that the price was fairly determined. Despite the conflict of dual board representation, defendants' fiduciary obligation of loyalty and candor to Erie Family Life **requires** them to recommend against the transaction if the terms are unfair.

39. The Erie Family Life Board of Directors has no member directors that are independent from Erie Indemnity and Erie Exchange. Moreover, defendants took no steps to secure the opinion of any independent party or committee that the Offer was fair and reasonable to the minority stockholders. Defendants bear the burden of establishing the overall fairness of the Offer to the minority shareholders.

40. Unlike most comparable transactions, defendants did not even engage an independent financial advisor to act on behalf of the unaffiliated shareholders and opine on the fairness of the transaction. In fact, all that plaintiffs and the absent class members have been given in the Offering Documents is the summary of the financial analysis conducted by representatives of Erie Indemnity, which of course would advocate that the Offer is fair because Erie Indemnity is one of the acquirers.

41. Taking into account Erie Family Life's asset value, liquidation value, its expected growth, the strength of its business, revenues, cash flow, and earnings power, the intrinsic value of the equity of Erie Family Life is materially greater than the consideration contemplated by the Offer.

42. The Offer is also wholly inadequate in light of the fact that it does not recognize that Erie Family Life consistently receives among the highest ratings given by A. M. Best Co. ("A. M. Best"), a company that measures the financial strength of insurance providers and assigns issuer credit ratings. A. M. Best has awarded an "A" rating to Erie Family Life and stated that, "the affirmation of Erie Family Life's rating reflects the competitive advantage it derives from Erie's favorable property/casualty regional business, a positive statutory operating earnings trend and a favorable level of risk-adjusted capitalization."

43. Defendants have breached their fiduciary obligations of loyalty, good faith and candor. Further, defendants have failed to maximize shareholder value for the minority shares held by Erie Family Life's minority shareholders.

44. The Individual Defendants, who are charged with maximizing the value of the stock held by the minority shareholders, are irreconcilably conflicted by standing on both sides of the proposed transaction, as demonstrated by the Individual Defendants' service as directors for both the target (Erie Family Life) and the acquirer (Erie Indemnity).

45. Because Erie Indemnity and Erie Exchange are the largest shareholders of Erie Family Life, they are in a position to, and in fact did, dictate the inequitable terms of the Offer to eliminate the minority shareholders.

46. Erie Indemnity's and Erie Exchange's domination of Erie Family Life's corporate affairs has resulted in the Offer being made that will eliminate public ownership of Erie Family Life and increase the ownership interests of Erie Indemnity and Erie Exchange – all at a value to Erie Family Life's minority stockholders substantially below the fair or inherent value of their Erie Family Life minority shares.

47. In the Offering Documents, defendants disclose that public shareholders will be able to pursue appraisal rights under Pennsylvania law if they do not tender their shares pursuant to the Offer and the Offer is successful. However, plaintiffs and the absent class members could only determine whether or not tender their shares and make an informed decision if defendants, pursuant to their fiduciary obligations of candor and loyalty, have disclosed all material information about the proposed Offer. And even then, a transaction like the Offer is inherently coercive to the minority

stockholders like plaintiffs and the Class, even if the disclosures are adequate – and the disclosures are **not** adequate in these Offering Documents.

48. Defendants have not disclosed any meaningful information about the process that members of the Erie Family Life Board of Directors took to consider, evaluate or negotiate the terms of the proposed Offer. Similarly, defendants have not adequately disclosed the financial methodologies used to make an informed opinion on valuation. Further, defendants have not sufficiently disclosed material financial information, including projections, key business indicators, and business models, that would enable even a financially sophisticated minority holder of Erie Family Life stock to engage in a meaningful valuation of the stock.

49. The Offering Documents, while generally describing some of the actions of Erie Indemnity and Erie Exchange prior to the Offer, provide wholly inadequate information about what was done by Erie Family Life's Board of Directors, and fail to satisfy their fiduciary duties. Nor have plaintiffs and the absent Class members been given sufficient information about the process and financial information considered by the financial advisers to the acquirers.

50. Although defendants filed Amendment No. 1 on May 19, 2006 – after this action had already been commenced and a mere six days before the Offer was scheduled to close – the information included in Amendment No. 1 confirms the inadequacy of the information provided to the minority stockholders, and the inadequacy of the \$32 Offer price.

51. For example, Amendment No. 1 of the Offering Documents confirms that the correct net book value for the Erie Family Life minority shares is \$27.09, and states that the Individual Defendants purportedly considered this net book value in connection with their determination of the \$32 Offer price. However, this \$27.09 value – while clearly correct – is

different and **materially higher** than the \$25.45 value used by defendants' financial advisers in reaching their recommendations purportedly serving as the principal basis for defendants' proposed \$32 Offer price and defendants' self-serving conclusion that this price is fair, as reflected in the financial advisers' February 2006 Presentation to the Board included with the Offering Documents. The fact that defendants' financial advisers utilized a different and lower net book value than defendants themselves, and the fact that defendants considered the proposed price range identified by these financial advisers regardless of the inconsistency, are **red flags** as to the inadequacy of the \$32 Offer Price and defendants' breaches.

52. Similarly, defendants' financial advisers utilized the artificially low \$25.45 book value in connection with the analysis included in the Offering Documents of the historic Erie Family Life price to book value multiples. By improperly using the lower value, the advisers improperly increased the resulting multiples, and thereby diminished the significance of the discount that the Erie Family Life minority shares traded at on account of their status as minority shares. Nor do the Offering Documents disclose that defendants ever considered the significance of this discount in arriving at their inadequate Offer price, or the fact that the market for the Erie Family Life minority shares was not efficient.

53. In another attempt to embellish the Offering Documents and their disclosures after this action had already been commenced, defendants state in Amendment No. 1 that in arriving at the \$32 Offer price, they purportedly "considered the historical trading of [Erie Family Life] shares by volume, which indicated that 95.1% of trades were below \$31.99 per share during the past three years and 99.6% of trades were below \$31.99 per share during the past year." The sheer one-sidedness of this statement is confirmed by the financial advisers' February 2006 Presentation to the

Board included with the Offering Documents, which shows that over 57% of all trades during the prior three years were at prices equal to or in excess of \$30, and that almost 66% of all trades during the prior year were at prices equal to or in excess of \$30. Fairly presented – one of the fiduciary obligations wholly abdicated by defendants – these figures undermine the sufficiency of the \$32 Offer price.

54. Notwithstanding the above, defendants announced on May 25, 2006 that the Offer was successful, and that a total of 1,416,680 shares had been tendered. Thus, defendants will now complete the second step of their going private transaction, and freeze out the non-tendering shareholders at the unfair and inadequate \$32 price.

55. Defendants' actions in proceeding with the Offer are wrongful, unfair, and harmful to Erie Family Life's minority shareholders, and deny them their right to share proportionately in the true value of Erie Family Life's valuable assets, profitable business, and future growth in profits and earnings, while usurping the same for the benefit of Erie Indemnity and Erie Exchange.

COUNT I - BREACH OF FIDUCIARY DUTY

56. Plaintiffs repeat and reallege each and every of the foregoing allegations as if fully incorporated herein.

57. Defendants owed to plaintiffs and the Class fiduciary duties of, inter alia, candor, loyalty and good faith.

58. Defendants have breached their fiduciary duties owed to plaintiffs and the Class, and have or will have excluded plaintiffs and the Class from the fair proportionate share of Erie Family Life's valuable assets and businesses, all to the great economic harm of the Class.

59. As a result of defendants' action, plaintiffs and the Class will be and have been damaged by the breaches of fiduciary duties and, therefore, plaintiffs and the Class will not receive the fair value of Erie Family Life's assets and businesses.

WHEREFORE, plaintiffs pray for judgment and relief as follows:

(A) Certifying this lawsuit as a Class action pursuant to Fed. R. Civ. P. 23, with plaintiffs certified as representatives of the Class;

(B) Declaring that the defendants and each of them have committed a gross abuse of trust and have breached their fiduciary duties to plaintiffs and the other members of the Class;

(C) Rescinding and setting aside the tender offer as completed under its present terms;

(D) Awarding compensatory damages against defendants, jointly and severally, in an amount to be determined at trial, together with prejudgment interest at the maximum rate allowable by law;

(F) Awarding plaintiffs and the Class their costs and disbursements and reasonable allowances for plaintiffs' counsel and experts' fees and expenses; and

(G) granting such other and further relief as may be just and proper.

JURY DEMAND

Plaintiffs demand a trial on all issues triable by a jury in this action.

Dated: May 25, 2006

Respectfully submitted,

LAW OFFICES OF ALFRED G. YATES JR., PC

By: /s/ Alfred G. Yates, Jr.
Alfred G. Yates, Jr. (Pa. I.D. #17419)
Gerald L. Rutledge (Pa. I.D. #62027)
429 Forbes Avenue
519 Allegheny Building
Pittsburgh, PA 15219-1604
(412) 391-5164
yateslaw@aol.com

WECHSLER HARWOOD LLP

William R. Weinstein
Robert I. Harwood
488 Madison Avenue, 8th Floor
New York, NY 10022
(212) 935-7400 (telephone)
(212) 753-3630 (facsimile)

**WOLF HALDENSTEIN ADLER
FREEMAN & HERZ LLP**

Gregory M. Nespole
270 Madison Avenue
New York, NY 10016
(212) 545-4600 (telephone)
(212) 545-4758 (facsimile)

LAW OFFICES OF BRUCE J. MURPHY

Bruce J. Murphy
265 Llwyds Lane
Vero Beach, FL 32963
(772) 231-4202 (telephone)
(772) 492-1044 (facsimile)

**ATTORNEYS FOR PLAINTIFFS
AND THE PUTATIVE CLASS**