ERIE INDEMNITY CO
Form S-3/A
January 08, 2003

As filed with the Securities and Exchange Commission on January 8, 2003.

Registration No. 333-99943

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

AMENDMENT NO. 3

TO
FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Erie Indemnity Company
(Exact name of registrant as specified in charter)

Pennsylvania	25-0466020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Erie Insurance Place
Erie, Pennsylvania 16530
814-870-2000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Jan R. Van Gorder, Esquire
Senior Executive Vice President,
Secretary and General Counsel
Erie Indemnity Company
100 Erie Insurance Place
Erie, Pennsylvania 16530
814-870-2000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Frederick W. Dreher, Esquire	Andrew S. Rowen, Esquire
Richard L. Cohen, Esquire	John Evangelakos, Esquire
Duane Morris LLP	Sullivan & Cromwell LLP
4200 One Liberty Place	125 Broad Street
Philadelphia, Pennsylvania 19103	New York, New York 10004
215-979-1234	212-558-4000

Approximate date of commencement of proposed sale to public: As soon as practicable after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [_]

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

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

[LEFT SIDE OF PROSPECTUS COVER]

THE INFORMATION IN THIS PRELIMINARY PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PRELIMINARY PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION. DATED JANUARY ___, 2003.

[LOGO]

Shares

ERIE INDEMNITY COMPANY

Class A Common Stock

Shares of Erie Indemnity Company Class A common stock, which are non-voting, are being offered by the selling shareholder named in this prospectus. Erie Indemnity Company will not receive any proceeds from the sale of shares.

The Class A common stock is quoted on the NASDAQ Stock Market(SM) under the symbol "ERIE". The last reported sale price of the Class A common stock on January 6, 2003 was $36.38 per share.

SEE "RISK FACTORS" BEGINNING ON PAGE 11 TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE BUYING SHARES OF THE CLASS A COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Share	Total
Initial price to public	$	$
Underwriting discount	$	$
Proceeds, before expenses, to selling shareholder	$	$

To the extent the underwriters sell more than ____ shares of Class A common stock, the underwriters have the option to purchase up to an additional ____ shares of Class A common stock from the selling shareholder at the public offering price, less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on or about , 2003.

Goldman, Sachs & Co. Credit Suisse First Boston
Advest, Inc.
Cochran, Caronia Securities LLC
Legg Mason Wood Walker, Incorporated

Prospectus dated __________, 2003.

PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS THE INFORMATION CONTAINED IN THIS PROSPECTUS THAT WE BELIEVE IS THE MOST IMPORTANT REGARDING US AND THIS OFFERING. HOWEVER, YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY BEFORE INVESTING IN OUR CLASS A COMMON STOCK. ALL FINANCIAL INFORMATION, OPERATING STATISTICS AND RATIOS IN THIS PROSPECTUS ARE BASED ON GENERALLY ACCEPTED ACCOUNTING PRINCIPLES UNLESS OTHERWISE NOTED. UNLESS THE CONTEXT INDICATES OTHERWISE, ALL REFERENCES IN THIS PROSPECTUS TO "WE", "US", "OUR" OR THE "COMPANY" INCLUDE ERIE INDEMNITY COMPANY AND ITS WHOLLY OWNED SUBSIDIARIES, ERIE INSURANCE COMPANY, ERIE INSURANCE COMPANY OF NEW YORK AND ERIE INSURANCE PROPERTY & CASUALTY COMPANY. AS USED IN THIS PROSPECTUS, THE "EXCHANGE" REFERS TO ERIE INSURANCE EXCHANGE, AND "ERIE INSURANCE GROUP" REFERS TO THE COMPANY, THE EXCHANGE, ITS SUBSIDIARY, FLAGSHIP CITY INSURANCE COMPANY, AND ITS AFFILIATE, ERIE FAMILY LIFE INSURANCE COMPANY.

OUR COMPANY

We operate predominantly as a provider of management services to Erie Insurance Exchange (the "Exchange"). We also operate as a property and casualty insurer through our subsidiaries. We have served since 1925 as the attorney-in-fact for the policyholders of the Exchange. The Exchange is a reciprocal insurance exchange, which is an unincorporated association of individuals, partnerships and corporations that agree to insure one another. Each applicant for insurance to a reciprocal insurance exchange signs a subscriber's agreement, which contains an appointment of an attorney-in-fact. As attorney-in-fact, the Company is required to perform certain services relating to the sales, underwriting and issuance of policies on behalf of the Exchange.

The Exchange and its property and casualty subsidiary and our three property and casualty subsidiaries (collectively, the "Property and Casualty Group") write personal and commercial lines property and casualty coverages exclusively through approximately 8,000 independent agents and pool their underwriting results. The financial results of the Exchange are not consolidated with ours.

For our services as attorney-in-fact, we charge the Exchange a management fee calculated as a percentage, limited to 25%, of the direct written premiums of the Property and Casualty Group. Management fees accounted for approximately 78% of our revenues for the nine months ended September 30, 2002. For the first nine months of 2002, 70% of the direct premiums written by the Property and Casualty Group were personal lines, while 30% were commercial lines. We also own 21.6% of the common stock of Erie Family Life Insurance Company, an affiliated life insurance company, of which the Exchange owns 53.5% and public shareholders, including certain of our directors, own 24.9%. At September 30, 2002, we had total assets of $2.2 billion, total liabilities of $1.2 billion and shareholders' equity of $958 million. Our net income was $138.2 million for the nine months ended September 30, 2002 and $122.3 million for the year ended December 31, 2001.

We believe we are the only publicly-traded attorney-in-fact for a reciprocal insurance exchange in the country. Several other private property and casualty companies, such as USAA and Farmers Insurance Group (owned by Zurich Financial Services Group), are reciprocal insurance exchanges that operate with separate management arrangements. Our earnings are largely generated by fees based on premiums written directly by the underwriting pool of the Property and Casualty Group, in which the Exchange has a 94.5% participation. We therefore have a direct incentive to protect the financial condition of the Exchange. As a result of the Exchange's 94.5% participation in the underwriting results of the Property and Casualty Group, the underwriting risk of the Property and Casualty Group's business is largely borne by the Exchange, which had $2.1 billion of statutory surplus at September 30, 2002. The surplus of the Exchange was $4.8 billion at December 31, 1999 and has declined primarily from marketable security investment declines and underwriting losses. Through the pool, our property and casualty subsidiaries currently assume 5.5% of the Property and Casualty Group's underwriting results, and therefore we also have a direct incentive to manage the overall underwriting business as effectively as possible.

ERIE INSURANCE GROUP
ORGANIZATIONAL CHART

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| Shareholders   |
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       | Erie Indemnity  |          Attorney-in-Fact           -----------------------------
       |     Company     |-----------for Policyholders------------| Erie Insurance Exchange*  |
       -------------------                                     -----------------------------
                |                                                            |
      ---------------------------------------------            ---------------------
       |                     |                   |           |                   |
       |                     |                   |           |                   |
      100%                  100%               21.6%       53.5%                100%
       |                     |                   |           |                   |
 -----------------    ------------------    -----------------------        ----------------
 |               |    | Erie Insurance* |   |                     |        |
 | Erie Insurance*|   |    Property &   |   |   Erie Family life  |        |  Flagship City*
 |    Company    |    |    Casualty     |   |      Insurance      |        |    Insurance
 |               |    |     Company     |   |       Company       |        |     Company
 -----------------    ------------------    -----------------------        ----------------
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       |
      100%
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|               |
| Erie Insurance*|
|   Company of  |
|    New York   |
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* Denotes a member of the Property and Casualty Group

The Property and Casualty Group seeks to insure standard and preferred risks in primarily private passenger automobile, homeowners and small commercial lines, including workers' compensation policies. We believe the Property and Casualty Group has differentiated its products from standard industry products by providing additional coverages, which enhance agents' marketing efforts. The Property and Casualty Group's agency force consists of over 1,700 independent agencies comprised of approximately 8,000 agents in 11 Midwestern, Mid-Atlantic and Southeastern states (Illinois, Indiana, Maryland, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and Wisconsin) and the District of Columbia. These independent agents play a significant role as underwriters and are major contributors to the Property and Casualty Group's success.

The Company has reported increasing net operating income for 14 consecutive years. The increases in net operating income have been driven by the premium growth of the Property and Casualty Group that resulted in a corresponding increase in the amount of the management fee. The premium growth of the Property and Casualty Group has resulted primarily from an expansion of its business into new territories, the appointment of new agencies, high policy and agency retention rates and, recently, increased premium rates.

- Since 1997, the Property and Casualty Group has entered Illinois and Wisconsin and expects to begin operating in Minnesota in the third quarter of 2004.

- In 2001, we continued the planned expansion of the Property and Casualty Group's independent agency force by appointing 247 agencies. Since

1997, we have increased the overall number of agencies representing the Property and Casualty Group by 60%.

- The Property and Casualty Group has a very stable base of policyholders. The Property and Casualty Group's retention rate of 90.9% in 2001 compared favorably to an average of 82.6% for a core benchmark group consisting largely of regional property and casualty insurers, according to a 2001 Ward Group benchmark study.

- The Property and Casualty Group is achieving premium rate increases as a result of the current favorable market conditions in both commercial and personal property and casualty lines, which are generally referred to within the industry as "hard market conditions". Hard market conditions are characterized by increasing premium rates, more stringent underwriting standards and a need for additional capital. The Property and Casualty Group and the Company have benefited from these hard market conditions and for the twelve months ended September 30, 2002 experienced average premium per policy increases of 7.2% for personal automobile insurance policies, 17.6% for commercial lines policies and 9.5% across all lines. Management believes increases in premium rates are likely to continue in 2002 and

2003. Generally, the Company's profit margins from management operations have increased during periods of premium rate increases.

As a result of these growth initiatives and market conditions, the Property and Casualty Group had over 3.4 million insurance policies in force as of September 30, 2002, an 11.9% increase from September 30, 2001. Personal lines policies in force grew by 11.8% during the twelve months ended September 30, 2002, while commercial lines policies increased 13.0% over the same period.

The Property and Casualty Group has incurred underwriting losses in recent years, primarily as a result of reducing premium rates in 1998 and 1999 in response to competitive conditions, due to increasing loss severity and due to reinsurance losses, including losses from the terrorist attack on the World Trade Center. Because we have a 5.5% participation in the underwriting results of the Property and Casualty Group, 5.5% of its underwriting losses are reflected in our results of operations. Our share of these underwriting losses, which includes the reinsurance losses, were $3.5 million in 1999, $10.4 million in 2000 and $20.5 million in 2001, respectively.

Each member of the Property and Casualty Group is rated A++ (Superior) by A.M. Best Company, Inc. ("A.M. Best"), its highest financial strength rating, which was held by only 2.8% of the property and casualty insurance groups rated by A.M. Best as of July 11, 2002.

STRATEGY

The Erie Insurance Group's overall strategy includes providing attractive property and casualty insurance products at competitive prices, coupled with high-quality service. The Erie Insurance Group distributes these products exclusively through independent insurance agents whose insurance and underwriting expertise, local market knowledge and commitment to service have been key drivers of Erie Insurance Group's growth. The Erie Insurance Group's strategy includes:

- Growth by expansion of existing operations, rather than through acquisition, including by (i) a careful agency selection process in which the Property and Casualty Group seeks to be the primary property and casualty underwriter for each agency, (ii) a thoughtful expansion into favorable states and (iii) increased market penetration in existing operating territories.

. Quality service to policyholders in claims handling, underwriting and other service activities.

. Achieving underwriting profits for the Property and Casualty Group by focusing on standard and preferred risks and by setting and adhering to consistent underwriting standards.

. A business model designed to provide the advantages of localized marketing and claims servicing with the economies of scale derived from centralized management and administration.

RECENT DEVELOPMENTS

At its meeting on December 10, 2002, our Board of Directors approved:

. the reduction of the management fee rate for 2003 from its previous rate of 25% to 24%, which would have reduced the Company's net income by $15.4 million and net income per share by $0.22 or 11.2% had such reduction been effective for the nine months ended September 30, 2002;

. an increase in the regular quarterly dividend from $0.17 to $0.19 on each share of Class A common stock and from $25.50 to $28.50 on each share of Class B common stock; and

. the reduction of the service agreement rate, which relates to the management and administration by us of the Exchange's voluntary assumed reinsurance business from non-affiliated insurers, for 2003 from its previous rate of 7% to 6%, which would have reduced the Company's net income by $750,000 and net income per share by $0.01 or less than 1% had such reduction been effective for the nine months ended September 30, 2002.

In determining whether to reduce the management fee rate and the service agreement rate, the Company's board of directors considered the relative financial position of the Exchange and the Company, including the surplus levels and underwriting results of the Exchange and the management fee and earnings growth prospects of the Company.

The Company recorded in the fourth quarter of 2002 a one-time charge to net income of $3.9 million, or $.06 per share, to establish an estimated allowance for returned management fees, rather than continuing to make adjustments upon return. This charge recognizes the management fee anticipated to be returned to the Exchange based on historical cancellation rates. The Company did not restate prior period financial statements because the Company believes this adjustment is not material to the trend of earnings for the Company nor any related financial statement amount. Future changes in this allowance will be reflected in the Company's statement of operations and are not expected to be material. Cash flows will not be affected.

Members of the Property and Casualty Group increased their loss and loss adjustment reserves by approximately $184 million in the fourth quarter of 2002. Approximately $3.1 million to $6.2 million of these increases were for our subsidiaries, which will result in after tax charges to us of approximately $.03 to $.06 in the fourth quarter. The increases in reserves were taken in response to adverse loss experience in the group's automobile, homeowners

and workers' compensation lines, which was primarily attributable to increased loss severity from automobile bodily injury and catastrophic medical claims in the workers' compensation lines.

The Company recognized realized capital losses during the fourth quarter of 2002 of approximately $8.4 million. These losses resulted from the sale of certain securities and from charges for impairments based on the Company's regular periodic review of equity, debt and limited partnership investments held by the Company. The losses will reduce fourth quarter net income by approximately $5.5 million or $.08 per share.

THE OFFERING

Class A common stock offered	4,000,000 shares of our Class A common stock, which is non-voting, are being offered by the Selling Shareholder named below.
Class A common stock outstanding after this offering	64,037,106 shares
Class B common stock outstanding after this offering	2,900 shares
Class B common stock conversion ratio	One share of Class B common stock may be converted into 2,400 shares of Class A common stock.
Class A common stock outstanding after this offering assuming conversion	70,997,106 shares
Dividend history	We declared and paid cash dividends of $0.17 per share of Class A common stock for each of the first three quarters of 2002 and $25.50 per share of Class B common stock for each of the first three quarters of 2002. We declared a cash dividend of $0.19 per share of Class A common stock for the fourth quarter of 2002 and $28.50 per share of Class B common stock for the fourth quarter of 2002. We have paid regular quarterly

cash dividends since 1942. Our board of

directors considers the declaration of cash dividends on a quarterly basis. The payment of future dividends, if any, will be at the discretion of our board of directors and will depend upon many factors, including:

- our earnings;
- our financial position;
- our capital requirements and those of our subsidiaries; and
- our ability to receive dividends from our subsidiaries, which is subject to regulatory limitations.

There can be no assurance as to the declaration of future dividends.

Use of proceeds	We will not receive any of the proceeds from this offering of our Class A common stock. The Selling Shareholder identified below will receive all the net proceeds from the sale of these shares.
NASDAQ Stock Market(SM) symbol	ERIE

The above information assumes that the option covering an additional 600,000 shares granted by the Selling Shareholder to the underwriters will not be exercised.

The above information is based on the number of shares outstanding as of January 1, 2003.

SELLING SHAREHOLDER

Black Interests Limited Partnership (the "Selling Shareholder") is offering 4.0 million shares of the Company's Class A common stock. The Selling Shareholder has also granted the underwriters a 30-day option to purchase up to an additional 600,000 shares of the Company's Class A common stock. Samuel P. Black, III is the managing general partner of the Selling Shareholder and has the right to vote the shares held by it. Mr. Black has been a director of the Company since 1997 and succeeded his father, who served as a director during various periods from 1930 to 1997. Mr. Black is also an officer and principal shareholder of

an insurance agency that receives insurance commissions in the ordinary course of business from the insurance companies we manage, in accordance with the insurance companies' standard commission schedules and agents' contracts.

A majority of the proceeds of the shares being offered as described in this prospectus will be used by the Selling Shareholder to pay estate taxes and other estate-related expenses arising from the recent death of Mr. Black's mother and to make a charitable bequest.

CORPORATE INFORMATION

We were incorporated in Pennsylvania in 1925. Our principal executive offices are located at 100 Erie Insurance Place, Erie, Pennsylvania 16530, and our telephone number is (814) 870-2000. Our website is located at www.erieinsurance.com. The information on this website is not a part of this prospectus.

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SUMMARY HISTORICAL FINANCIAL INFORMATION

The summary consolidated financial data presented below as of or for the years ended December 31, 1997 through 2001 is derived from our audited financial statements. Our consolidated financial statements as of December 31, 2000 and 2001 and for each of the years in the three-year period ended December 31, 2001, and our independent auditors' report thereon, are included elsewhere in this prospectus and incorporated by reference herein. See "Where To Find More Information/Incorporation by Reference". The summary consolidated financial data presented below as of or for the nine-month periods ended September 30, 2001 and 2002 is derived from our unaudited consolidated financial statements included elsewhere in this prospectus and incorporated by reference herein. See "Where To Find More Information/Incorporation by Reference". Our results of operations for the nine months ended September 30, 2002 are not necessarily indicative of our results of operations that may be expected for the year ending December 31, 2002. In the opinion of our management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. The financial data set forth below is only a summary and should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	Nine Months Ended September 30,		Year End		
(amounts in thousands, except per share data)	2002	2001	2001	2000	
	(unaudited)				
STATEMENTS OF OPERATIONS DATA:					
Operating revenue	$ 730,029	$ 602,001	$ 799,861	$ 698,016	$
Operating expense	556,871	466,566	635,756	549,672	
Total other income and expenses	33,187	35,408	17,998	70,102	
Equity in earnings of Erie Family Life Insurance Company, net of tax	1,015	2,337	719	5,108	
Federal income tax expense	69,171	56,835	60,561	71,161	
Net income	$ 138,189	$ 116,345	$ 122,261	$ 152,393	$

PER SHARE DATA:

Net income per share	$ 1.94	$ 1.63	$ 1.71	$ 2.12	$
Book value per share	13.50	12.01	12.15	10.91	
Weighted average shares outstanding	71,109	71,380	71,342	71,954	
FINANCIAL POSITION:					
Investments (1)	$ 969,898	$ 884,599	$ 885,650	$ 853,146	$
Receivables from the Exchange and affiliates	761,295	650,091	640,655	532,009	
Total assets	2,194,690	1,897,077	1,935,566	1,680,599	
Shareholders' equity	958,274	855,755	865,255	779,015	

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(1) Includes investment in Erie Family Life Insurance Company.

RISK FACTORS

YOU SHOULD CONSIDER CAREFULLY THE RISKS AND UNCERTAINTIES DESCRIBED BELOW AND THE OTHER INFORMATION IN THIS PROSPECTUS, INCLUDING OUR CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES, BEFORE DECIDING TO INVEST IN SHARES OF OUR CLASS A COMMON STOCK. IF ANY OF THE FOLLOWING RISKS OR UNCERTAINTIES ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS WOULD LIKELY SUFFER. IN THAT EVENT, THE MARKET PRICE OF OUR CLASS A COMMON STOCK COULD DECLINE AND YOU COULD LOSE ALL OR PART OF THE MONEY YOU PAID TO BUY OUR CLASS A COMMON STOCK.

RISKS RELATING TO OUR BUSINESS AND OUR RELATIONSHIPS WITH THIRD PARTIES

IF THE MANAGEMENT FEE RATE PAID TO US BY THE EXCHANGE IS FURTHER REDUCED, IF THERE IS A SIGNIFICANT DECREASE IN THE AMOUNT OF PREMIUMS WRITTEN BY THE EXCHANGE OR IF WE DO NOT CONTROL THE COSTS OF PROVIDING SERVICES TO THE EXCHANGE, OUR REVENUES AND PROFITABILITY COULD BE MATERIALLY ADVERSELY AFFECTED.

We are dependent upon management fees paid to us by the Exchange, which represent our principal source of revenue. Management fees from the Exchange constituted 78% of our revenues for the first nine months of 2002, 78% of our revenues for 2001, and 74% of our revenues during the three years ended December 31, 2001. The management fee rate we receive is determined by our board of directors and may not exceed 25% of the direct written premiums of the Property and Casualty Group. Since 1999, the management fee rate has been 25%. In 1998 and 1997, the management fee rate was 24.25% and 24%, respectively.

Our board of directors generally sets the management fee rate each December for the following year. However, at their discretion, the rate can be changed at any time. The factors our board of directors consider in setting the management fee rate include our financial position in relation to the Exchange and the long-term needs of the Exchange for capital and surplus to support its continued growth and competitiveness. The Exchange's capital and surplus could become impaired due to a number of factors, including those discussed under "-- Risks Relating to the Business of the Property and Casualty Group" and "-- Risks Relating to the Property and Casualty Insurance Industry" below. In light of factors including the strong growth of the Exchange's premium base and the decline in the policyholders' surplus of the Exchange from $4.8 billion at December 31, 1999 to $2.1 billion at September 30, 2002, the management fee rate for 2003 was reduced to 24% at our board's December 2002 meeting.

If our board of directors were to determine that the management fee rate should be further reduced, our revenues and profitability could be materially adversely affected. For example, a 1% reduction in the management fee rate during the nine months ended September 30, 2002 would have resulted in a reduction in our net revenues of $23.8 million, or 12.6%, and a reduction in our net income per share of $0.22, or 11.2%. A similar decrease of 1% during 2001 would have resulted in a reduction in our net revenues of $25.4 million, or 13.8%, and a reduction in our net income per share of $0.23, or 13.5%.

Our management fee revenue from the Exchange is calculated by multiplying the management fee rate by the direct premiums written by the Exchange and the direct premiums written by the other members of the Property and Casualty Group, which are initially assumed by the Exchange. Accordingly, any reduction in direct premiums written by the Property and Casualty Group would have a proportional negative effect on our revenues and net income.

Pursuant to the attorney-in-fact agreements with the policyholders of the Exchange, the Company is appointed to perform certain services, regardless of the cost to the Company of providing those services. These services relate to the sales, underwriting and issuance of policies on behalf of the Exchange. We could lose money or be less profitable if our cost of providing those services increases significantly.

OUR BOARD OF DIRECTORS FACES CERTAIN CONFLICTS OF INTEREST BECAUSE IT MUST BALANCE FIDUCIARY OBLIGATIONS TO POLICYHOLDERS OF THE EXCHANGE AND TO OUR SHAREHOLDERS; THUS OUR BOARD OF DIRECTORS MUST MAKE DECISIONS THAT ARE NOT SOLELY IN THE INTERESTS OF OUR SHAREHOLDERS.

The Exchange has no board of directors or governing body of its own. In our capacity as attorney-in-fact, we have a fiduciary duty to the policyholders of the Exchange to protect their interests. Likewise, we have a fiduciary duty to our shareholders. Certain conflicts of interest arise from these separate fiduciary duties. Among these conflicts of interest are:

- Our board of directors sets the management fee rate paid by the Exchange to us and decides the percentage participation rate of our property and casualty subsidiaries in the pool.

- We make judgments about the allocation of shared costs between the Exchange and the Company in accordance with intercompany agreements and the attorney-in-fact agreements with the policyholders of the Exchange, including costs relating to the eCommerce program.

- The Exchange may enter into other transactions and contractual relationships with the Company and its subsidiaries.

As a consequence, our board of directors must make decisions or take actions that are not solely in the interests of our shareholders. If, for example, there should be a need to strengthen the surplus of the Exchange, our board of directors may decide to reduce the management fee rate and/or that we should make a capital contribution to the Exchange in the form of a surplus note or some other form. Under such circumstances, we may be required to provide such capital to the Exchange at a lower rate of return than would be available with other investments or at no return at all. Payments of interest and repayment of principal on a surplus note are subject to prior approval of the Pennsylvania Department

of Insurance, which may not approve such payments. We may also find it necessary to fund additional surplus for the Exchange by issuing additional shares of our capital stock, resulting in dilution of existing shareholders' interest. In addition, state regulators could challenge the reasonableness of the transactions between us and the Exchange.

WE ARE SUBJECT TO CREDIT RISK TO THE EXCHANGE BECAUSE OUR MANAGEMENT FEES FROM THE EXCHANGE ARE NOT PAID IMMEDIATELY WHEN EARNED AND OUR INSURANCE SUBSIDIARIES ARE SUBJECT TO CREDIT RISK TO THE EXCHANGE BECAUSE THE EXCHANGE ASSUMES A HIGHER INSURANCE RISK UNDER AN INTERCOMPANY POOLING ARRANGEMENT THAN IS PROPORTIONAL TO ITS DIRECT BUSINESS CONTRIBUTION TO THE POOL.

We recognize management fees due from the Exchange as income when the premiums are written because at that time we have performed substantially all of the services we are required to perform, including sales, underwriting and policy issuance activities, but currently such fees are not paid to us by the Exchange until it collects the premiums. As a result, we hold receivables for management fees due us for premiums written but not yet collected by the Exchange. In addition, we hold receivables from the Exchange for costs we pay on their behalf and for reinsurance under the intercompany pooling arrangement. Our total receivables from the Exchange, including the management fee, costs we pay on behalf of the Exchange and reinsurance recoverables, totaled $759.6 million, or 34.6% of our total assets at September 30, 2002, and $638.4 million, or 33.0% of our total assets at December 31, 2001. The receivables represented 12.3% of the Exchange's assets at September 30, 2002 and 9.1% at December 31, 2001.

The Exchange and two of our wholly owned subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, are parties to an intercompany pooling arrangement. Under this pooling arrangement, our insurance subsidiaries cede 100% of their property and casualty underwriting business to the Exchange, which retrocedes 5% of the pooled business to Erie Insurance Company and 0.5% to Erie Insurance Company of New York. In 2001, only approximately 81.4% of the pooled direct property and casualty business was originally generated by the Exchange and its subsidiary, while 94.5% of the pooled business is retroceded to the Exchange under the intercompany pooling arrangement. Accordingly, the Exchange assumes a higher insurance risk than is proportional to the insurance business it contributes to the pool. In 2001, our subsidiaries wrote 18.6% of the direct premiums, while assuming only 5.5% of the risk. This poses a credit risk to our subsidiaries participating in the pool because they are still responsible ultimately to the policyholders for policies they have written if the Exchange is unable to meet its obligations.

OUR FINANCIAL CONDITION MAY SUFFER BECAUSE OF DECLINES IN THE VALUE OF THE MARKETABLE SECURITIES THAT CONSTITUTE A SIGNIFICANT PORTION OF OUR ASSETS.

At September 30, 2002, we had investments in marketable securities of approximately $828 million and investments in limited partnerships of approximately $89 million. In

addition, we are obligated to invest up to an additional $116 million in limited partnerships, including in partnerships for U.S. and foreign private equity real estate and fixed income investments. All of our marketable security investments are subject to market volatility. Our fixed income securities investments are exposed to price risk and to risk from changes in interest rates as well as credit risk related to the issuer. Generally, we do not hedge our exposure to interest rate risk as we have the ability to hold fixed income securities to maturity. Our marketable securities have exposure to price risk and the volatility of the equity markets and general economic conditions. The stock market decline in 2002 has reduced the value of our marketable securities by

$6.8 million during the first nine months of 2002 compared to $3.4 million during the first nine months of 2001. To the extent that future market volatility negatively impacts our investments, our results of operations will be negatively impacted.

THE TWO INDIVIDUAL TRUSTEES OF OUR CONTROLLING SHAREHOLDERS, THE H.O. HIRT TRUSTS, HAVE SIGNIFICANTLY DIFFERING VIEWS ON A NUMBER OF MATTERS RELATING TO THE COMPANY; SUCH DISAGREEMENTS MAY HAVE AN ADVERSE EFFECT ON OUR BUSINESS AND ON THE VALUE OF OUR CLASS A COMMON STOCK.

Two trusts established by our founder, H.O. Hirt (the "H.O. Hirt Trusts"), own 80.7% of our Class B common stock, which is the only class of stock that can vote for the election of directors and has the ability to determine the outcome of all other matters that require shareholder approval, except those matters pertaining only to the rights of the holders of our Class A common stock. The corporate trustee of the H.O. Hirt Trusts is Bankers Trust Company of New York ("Bankers Trust") and the two individual trustees of the H.O. Hirt Trusts are F. William Hirt and Susan Hirt Hagen, who are brother and sister and the children of H.O. Hirt. Any determination by the H.O. Hirt Trusts requires a vote of two of the three trustees and, because the H.O. Hirt Trusts control 80.7% of our Class B common stock, any such determination will be controlling in a shareholder vote. Mrs. Hagen and Mr. Hirt disagree on a number of matters relating to corporate governance, the appointment of a successor corporate trustee and the financial condition of the Exchange.

Mrs. Hagen has recently raised concerns regarding a number of such matters, including: the role of the H.O. Hirt Trusts as controlling shareholders in the governance of the Company; the propriety of a corporate trustee of the H.O. Hirt Trusts engaging in insurance brokerage activities; the restructuring of our board of directors so that a majority of the directors are independent of management; the restructuring of the committees of our board of directors to provide a more meaningful role for directors who do not have ongoing business relationships with us; the desirability of more liquidity and increased institutional investor interest in the Company and the allocation of expenses between the Exchange and us. Mrs. Hagen has also recently proposed five amendments to the Company's Bylaws for consideration by the voting shareholders at the Company's annual meeting of shareholders for 2003. These amendments concern (i) revising the existing advance notice bylaw to

provide that direct nomination by voting shareholders of candidates for director are not due until after our Nominating Committee announces its proposed slate; (ii) revising the advance notice bylaw to provide that other shareholder proposals for annual meetings must be submitted not less than 60 nor more than 120 days prior to the first anniversary of the prior year's annual meeting; (iii) fixing the size of our board of directors at 13 members; (iv) providing that vacancies on our board of directors only may be filled by the voting shareholders and (v) providing that the bylaw provisions containing the foregoing may not be amended without a vote of the voting shareholders.

Mrs. Hagen on one occasion commenced litigation against us in connection with corporate governance matters and has participated in litigation involving the H.O. Hirt Trusts brought by each of the trustees of the H.O. Hirt Trusts and by other beneficiaries of the H.O. Hirt Trusts. On two occasions in the recent past, Mr. Hirt brought a suit, which was subsequently withdrawn without prejudice, seeking the removal of Mrs. Hagen as an individual trustee.

In addition, Mrs. Hagen has sent the Company a notice requesting that the Company's Nominating Committee consider a slate of director nominees proposed by her for election at the 2003 annual meeting of shareholders. Mr. Hirt has sent the Company a notice requesting that the Company's Nominating Committee consider certain other persons as director nominees. The effect of these disagreements and concerns and possible future disagreements between Mrs. Hagen and Mr. Hirt on us and the value of our Class A common stock cannot be predicted.

MRS. HAGEN, WHO IS A MEMBER OF OUR BOARD OF DIRECTORS, A TRUSTEE AND A BENEFICIARY OF THE H.O. HIRT TRUSTS AND A BENEFICIAL OWNER OF APPROXIMATELY 10.4% OF OUR CLASS A COMMON STOCK, IS OPPOSED TO OUR PARTICIPATION IN THIS OFFERING BECAUSE SHE BELIEVES THERE MAY BE A BETTER ALTERNATIVE FOR US AND MAY TAKE ADDITIONAL ACTIONS TO OPPOSE THIS OFFERING.

The concerns that Mrs. Hagen has expressed to our board of directors about this offering include:

- the amount of time and effort required of our officers to prepare a registration statement relating to this offering and to assist in the marketing of the shares offered hereby instead of fully concentrating their efforts on business and financial issues confronting Erie Insurance Group;

- the liability of our directors and the H.O. Hirt Trusts if the registration statement, including this prospectus, were determined to contain a material misstatement or a material omission and the indemnification by us of the underwriters for certain potential liabilities under federal securities laws related to this offering;

- the need for the Company to consider retention of a national auditing firm;

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- the impact of the offering on our ability to attract independent director candidates during this offering because of the potential liability associated therewith;

- doubts whether a public offering would unlock any long-term value for our shareholders;

- concerns that increased public holdings of our Class A common stock will attract institutional investors; and

- her opinion that a below-market purchase by us of the shares being offered by the Selling Shareholder would be more advantageous to us.

Our board of directors considered Mrs. Hagen's concerns at meetings held on August 16, 2002 and September 9, 2002. At each meeting, Mrs. Hagen was the only member of our board of directors present to vote against proceeding with this offering. We are unable to predict whether Mrs. Hagen or any other trustee or any other beneficiary of the H.O. Hirt Trusts may take additional actions to oppose this offering.

DECISIONS BY THE CORPORATE TRUSTEE OF THE H.O. HIRT TRUSTS OR A SUCCESSOR TO EITHER OF THE INDIVIDUAL TRUSTEES COULD MATERIALLY ALTER OUR MANAGEMENT, STRATEGIC DIRECTION, OPERATING PHILOSOPHY OR OTHER MATTERS MATERIAL TO US.

Bankers Trust tendered its resignation as corporate trustee of the H.O. Hirt Trusts on March 3, 1999, 36 days after it had been appointed. The selection of a new corporate trustee of the H.O. Hirt Trusts to replace Bankers Trust is pending before Orphan's Court in Erie County, Pennsylvania. We cannot predict or estimate when a replacement corporate trustee will be chosen to replace Bankers Trust or who it will be. Because any action of the H.O. Hirt Trusts requires a vote of two of the three trustees and because Mrs. Hagen and Mr. Hirt have significantly differing views, the vote of the corporate trustee has been, and will likely continue to be, determinative of the actions of the H.O. Hirt Trusts. There are a number of circumstances in which a successor to one of the individual trustees would be appointed, including the death of an individual trustee. If an individual trustee is to be appointed, under the terms of the H.O. Hirt Trusts, the remaining individual trustee, the corporate trustee and our board of directors may select a replacement individual trustee or, if no successor is selected within 30 days, the remaining trustees and the Company shall petition the Court of Common Pleas of Erie County, Pennsylvania to fill said vacancy under the trust agreement. Mr. Hirt is 77 years old and Mrs. Hagen is 67 years old. Decisions by the existing trustees or successor trustees, including supporting a slate of directors put forth by Mrs. Hagen or another shareholder, could materially alter our management, strategic direction, operating philosophy or other matters material to us. It is impossible to determine how these decisions may affect the value of the Company and therefore our Class A common stock.

RISKS RELATING TO THE BUSINESS OF THE PROPERTY AND CASUALTY GROUP

THE PROPERTY AND CASUALTY GROUP CONDUCTS BUSINESS IN ONLY 11 STATES AND THE DISTRICT OF COLUMBIA, WITH A CONCENTRATION OF BUSINESS IN OHIO, MARYLAND, VIRGINIA AND, PARTICULARLY, PENNSYLVANIA. ANY SINGLE CATASTROPHE OCCURRENCE OR OTHER CONDITION DISPROPORTIONATELY AFFECTING LOSSES IN THESE STATES COULD ADVERSELY AFFECT THE RESULTS OF OPERATIONS OF MEMBERS OF THE PROPERTY AND CASUALTY GROUP.

The Property and Casualty Group conducts business in only 11 states and the District of Columbia, primarily in the Mid-Atlantic, Midwestern and Southeastern portions of the United States. A substantial portion of this business is private passenger and commercial automobile, homeowners and workers' compensation insurance in Ohio, Maryland, Virginia and, particularly, Pennsylvania. As a result, a single catastrophe occurrence, destructive weather pattern, general economic trend, terrorist attack, regulatory development or other condition disproportionately affecting one or more of the states in which the Property and Casualty Group conducts substantial business could materially adversely affect the results of operations of members of the Property and Casualty Group. Common catastrophe events include hurricanes, earthquakes, tornadoes, wind and hail storms, fires and explosions. Recent ice storms in North Carolina and tornadoes and hail in Ohio and Pennsylvania during November and December 2002 are examples of the type of event that can negatively impact underwriting results. The Property and Casualty Group estimates the combined exposure from the approximately 4,500 damage claims from these storms will result in incurred losses of approximately $21 million to $24 million, our share of which will be approximately $1.3 million or $.01 per share after taxes. Effective January 1, 2003, the Property and Casualty Group entered into a property catastrophe reinsurance treaty that provides coverage of 95% of a loss up to $415 million in excess of the Property and Casualty Group's loss retention of $115 million per occurrence.

THE OPERATING RESULTS OF THE EXCHANGE ARE SUBJECT TO GREATER VARIABILITY BECAUSE THE PROPERTY AND CASUALTY GROUP GENERALLY DID NOT MAINTAIN REINSURANCE COVERAGE AFTER 1993 THROUGH 2002.

The Property and Casualty Group did not purchase treaty reinsurance, including catastrophe reinsurance, after 1993 through 2002, because management concluded, during our periodic assessments of the Property and Casualty Group's catastrophe exposure, that the benefits of such coverage were outweighed by the costs of the coverage in light of the Exchange's substantial surplus and its ratio of net premiums written to surplus. The Property and Casualty Group did obtain property catastrophe treaty reinsurance to protect its 2003 accident year underwriting results from catastrophes. The lower surplus levels of the Exchange, along with increasing catastrophe risk exposure as a result of accelerating policy growth, have resulted in management's decision to purchase property catastrophe treaty reinsurance coverage. The Exchange's reported surplus totaled $2.1 billion at September 30, 2002 compared to $4.8 billion at December 31, 1999, a reduction of 56%.

We cannot determine whether the Exchange's profitability could have been improved in years after 1993 through 2002 if the Exchange had purchased treaty reinsurance because it is impossible to establish the terms on which the Exchange might have obtained such reinsurance. If the recently purchased property Catastrophe treaty reinsurance had been in effect during 2002, there would have been no recoveries and the profitability of the Exchange would not have been affected except by the cost of such reinsurance. The risk of not maintaining reinsurance coverage in the event of a significant catastrophe or a series of moderate catastrophes in the same year means that surplus levels could be exposed to dramatic decline should such catastrophes occur. Reinsurance for catastrophe exposure protects the balance sheet and income statement against large and infrequent events and reduces the variability of earnings. A dramatic decline in the surplus levels would result in pressure to reduce premium writings, and thereby, curtail growth of our property and casualty subsidiaries. Without the benefit of higher surplus levels, the ability of the Exchange to write additional premium would be reduced and so would be the Company's opportunity to grow.

Variability in the Exchange's financial results can affect our financial results in several ways. The management fee rate charged to the Exchange by us is set based in substantial part on a review of the relative financial condition and operating results of the Exchange and us. Deterioration in the financial condition and operating results of the Exchange could result in a reduction in the management fee rate paid to us or could constrain the capacity of the Exchange to write additional premium, which would reduce management fees paid to us. In addition, if the Exchange's financial condition worsened considerably we could be subject to greater credit risk related to our large accounts receivable balance due from the Exchange.

THE BUSINESS AND RESULTS OF OPERATIONS OF THE PROPERTY AND CASUALTY GROUP WILL BE ADVERSELY AFFECTED IF THE INDEPENDENT AGENTS THAT MARKET THE PROPERTY AND CASUALTY GROUP'S PRODUCTS DO NOT MAINTAIN THEIR CURRENT LEVELS OF PREMIUM WRITING, FAIL TO COMPLY WITH ESTABLISHED UNDERWRITING GUIDELINES OR OTHERWISE IMPROPERLY MARKET OUR PRODUCTS.

The Property and Casualty Group markets its insurance products solely through a network of over 1,700 independent insurance agencies. As a result, the Property and Casualty Group is wholly dependent upon these agencies, each of which has the authority to bind the Property and Casualty Group to insurance contracts. To the extent that these agencies' marketing efforts cannot be maintained at their current levels of volume and quality or they bind the Property and Casualty Group to unacceptable insurance risks, fail to comply with established underwriting guidelines or otherwise improperly market our products, the results of operations and business of the Property and Casualty Group will suffer.

THE BUSINESS OF THE PROPERTY AND CASUALTY GROUP MAY NOT CONTINUE TO GROW AND MAY BE MATERIALLY ADVERSELY AFFECTED IF THE COMPANY CANNOT RETAIN EXISTING, AND ATTRACT NEW, INDEPENDENT AGENCIES OR IF INSURANCE CONSUMERS INCREASE USE OF OTHER INSURANCE DELIVERY SYSTEMS.

The continued growth of the business of members of the Property and Casualty Group is partially dependent upon the Company's ability to retain existing, and attract new, independent agencies for the Property and Casualty Group. The following factors are among those that may cause the growth and retention in the number of independent agencies of the Property and Casualty Group, and thereby growth in revenue of its members, to be slower than it otherwise would have been:

- There is significant competition to attract independent agencies;
- Our process to select a new independent agency is intensive and typically requires from six to nine months;
- The Company has stringent criteria for new independent agencies and requires adherence by independent agencies to consistent underwriting standards; and
- The Company may be required to reduce agents' commissions, bonuses and other incentives, thereby reducing our attractiveness to agencies.

The Property and Casualty Group sells insurance solely through its network of independent agencies. The Property and Casualty Group's competitors sell insurance through a variety of delivery methods, including independent agencies, captive agencies, the Internet and direct sales. To the extent that business migrates to a delivery system other than independent agencies because of changing consumer preferences, the business of the Property and Casualty Group will be adversely affected.

THE PROPERTY AND CASUALTY GROUP HAS INCURRED UNDERWRITING LOSSES IN RECENT YEARS PRIMARILY AS A RESULT OF REDUCING PREMIUM RATES IN 1998 AND 1999 IN RESPONSE TO COMPETITIVE CONDITIONS, DUE TO INCREASED LOSS SEVERITY AND DUE TO REINSURANCE LOSSES, INCLUDING LOSSES FROM THE TERRORIST ATTACK ON THE WORLD TRADE CENTER. TO THE EXTENT UNDERWRITING LOSSES CONTINUE, THE MANAGEMENT FEE REVENUES WE RECEIVE MAY BE REDUCED, IN ADDITION TO THE CONTINUING ADVERSE EFFECT ON OUR OPERATING RESULTS FROM OUR SUBSIDIARIES' 5.5% PARTICIPATION IN THE UNDERWRITING RESULTS OF THE PROPERTY AND CASUALTY GROUP.

In 1997 and 1998, the property and casualty insurance market was marked by "soft market" conditions, which is characterized by decreased revenues, less stringent underwriting standards and an excess of surplus in the industry. These conditions created severe price competition in commercial and personal lines of insurance, including private passenger automobile, the Property and Casualty Group's largest line of business. These competitive conditions resulted in slower new policy growth and declines in policy retention rates for the Property and Casualty Group. Management viewed these competitive effects as a serious threat to the well-being of the Property and Casualty Group. In 1998, following discussions with our board of directors, management decided to reduce premium rates in 1998 and 1999 in order to retain the Property and Casualty Group's most profitable

customers. The 1998 and 1999 premium rate reductions, coupled with a general trend of increasing loss severity, negatively affected the Property and Casualty Group's underwriting results, which increased from underwriting losses of $49.8 million in 1999 to $189.7 million in 2000 and $517.3 million in 2001. In 1999, 2000 and 2001, the Property and Casualty Group also incurred significant underwriting losses from its non-affiliated assumed reinsurance business, including $55 million in losses from wind storms in Western Europe in late December 1999 and $150 million from the World Trade Center terrorist attack in September 2001, assuming that attack is treated as one occurrence.

The Property and Casualty Group and the Company have responded to underwriting losses in a number of ways, including adopting stricter underwriting requirements; restricting policy coverages; increasing the emphasis on reviewing existing policies and accounts to determine which risks continue to meet underwriting guidelines and taking appropriate action regarding those policies and accounts that do not; continuing the focus on claims strategies to reduce claims severity, such as reducing claims fraud; raising premium rates on its direct lines of insurance; reunderwriting all of its assumed reinsurance treaties, resulting in the cancellation of a significant number of treaties and the reduction in total aggregate limits for other treaties; significantly raising reinsurance premium rates; and excluding terrorism coverage from all reinsurance treaties entered into in 2002. However, there can be no assurance that the measures taken or that may be taken by the Property and Casualty Group and the Company will meet or exceed increases in loss costs or restore the Property and Casualty Group's underwriting profitability.

To the extent underwriting losses continue, our operating results will suffer from our subsidiaries' 5.5% participation in the pooling arrangement. In addition, the Exchange's policyholders' surplus will be further adversely affected. If the surplus of the Exchange were to decline significantly from its current level, the Property and Casualty Group could find it more difficult to retain its existing business and attract new business. A decline in the business of the Property and Casualty Group would have an adverse effect on the amount of the management fees we receive and the underwriting results of the Property and Casualty Group in which we have a 5.5% participation. In addition, a decline in the surplus of the Exchange from its current level would make it more likely that the management fee rate received by us would be further reduced.

THE SURPLUS OF THE EXCHANGE HAS DECREASED FROM $4.8 BILLION AT DECEMBER 31, 1999 TO $2.1 BILLION AT SEPTEMBER 30, 2002. OF THIS DECREASE, APPROXIMATELY $1.6 BILLION WAS BECAUSE OF DECLINES IN THE MARKET VALUE OF MARKETABLE SECURITIES INVESTMENTS, INCLUDING THE SIGNIFICANT PORTFOLIO OF COMMON EQUITY SECURITIES. TO THE EXTENT THESE DECLINES IN MARKET VALUE CONTINUE AND THE EXCHANGE'S SURPLUS CONTINUES TO DECREASE, THE MANAGEMENT FEE RATE WE RECEIVE MAY BE FURTHER REDUCED AND THE UNDERWRITING RESULTS OF OUR PROPERTY AND CASUALTY SUBSIDIARIES MAY SUFFER.

In 1985, the Exchange increased its investments in common equity securities as a core element of its investment strategy. At December 31, 1999, when the Exchange's surplus was $4.8 billion, the Exchange's portfolio of marketable securities investments included common equity securities that had appreciated in value by $2.6 billion, to a market value of $3.8 billion. However, as a result of the downturn in common equity markets since 1999, the Exchange's portfolio of common equity securities has experienced a decline in value of $1.8 billion and the value of the portfolio was $2.0 billion at September 30, 2002. The common equity portfolio of the Exchange represents 32.8% of its admitted assets at September 30, 2002 while the entire portfolio of marketable securities investments represents 76.0% of its admitted assets at that date.

All marketable securities held by the Exchange are subject to market volatility. The Exchange's marketable securities have exposure to price risk and the volatility of capital markets. The stock market decline in 2002 has reduced the value of the Exchange's marketable securities by $1.3 billion during the first nine months of 2002 compared to the decrease of $1.0 billion during the first nine months of 2001.

To the extent that the Exchange incurs additional investment losses resulting from declines in the value of its marketable securities, the Exchange's policyholders' surplus will be further adversely affected. If the surplus of the Exchange were to decline significantly from its current level, the Property and Casualty Group could find it more difficult to retain its existing business and attract new business. A decline in the business of the Property and Casualty Group would have an adverse effect on the amount of the management fees we receive and the underwriting results of the Property and Casualty Group in which we have a 5.5% participation. In addition, a decline in the surplus of the Exchange from its current level would make it more likely that the management fee rate received by us would be further reduced.

ERIE INSURANCE GROUP'S RECENT EFFORTS TO DEVELOP TECHNOLOGY, INCLUDING INTERNET CAPABILITIES, TO ENHANCE POLICY ADMINISTRATION AND TO IMPROVE INTERACTION WITH AGENTS MAY BE MORE COSTLY THAN WE ANTICIPATE, MAY NOT BE COMPLETED DUE TO COST OR TECHNOLOGY CONSIDERATIONS AND MAY INCREASE OUR EXPOSURE TO BREACHES OF PRIVACY OR SECURITY.

Customers and agents expect rapid turnaround of quotes and endorsements and efficient services. Failure to meet these service expectations could place the Erie Insurance Group at a competitive disadvantage. To remain competitive, the Erie Insurance Group has undertaken an initiative, called "ERIEConnection(SM)", to utilize technology, including the Internet, to automate certain functions to facilitate quoting, underwriting and the issuing of policies and provide these services directly to its agents via the Internet. Such an upgrading of technology requires a sizable financial investment. Moreover, the effectiveness of certain areas of technology remain unproven. Erie Insurance Group completed the first major component of the program during the second quarter of 2002. Through September 30, 2002, the Erie Insurance Group has spent $87 million on its current technology development

efforts. The timing, scope and level of spending for remaining deliverables under the program are uncertain. Actual costs to complete the technology initiatives may exceed anticipated costs and lead to a reduction in profits or the termination of these technology initiatives. In addition, use of Internet technology to connect directly with the Property and Casualty Group's agents increases the risk of security breaches, which may cause short-term or long-term disruptions to the Property and Casualty Group's business operations and could lead to further and currently unanticipated technology costs to prevent and mitigate the effects of such security breaches.

IF RATINGS FOR FINANCIAL STRENGTH ASSIGNED TO MEMBERS OF THE PROPERTY AND CASUALTY GROUP BY INDUSTRY RATING ORGANIZATIONS WERE SIGNIFICANTLY DOWNGRADED, THE PROPERTY AND CASUALTY GROUP'S COMPETITIVE POSITION IN THE INSURANCE INDUSTRY WOULD BE ADVERSELY AFFECTED.

Ratings are a factor in establishing the competitive position of insurance companies. Members of the Property and Casualty Group receive ratings from A.M. Best and Standard & Poor's, which are industry-accepted measures of an insurance company's financial strength and are specifically designed to provide an independent opinion of an insurance company's financial health and ability to meet ongoing obligations to policyholders. Members of the Property and Casualty Group are also rated by Weiss Ratings, Inc., which is a consumer-oriented rating company that issues ratings designed to provide an independent opinion of an insurance company's financial strength. The ratings by Weiss Ratings, Inc. for the Exchange and Erie Insurance Company were downgraded in July 2002. Ratings are not recommendations to buy, sell or hold our common stock and are subject to change. A description of the Company's recent ratings appears under "Business -- Financial Ratings" on page 78.

If the Exchange or any other member of the Property and Casualty Group were to incur underwriting losses or reductions in surplus for an extended period of time, the ratings of such entity may be downgraded. While management of the Company believes that recent downgrades by Weiss Ratings, Inc. have not impacted any member of the Property and Casualty Group, a significant future downgrade in that or other ratings would reduce the competitive position of the affected member by making it more difficult to attract profitable business in the highly competitive property and casualty insurance market.

RISKS RELATING TO THE PROPERTY AND CASUALTY INSURANCE INDUSTRY

THE PROPERTY AND CASUALTY GROUP FACES SIGNIFICANT EXPOSURE TO TERRORISM.

The tragic World Trade Center terrorist attack resulted in staggering losses for the insurance industry and has caused uncertainty in the insurance and reinsurance markets. The Property and Casualty Group incurred a loss of $150 million in this attack assuming it continues to be considered one occurrence, and it estimates it would incur an additional loss

of $50 to $75 million if the attack is considered two occurrences. The Company's 5.5% share of this incurred loss was $5.8 million. Accordingly, the industry has been compelled to re-examine policy language and to address the potential for future threats of terrorist events and losses. The Property and Casualty Group's personal and commercial property and casualty insurance policies were not priced to cover the risk of terrorist attacks and losses such as those suffered in the World Trade Center terrorist attack. The Property and Casualty Group has withdrawn from some coverages and exposures, including terrorism, where permitted by state regulators. However, even in states where withdrawal has been permitted, the Property and Casualty Group is still exposed to terrorism under several lines, including personal lines and workers' compensation, and, in most states, losses caused by an ensuing fire. On November 26, 2002, President Bush signed the Terrorism Risk Insurance Act of 2002, establishing a program for commercial property and casualty losses, including workers' compensation, resulting from foreign acts of terrorism. The Terrorism Risk Insurance Act requires commercial insurers to make terrorism coverage available immediately and provides limited federal protection above individual company retention levels, based upon a percentage of direct earned premium, and above aggregate industry retention levels that range from $10 billion in the first year to $15 billion in the third year. The federal government will pay 90% of covered terrorism losses that exceed retention levels. The Terrorism Risk Insurance Act is scheduled to expire on December 31, 2005. Personal lines are not included under the protection of the Terrorism Risk Insurance Act, and state regulators have not approved exclusions for acts of terrorism on personal lines policies. The Property and Casualty Group could incur large unexpected losses if future terrorist attacks occur.

EVEN EXCLUDING TERRORISM EXPOSURE, THE PROPERTY AND CASUALTY GROUP FACES THE THREAT OF SUBSTANTIAL CATASTROPHE LOSSES AND DID NOT MAINTAIN TREATY REINSURANCE COVERAGE FOR CATASTROPHE LOSSES AFTER 1993 THROUGH 2002.

The Property and Casualty Group has experienced, and can be expected in the future to experience, catastrophe losses that may have a material adverse impact on our results of operations and financial condition. The Property and Casualty Group did not maintain treaty reinsurance coverage to mitigate the impact of catastrophe losses after 1993 through 2002; however, effective January 1, 2003, the Property and Casualty Group has obtained property catastrophe reinsurance coverage. Catastrophes can be caused by various events, including hurricanes, earthquakes, tornadoes, wind, hail, fires, explosions and man-made disasters. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of two factors: the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are localized to small geographic areas; however, events such as hurricanes, hail and ice storms have the potential to produce significant damage in large, heavily populated areas.

For the Property and Casualty Group, areas of major potential hurricane loss include major metropolitan centers in the eastern United States and areas of major potential ice storm or hail loss include major metropolitan centers in the Mid-Atlantic and Midwestern states. Although catastrophes can cause losses in a variety of property and casualty lines, homeowners insurance has in the past generated the vast majority of catastrophe-related claims. At December 31, 2001, 76% of the Property and Casualty Group's total homeowners insurance exposure was comprised of risks in Mid-Atlantic states, which exposes the Property and Casualty Group to significant risk of loss from catastrophes in that region.

INCREASED LITIGATION AGAINST THE INDUSTRY, WILLINGNESS OF COURTS TO EXPAND COVERED CAUSES OF LOSS, RISING JURY AWARDS, INCREASING MEDICAL COSTS AND THE ESCALATION OF LOSS SEVERITY MAY CONTRIBUTE TO INCREASED COSTS AND TO THE DETERIORATION OF RESERVE POSITIONS OF THE PROPERTY AND CASUALTY GROUP.

Loss severity for the Property and Casualty Group continues to increase, principally driven by larger court judgments and increasing medical costs in recent years. In addition, many legal actions and proceedings have been brought on behalf of classes of complainants, which can increase the size of judgments. The propensity of policyholders to litigate and the willingness of courts to expand causes of loss and the size of awards may render loss reserves inadequate for current and future losses. Loss reserves are liabilities established by insurers and reinsurers to reflect the estimated cost of loss payments and the related loss adjustment expenses that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance it has written.

The Property and Casualty Group has exposure to mold claims for which there has recently been a sharp increase in the industry generally. Sometimes referred to as "sick building syndrome", tenants claiming to suffer illnesses caused by mold may seek financial compensation from building owners. Businesses also may claim loss-of-use business income interruption losses. Homeowners have also been submitting claims based on mold that has occurred from water damage. The Property and Casualty Group's exposure to date, including known and expected claims, has been insignificant.

Members of the Property and Casualty Group increased their loss and loss adjustment reserves by approximately $184 million in the fourth quarter of 2002 in response to adverse loss experience in the group's automobile, homeowners and workers' compensation lines. To the extent that adverse trends continue, including expansion by courts of covered causes of loss, rising jury awards, increasing medical costs and the escalation of loss severity, the Property and Casualty Group may need to further increase reserves and its profitability may be adversely affected.

CHANGES IN APPLICABLE INSURANCE LAWS, REGULATIONS OR CHANGES IN THE WAY REGULATORS ADMINISTER THOSE LAWS OR REGULATIONS COULD MATERIALLY ADVERSELY CHANGE THE PROPERTY AND

CASUALTY GROUP'S OPERATING ENVIRONMENT AND INCREASE ITS EXPOSURE TO LOSS OR PUT IT AT A COMPETITIVE DISADVANTAGE.

Property and casualty insurers are subject to extensive supervision in the states in which they do business. This regulatory oversight includes, by way of example, matters relating to licensing and examination, rate setting, market conduct, policy forms, limitations on the nature and amount of certain investments, claims practices, mandated participation in involuntary markets and guaranty funds, reserve adequacy, insurer solvency, transactions between affiliates, the amount of dividends that may be paid and restrictions on underwriting standards. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of shareholders. For instance, members of the Property and Casualty Group are subject to involuntary participation in specified markets in various states in which it operates, and the rate levels the Property and Casualty Group is permitted to charge do not always correspond with the underlying costs associated with the coverage issued.

The National Association of Insurance Commissioners ("NAIC") and state insurance regulators are re-examining existing laws and regulations, specifically focusing on insurance company investments, issues relating to the solvency of insurance companies, risk-based capital guidelines, interpretations of existing laws and the development of new laws. Changes in state laws and regulations, as well as changes in the way state regulators view related party transactions in particular, could materially change the operating environment for the Property and Casualty Group and significantly increase the amount of loss to which the Property and Casualty Group is exposed after an insurance policy has been issued.

The state insurance regulatory framework recently has come under increased federal scrutiny. Congress is considering legislation that would create an optional federal charter for insurers. Federal chartering has the potential to create an uneven playing field for insurers. Federally chartered companies could be subject to different regulatory requirements than state chartered insurers in areas such as market conduct oversight, solvency regulation, guaranty fund participation and premium tax burdens. If this occurs, federally chartered insurers may obtain a competitive advantage over state licensed carriers. Federal chartering also raises the specter of a matrix of regulation and costly duplicative, or conflicting, federal and state requirements. Specific federal regulatory developments include the potential repeal of the McCarran-Ferguson Act. The repeal of the McCarran-Ferguson Act and its partial exemption for the insurance industry from federal antitrust laws would make it extremely difficult for insurers to compile and share loss data, develop standard policy forms and manuals and predict future loss costs. The ability of the industry, under the exemption permitted in the McCarran-Ferguson Act, to collect loss cost data and build a credible database as a means of predicting future loss costs is an extremely important part of cost-based pricing. If the ability to collect this data were removed, then the predictability of future loss costs, and hence, the reliability of pricing would be greatly undermined.

IF CERTAIN STATE REGULATORS, LEGISLATORS AND SPECIAL INTEREST GROUPS ARE SUCCESSFUL IN ATTEMPTS TO REDUCE, FREEZE OR SET RATES FOR INSURANCE POLICIES, ESPECIALLY AUTOMOBILE POLICIES, AT LEVELS THAT DO NOT, IN OUR MANAGEMENT'S VIEW, CORRESPOND WITH UNDERLYING COSTS, THE RESULTS OF OPERATIONS OF THE PROPERTY AND CASUALTY GROUP WILL BE ADVERSELY AFFECTED.

From time to time, the automobile insurance industry in particular has been under pressure from certain state regulators, legislators and special interest groups to reduce, freeze or set rates at levels that do not, in our management's view, correspond with underlying costs, including initiatives to roll back automobile and other personal lines rates. For example, in recent years, certain rate increase requests by the Property and Casualty Group for automobile coverage that management believed were necessary were rejected in New York and Maryland. This activity has adversely affected, and may in the future adversely affect, the profitability of the Property and Casualty Group's automobile insurance line of business in various states because increasing costs of litigation and medical treatment, combined with rising automobile repair costs, continue to increase the costs of providing automobile insurance coverage. Adverse legislative and regulatory activity constraining the Property and Casualty Group's ability to price automobile insurance coverage adequately may occur in the future. The impact of the automobile insurance regulatory environment on the results of operations of members of the Property and Casualty Group in the future is not predictable.

THE PROPERTY AND CASUALTY GROUP IS SUBJECT TO ASSESSMENT, DEPENDING UPON ITS MARKET SHARE OF A GIVEN LINE OF BUSINESS, TO ASSIST IN THE PAYMENT OF UNPAID CLAIMS AND RELATED COSTS OF INSOLVENT INSURANCE COMPANIES; SUCH ASSESSMENTS COULD SIGNIFICANTLY AFFECT THE FINANCIAL CONDITION OF ANY ASSESSED MEMBER.

The Property and Casualty Group is obligated to pay assessments under the guaranty fund laws of the various states in which they are licensed. These assessments were $0.6 million for the year ended December 31, 1999, $0.8 million for the year ended December 31, 2000 and $30.9 million for the year ended December 31, 2001. Generally, under these laws, an insurer is subject to assessment, depending upon its market share of a given line of business, to assist in the payment of unpaid claims and related costs of insolvent insurance companies. The number and magnitude of future insurance company failures in the states in which the Property and Casualty Group does business cannot be predicted, but resulting assessments levied on members of the Property and Casualty Group could significantly affect the financial condition of members of the Property and Casualty Group. The Property and Casualty Group believes that it is likely to receive an assessment in the next year relating to the insolvency of The Pennsylvania Hospital Insurance Company (PHICO), the amount of which we cannot currently estimate.

PREMIUM RATES AND RESERVES MUST BE ESTABLISHED FOR MEMBERS OF THE PROPERTY AND CASUALTY GROUP FROM FORECASTS OF THE ULTIMATE COSTS EXPECTED TO ARISE FROM RISKS

UNDERWRITTEN DURING THE POLICY PERIOD; A MEMBER'S PROFITABILITY COULD BE ADVERSELY AFFECTED TO THE EXTENT SUCH PREMIUM RATES OR RESERVES ARE TOO LOW.

One of the distinguishing features of the property and casualty insurance industry in general is that its products are priced before its costs are known, as premium rates are generally determined before losses are reported. Accordingly, premium rates must be established from forecasts of the ultimate costs expected to arise from risks underwritten during the policy period and may not prove to be adequate. Further, property and casualty insurers establish reserves for losses and loss adjustment expenses based upon estimates, and it is possible that the ultimate liability will exceed these estimates because of the future development of known losses, the existence of losses that have occurred but are currently unreported and larger than historical settlements on pending and unreported claims. The process of estimating reserves is inherently judgmental and can be influenced by factors that are subject to variation. If pricing or reserves established by a member of the Property and Casualty Group are not sufficient, such member's profitability may be adversely impacted.

The Property and Casualty Group experienced adverse loss development relating to losses from prior accident years of $107 million for calendar year 2000, or 5.6% of loss reserves at year-end 2000, and $117 million for calendar year 2001, or 5.0% of loss reserves at year-end 2001. Adverse development of losses from prior accident years results in higher calendar year loss ratios and reduced calendar year underwriting results. To the extent prior year reserve deficiencies are indicative of deteriorating underlying loss trends and are material, the Property and Casualty Group's pricing of affected lines of business would be increased to the extent permitted by state departments of insurance.

SUBSTANTIAL PREMIUM RATE INCREASES ARE DRAWING NEW ENTRANTS AND NEW CAPITAL TO THE REINSURANCE MARKETS, WHICH MAY INCREASE COMPETITION AMONG PROPERTY AND CASUALTY INSURERS AND MAY CAUSE A REDUCTION IN OUR REVENUES.

Property and casualty market conditions in the wake of the World Trade Center terrorist attack have been characterized by closer adherence to underwriting standards, higher deductibles, reduced coverages and limits, more restrictive terms and conditions and higher premium rates. As a result of these changes in the industry, substantial new capital has entered the property and casualty insurance market. A substantial portion of the new capital is dedicated to building the capacity of new offshore reinsurers. This increased capital could result in lower prices for reinsurance, which in turn would allow primary insurers to offer more competitive prices or more favorable insurance terms and conditions or increase capacity. Increased competition among insurers and reinsurers could also allow the Property and Casualty Group's competitors to relax their underwriting standards. If substantial premium rate increases were to continue, additional new capital would likely be attracted, which would further promote the effects of increased competition.

RISKS RELATING TO OUR CLASS A COMMON STOCK

THE PRICE OF OUR CLASS A COMMON STOCK MAY BE ADVERSELY AFFECTED BY ITS LOW TRADING VOLUME.

The trading market for our Class A common stock is marked by limited liquidity. Reported average daily trading volume in our Class A common stock for the period January 1, 2002 through October 31, 2002 was approximately 32,000 shares. Of our 63.7 million shares of Class A common stock outstanding at September 30, 2002, approximately 29 million shares are available for public sale, with the remainder held by a small number of significant shareholders. Since 1999, we have had a stock repurchase program that authorized us to repurchase up to $120 million of our outstanding Class A common stock through December 31, 2002. Approximately $101.9 million of Class A common stock has been repurchased under the program to date. We believe the repurchase program had the effect of stabilizing the price of our Class A common stock notwithstanding that the variability of the price of our Class A common stock had been declining every year in the three years prior to our stock repurchase program. The program, however, has been suspended in connection with this offering of Class A common stock, and as a result, there may be an adverse effect on the market price of our Class A common stock.

THE MARKET PRICE OF OUR CLASS A COMMON STOCK MAY BE ADVERSELY AFFECTED BY FUTURE SALES OF A SUBSTANTIAL NUMBER OF SHARES OF OUR CLASS A COMMON STOCK BY OUR EXISTING SHAREHOLDERS IN THE PUBLIC MARKET, OR THE AVAILABILITY OF SUCH SHARES FOR SALE.

In connection with this offering, the Company, certain of its directors and officers, the Selling Shareholder and certain other shareholders have indicated that they will enter into lock-up agreements under which they will generally agree not to dispose of or hedge any of their shares or securities convertible into or exchangeable for shares of common stock of the Company during the 90-day period from the date of this prospectus without prior written approval of the underwriters. Certain of our existing shareholders, however, have not indicated that they will agree to enter into lock-up agreements, including Susan Hirt Hagen, who is a member of our board of directors and a trustee and a beneficiary of the H.O. Hirt Trusts and Thomas B. Hagen, who is Mrs. Hagen's husband. Also, Laurel A. Hirt has indicated that she will not agree to enter into a lock-up agreement. Ms. Hirt is a daughter of F. William Hirt, the chairman of our board of directors. Mr. Hirt is also a trustee and a beneficiary of the H.O. Hirt Trusts. Although we have not received any indication that Mr. and Mrs. Hagen or Laurel Hirt are planning to sell shares of Class A common stock during the 90-day period from the date of this prospectus, Mr. and Mrs. Hagen and Laurel Hirt, if they do not execute lock-up agreements, may have available for sale up to 31.76% of the outstanding shares of Class A common stock, assuming no further conversion of Class B shares into Class A shares. Sales, or the availability for sale, by these shareholders following the consummation of this offering of a substantial number of shares of our Class A common stock that are not subject to lock-up agreements may have an adverse effect on the market price of our Class A common stock.

HOLDERS OF CLASS A COMMON STOCK HAVE LIMITED VOTING RIGHTS, AND TWO SHAREHOLDERS OF OUR CLASS B COMMON STOCK, THE H.O. HIRT TRUSTS, HAVE THE ABILITY TO DETERMINE THE OUTCOME OF ALL MATTERS SUBMITTED FOR SHAREHOLDER APPROVAL, EXCEPT THOSE MATTERS PERTAINING ONLY TO THE RIGHTS OF THE HOLDERS OF CLASS A COMMON STOCK.

Our Class A common stock cannot vote for the election of directors and generally can only vote on matters pertaining to the rights of holders of Class A common stock. Generally, voting control of the Company is vested in the 2,900 outstanding shares of Class B common stock. The H.O. Hirt Trusts together own 2,340 shares, or 80.7%, of the outstanding Class B common stock and can therefore together elect the entire board of directors and determine the outcome of all matters submitted for approval of our shareholders, except those matters pertaining only to the rights of the holders of Class A common stock.

THE VALUE OF OUR CLASS A COMMON STOCK MAY BE ADVERSELY AFFECTED BECAUSE THE ABILITY OF OUR PRINCIPAL SHAREHOLDERS TO VOTE IN FAVOR OF A TRANSACTION THAT WOULD RESULT IN A CHANGE OF CONTROL IS LIMITED.

The vote of the H.O. Hirt Trusts will determine the outcome of any matter submitted for shareholder approval, except those matters pertaining only to the rights of the holders of Class A common stock. The trust agreement governing the H.O. Hirt Trusts provide that at least two of the three trustees, including the corporate trustee, would be required to vote in favor of a transaction under which we would be acquired and such action, by the terms of the trust agreements, would be permitted only if required to maintain the health of the Exchange. This may prevent anyone from acquiring us in a transaction that shareholders, other than the H.O. Hirt Trusts, may consider to be in their best interests and may consequently have a negative effect on the price of our Class A common stock.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference into this prospectus contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include certain discussions relating to underwriting, premium and investment income volume, business strategies, profitability and business relationships and our other business activities during 2002 and beyond. In some cases, you can identify forward-looking statements by terms such as "may", "will", "should", "could", "would", "expect", "plan", "intend", "anticipate", "believe", "estimate", "project", "predict", "potential" and similar expressions. These forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that may cause results to differ materially from those anticipated in those statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict. Such factors may include those described under "Risk Factors" beginning on page 11.

The forward-looking statements contained in this prospectus reflect our views and assumptions only as of the date of this prospectus. Except as required by law, we assume no responsibility for updating any forward-looking statements. You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

We qualify all of our forward-looking statements by these cautionary statements.

PRICE RANGE OF OUR CLASS A COMMON STOCK AND DIVIDEND HISTORY

Prices for our Class A common stock are quoted on the NASDAQ Stock Market(SM) under the symbol "ERIE". The following table presents for the periods indicated the high and low closing prices for our Class A common stock as reported by the NASDAQ Stock Market(SM) and the cash dividends declared.

	Price Range		Cash Dividends
2000:	High	Low	Declared
First Quarter	$ 32.44	$ 26.50	$ 0.1350
Second Quarter	32.50	27.50	0.1350
Third Quarter	32.00	29.19	0.1350
Fourth Quarter	30.00	24.00	0.1525

	Price Range		Cash Dividends
2001:	High	Low	Declared
First Quarter	$ 30.00	$ 26.50	$ 0.1525
Second Quarter	36.12	27.54	0.1525
Third Quarter	39.55	32.70	0.1525
Fourth Quarter	40.63	36.91	0.1700

	Price Range		Cash Dividends
2002:	High	Low	Declared
First Quarter	$ 40.82	$ 37.65	$ 0.1700
Second Quarter	45.49	40.44	0.1700
Third Quarter	44.50	37.45	0.1700
Fourth Quarter	42.39	35.90	0.1900

	Price Range		Cash Dividends
2003:	High	Low	Declared
First Quarter (through January 6)	$ 36.58	$ 36.38	--

The last reported sale price of our Class A common stock on January 6, 2003 was $36.38. As of September 30, 2002, there were 1,061 holders of record of our Class A common stock.

We have paid regular quarterly cash dividends since 1942. Our board of directors considers the declaration of cash dividends on a quarterly basis. The payment of future dividends, if any, will be at the discretion of our board of directors and will depend upon many factors, including:

- our earnings;
- our financial position;

- our capital requirements and those of our subsidiaries; and
- our ability to receive dividends from our subsidiaries, which is subject to regulatory limitations.

Therefore, there can be no assurance as to the declaration of future dividends.

Although a potential source of cash for the payment of dividends to our shareholders is dividends from our insurance subsidiaries, our insurance subsidiaries have never paid us a dividend. Our insurance subsidiaries are subject to state laws that restrict their ability to pay dividends.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2002. We will not receive any proceeds from the sale of the shares of Class A common stock being offered hereby.

(amounts in thousands)	September 30,
Long-term debt	
Shareholders' equity:	
Class A common stock, stated value $0.0292 per share; authorized 74,996,930 shares; issued 67,080,000 shares and outstanding 63,677,106 shares	$ 1
Class B common stock, stated value $70 per share; authorized 3,070 shares; issued and outstanding 3,050 shares	
Additional paid-in capital	7
Accumulated other comprehensive income	31
Retained earnings	1,018
Contributed capital and retained earnings	$ 1,060
Treasury stock, at cost (3,402,894 shares)	(101
Total capitalization	$ 958

SELECTED HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

The selected consolidated financial data presented below as of or for the years ended December 31, 1997 through 2001 is derived from our audited financial statements. Our consolidated financial statements as of December 31, 2000 and 2001 and for each of the years in the three-year period ended December 31, 2001, and our independent auditors' report thereon, are included elsewhere in this prospectus and incorporated by reference herein. See "Where To Find More Information/Incorporation by Reference". The selected consolidated financial data presented below as of or for the nine-month periods ended September 30, 2001 and 2002 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus and incorporated by reference herein. See "Where To Find More Information/Incorporation by Reference". Our results of operations for the nine months ended September 30, 2002 are not necessarily indicative of our results of operations that may be expected for the year ending December 31, 2002. In the opinion of our management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. The financial data set forth below is only a summary and should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	Nine Months Ended September 30,		Year	
(amounts in thousands, except per share data)	2002	2001	2001	2000
	(unaudited)			
STATEMENTS OF OPERATIONS DATA:				
Operating revenue	$ 730,029	$ 602,001	$ 799,861	$ 698,016
Operating expense	556,871	466,566	635,756	549,672
Total other income and expenses	33,187	35,408	17,998	70,102
Equity in earnings of Erie Family Life Insurance Company, net of tax	1,015	2,337	719	5,108
Federal income tax expense	69,171	56,835	60,561	71,161
Net income	$ 138,189	$ 116,345	$ 122,261	$ 152,393
PER SHARE DATA:				
Net income per share	$ 1.94	$ 1.63	$ 1.71	$ 2.12
Dividends declared per Class A share	0.51	0.4575	0.6275	0.5575
Dividends declared per Class B share	76.50	68.625	94.125	83.625
Book value per share	13.50	12.01	12.15	10.91
Weighted average shares outstanding	71,109	71,380	71,342	71,954
FINANCIAL POSITION:				
Investments (1)	$ 969,898	$ 884,599	$ 885,650	$ 853,146
Receivables from the Exchange and affiliates	761,295	650,091	640,655	532,009
Total assets	2,194,690	1,897,077	1,935,566	1,680,599
Shareholders' equity	958,274	855,755	865,255	779,015
Cumulative shares repurchased				

at December 31/September 30	3,403	3,170	3,196	2,976

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(1) Includes investment in Erie Family Life Insurance Company.

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SELECTED HISTORICAL FINANCIAL INFORMATION OF THE EXCHANGE
(STATUTORY ACCOUNTING PRINCIPLES)

The selected financial data of the Exchange presented below as of and for the years ended December 31, 1997 through 2001 is derived from financial statements prepared in accordance with statutory accounting principles ("SAP") that were audited by our independent auditors. The selected financial data below as of and for the nine months ended September 30, 2001 and 2002 are derived from the Exchange's unaudited financial statements prepared in accordance with SAP. In the opinion of management, all adjustments consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. The financial data set forth below is only a summary. More information about the Exchange, including the reasons why the Company believes the financial data set forth below is meaningful to a reader of this prospectus, can be found in "Erie Insurance Exchange". The Annual Statements filed by the Exchange with the Insurance Department of the Commonwealth of Pennsylvania are available for inspection without charge at the Department's offices at Strawberry Square, Harrisburg, Pennsylvania. The financial statements of the Exchange included in these annual statements are prepared in accordance with SAP required by the NAIC Accounting Practices and Procedures Manual, as modified to include prescribed or permitted practices of the Commonwealth of Pennsylvania. See "Erie Insurance Exchange -- General" on page 94 for a discussion of significant differences between SAP and generally accepted accounting principles ("GAAP"). The Exchange does not, nor is it required to, prepare financial statements in accordance with GAAP.

	Nine Months Ended September 30,		Year Ende		
(amounts in thousands)	2002	2001	2001	2000	
	(unaudited)				
OPERATING DATA:					
Premiums earned	$ 2,140,526	$ 1,792,450	$ 2,422,600	$ 2,161,034	$ 2
Loss and loss adjustment expenses	1,727,052	1,568,896	2,150,749	1,714,487	1
Insurance underwriting and other expenses	718,881	551,623	766,304	624,622	
Net underwriting (loss) income	$ (305,407)	$ (328,069)	$ (494,453)	$ (178,075)	$
Investment income (loss), net	48,237	(32,489)	(421,754)	347,582	
Federal income tax expense (benefit)	(68,925)	(43,230)	(300,257)	42,433	
Net income (loss)	$ (188,245)	$ (317,328)	$ (615,950)	$ 127,074	$
FINANCIAL POSITION:					
Cash and invested assets	$ 5,238,660	$ 5,563,420	$ 5,990,511	$ 6,357,658	$ 6

Total assets	6,190,240	6,317,728	6,998,794	6,969,746	7
Claims and unearned premium reserves	3,663,000	3,084,067	3,200,836	2,654,300	2
Total liabilities	4,042,623	3,418,368	3,953,243	2,847,861	2
Policyholders' surplus (1)(2)	2,147,617	2,899,360	3,045,551	4,121,885	4

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(1) Periods beginning after January 1, 2001 are computed taking into consideration changes in SAP required by the NAIC Accounting Practices and Procedures Manual. An adjustment made on January 1, 2001 as a result of such changes decreased policyholders' surplus by $523.8 million.

(2) Under a practice prescribed by the Commonwealth of Pennsylvania, unearned premium reserves are reduced (and policyholders' surplus increased) by the amount of the management fee ultimately payable by the Exchange to us correlating to premiums not yet earned at the respective financial statement date. At December 31, 2001, this amount was $240.9 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN CONJUNCTION WITH THE "SELECTED HISTORICAL FINANCIAL INFORMATION OF THE COMPANY" AND THE CONSOLIDATED FINANCIAL STATEMENTS, AND THE RELATED NOTES, INCLUDED ELSEWHERE IN THIS PROSPECTUS AND INCORPORATED BY REFERENCE HEREIN. IN ADDITION TO THIS INFORMATION, THE TABLE ENTITLED "MANAGEMENT EVALUATION OF OPERATING RESULTS" ON THE NEXT PAGE DIRECTLY REFLECTS MEASUREMENTS USED BY MANAGEMENT IN EVALUATING OPERATING RESULTS. THIS TABLE, WHICH MANAGEMENT USES INTERNALLY TO MONITOR AND EVALUATE RESULTS, IS AN ALTERNATIVE PRESENTATION OF THE COMPANY'S CONSOLIDATED STATEMENTS OF OPERATIONS. YOU SHOULD REFER TO THIS TABLE IN CONJUNCTION WITH READING THOSE PORTIONS OF THE FOLLOWING DISCUSSIONS RELATING TO OPERATING RESULTS AND MEASUREMENTS.

GENERAL

We operate predominantly as a provider of management services to Erie Insurance Exchange (the "Exchange") and also as an underwriter of insurance through our subsidiaries. We have served since 1925 as the attorney-in-fact, or management company, for the policyholders of the Exchange. The Exchange and its property and casualty subsidiary and our three property and casualty subsidiaries (collectively, the "Property and Casualty Group") write personal and commercial lines property and casualty coverages exclusively through approximately 8,000 independent agents and pool their underwriting results. The financial results of the Exchange are not consolidated with ours. For our services as attorney-in-fact in providing sales, underwriting and policy issuance services to the Exchange, we charge the Exchange a management fee calculated as a percentage, limited to 25%, of the direct written premiums of the Property and Casualty Group.

Under the pooling arrangement, all property and casualty insurance business of the five property and casualty insurance companies that comprise the Property and Casualty Group is pooled within the Exchange as the pooling entity. Our insurance subsidiaries, Erie Insurance Company and Erie Insurance Company of New York, share in the underwriting results of the pool through retrocession. Erie Insurance Company has a 5.0% participation, Erie Insurance Company of New York has a 0.5% participation and the Exchange has a 94.5% participation in the pooled underwriting results. These participation percentages are determined by our board of directors. We also own 21.6% of the common stock of Erie Family Life Insurance Company, an affiliated life insurance company, of which the

Exchange owns 53.5% and public shareholders, including its officers and directors, own 24.9%.

ERIE INDEMNITY COMPANY

MANAGEMENT EVALUATION OF OPERATING RESULTS

	Nine Months Ended September 30,		Y
(amounts in thousands)	2002	2001	2001
	(unaudited)		
MANAGEMENT OPERATIONS:			
Management fee revenue	$ 593,895	$ 480,805	$ 634,96
Service agreement revenue	16,310	20,339	27,24
Cost of management operations	(421,097)	(349,796)	(477,64
Income from management operations	$ 189,108	$ 151,348	$ 184,56
INSURANCE UNDERWRITING OPERATIONS:			
Premiums earned	$ 119,824	$ 100,857	$ 137,64
Losses and loss adjustment expenses incurred	(98,431)	(88,074)	(117,20
Policy acquisition and other underwriting expenses	(37,343)	(28,696)	(40,91
Underwriting loss	($15,950)	($15,913)	($20,46
INVESTMENT OPERATIONS:			
Net investment income	$ 40,705	$ 36,855	$ 49,88
Net realized (losses) gains on investments	(8,628)	(2,726)	(31,87
Equity in earnings of EFL	1,091	2,513	77
Equity in earnings (losses) of limited partnerships	1,110	1,279	(
Net revenue from investment operations	$ 34,278	$ 37,921	$ 18,77
Income before income taxes	207,436	173,356	182,87
Provision for income taxes	(69,247)	(57,011)	(60,61
Net income	$ 138,189	$ 116,345	$ 122,26
Operating income (1)	$ 143,797	$ 118,117	$ 142,98
PER SHARE DATA:			
Net income	$ 1.94	$ 1.63	$ 1.7

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(1) Operating income excludes net realized gain (loss) on investments and related federal income taxes.

CRITICAL ACCOUNTING ESTIMATES

We make estimates and assumptions that can have a significant effect on amounts and disclosures we report in our financial statements. The most significant estimates relate to our reserves for property and casualty insurance unpaid losses and loss adjustment expenses, valuation of investments and guaranty fund liability accruals. While management believes its estimates are appropriate, the ultimate amounts may differ from the estimates provided. The methods for making these estimates are continually reviewed, and any adjustments considered necessary are reflected in current earnings.

With respect to reserves for property and casualty unpaid losses and loss adjustment expenses, significant components of estimates include a variety of factors such as medical inflation trends, regulatory and judicial rulings, legal settlements, property replacements and repair cost trends, and losses for assumed reinsurance activities. In recent years, certain of

these component costs such as medical inflation trends and legal settlements have experienced significant volatility and resulted in incurred amounts higher than our original estimates. We have factored these changes in trends into our loss estimates. However, due to the nature of these liabilities, actual results could ultimately vary significantly from the amounts recorded. If the ultimate liability for unpaid losses and loss adjustment expenses were 10% more than the recorded amount at December 31, 2001, the effect would be a reduction in the Company's pre-tax income of approximately $12 million or $0.17 per share.

We make estimates concerning the valuation of our investments and the recognition of other than temporary declines in value of these investments. When the decline in value of an individual investment is considered by management to be other than temporary, the investment is written down to its estimated net realizable value and reflected as a realized loss in the statement of operations. All investments are individually monitored for other than temporary declines in value. Management makes judgments about when there are other than temporary declines in its investments. Generally, if an individual security has depreciated in value by more than 20% of original cost, and has been in such unrealized loss position for more than six months, we assume there has been an other than temporary decline in value. In addition, the Company may write-down other securities in an unrealized loss position depending on the existence of certain other factors. These other factors we consider include: the significance of the fair value below cost, whether there has been a deterioration in financial condition of the issuer, whether there have been specific events adversely affecting an investment, debt security downgrades and specific industry or geographic events. If we had determined there was an other than temporary decline in value in 2001 for 10% of our investments with unrealized losses, then the Company would have recorded an additional realized loss of $480,000 in our 2001 statement of operations. Our evaluation of the need for write-downs due to other than temporary declines in value is also applied to our investment in limited partnerships and mortgage loans.

Our investments in fixed maturity and marketable equity securities are presented at estimated fair value, which generally represents quoted market prices. Our investments in limited partnerships are recorded using the equity method, which approximates the Company's proportionate share of the partnership's reported net equity. Because of their illiquidity relative to our other investments, there is increased risk in valuation of limited partnerships. The recorded value of limited partnerships includes the valuation of investments held by these partnerships, which include U.S. and foreign private equity, real estate and fixed income investments. These valuations are determined by the general partner. We consider the reasonableness of these valuations based on various information including: audited and unaudited financial statements from these partnerships, and other information provided by the general partner. The carrying value of limited partnership investments totaled $81.6 million at December 31, 2001.

Estimates are also made by the Company's insurance subsidiaries of liabilities for guaranty fund and other assessments. Our insurance subsidiaries are sometimes required to pay assessments to states in which the subsidiaries are licensed because of insurance company insolvencies. The liability for the assessments is recorded when the insolvency event has occurred and can be reasonably estimated. We commonly become aware of insolvencies that will affect us prior to obtaining specific assessment amounts from state guaranty associations to estimate our share of the liability. It is often a long process before state guaranty associations know of the ultimate amount of assessment needed to cover the insolvency. We initiate communication with the state insurance departments and guaranty associations when we learn of an insolvency. Although the insurance departments and guaranty associations may not be able to provide specifics on the ultimate assessment amounts, they will sometimes provide us with information from which we develop an estimated range of the future assessment. We generally record a liability at the mid-point of the range. In these cases, the mid-point of the range we develop represents our best estimate of the ultimate loss to be incurred due to the assessment. We adjust our estimated liability as the guaranty association provides us with more up to date assessment amounts. For example in 2001, the insolvency of Reliance Insurance Company was significant. Although we had not received definitive notices of assessment amounts as of December 31, 2001 from the guaranty funds, we recorded an estimated liability of $2.0 million at December 31, 2001. This liability was recorded based on the mid-point of the range of estimated assessment amounts. Additional future information may result in adjustments to our estimated liability.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

FINANCIAL OVERVIEW

Our consolidated net income for the nine months ended September 30, 2002 increased 18.8% to $138.2 million, from $116.3 million during the same period in 2001. Income from management operations grew as a result of a 23.5% increase in direct written premiums of the Property and Casualty Group. Results of our insurance underwriting operations were about the same in the first nine months of 2002 compared to the same period in 2001 as a result of wind storm-related catastrophe losses and increased technology spending related to the eCommerce initiative in 2002 and World Trade Center losses in 2001. In addition, charges of $17.7 million and $5.7 million were taken for impaired investments contributing to net realized losses on investments in the first nine months of 2002 and 2001, respectively. The board of directors voted to reduce the management fee rate from 25% to 24% for 2003 at its December 10, 2002 meeting.

For the nine months ended September 30, 2002, operating income (net income excluding net realized (losses) gains and related federal income taxes) increased 21.7% to $143.8 million, from $118.1 million reported for the same period in 2001.

We have benefited during this period, and expect to continue to benefit, from premium increases by the Property and Casualty Group that have resulted from pricing actions approved by regulators through September 30, 2002. These premiums accounted for $48.4 million in increased premiums from the Property and Casualty Group for the nine months ended September 30, 2002. These increases were primarily related to private passenger automobile, workers' compensation and homeowners lines of business premium rate increases realized in the states of Pennsylvania, Maryland and Ohio. The remaining anticipated premium rate increases to be recognized in future periods are in the private passenger automobile, commercial multiple peril and homeowners lines of business in the states of Pennsylvania, Ohio and West Virginia.

ANALYSIS OF MANAGEMENT OPERATIONS

Our management fee revenue increased 23.5% to $593.9 million for the nine months ended September 30, 2002, from $480.8 million for the same period in 2001.

The direct written premium of the Property and Casualty Group upon which our management fee revenue is calculated grew 23.5% to $2,375.6 million during the first nine months of 2002, from $1,923.2 million for the same period in 2001. Increases in average premium per policy, improvements in new policy growth and continuing favorable policy retention rates were all contributing factors in the growth of direct written premium.

The average premium per policy increased 9.5% to $877 for the rolling twelve months ended September 30, 2002, from $801 for the same period ended September 30, 2001. In private passenger automobile, which accounted for 53.1% of the direct written premiums of the Property and Casualty Group and over 1.5 million policies in force, the average premium per policy increased 7.2% to $1,023 for the rolling twelve months ended September 30, 2002, from $954 during the same period ended September 30, 2001.

Continued growth in the number of new policies also drove the gains experienced in the Property and Casualty Group's direct written premium. Personal lines new business premium grew 45.3% for the first nine months of 2002 to $270.6 million, from $186.2 million, while commercial lines new premium grew 56.8% to $164.6 million, from $104.9 million, during the same period in 2001. Policies in force increased at an annualized rate of 11.9% to 3,411,953 at September 30, 2002, from 3,048,808 at September 30, 2001.

Policy retention remained strong at 91.1% and 90.9% for the periods ended September 30, 2002 and 2001, respectively, for all lines of business combined.

Changes in the management fee rate can affect our revenue and net income significantly. If our board of directors had reduced the management fee rate 1% (from 25% to 24%) for the nine-month periods ended September 30, 2002 and 2001, the decrease would have resulted in a reduction of our management fee revenue of $23.8 million and $19.2 million, respectively. The net income per share impact would have been a reduction of $0.22 and $0.18 for the nine-month periods ended September 30, 2002 and 2001, respectivelstyle="padding:0pt .7pt 0pt 0pt;width:13.1pt;">

500,884

1.1

%

Douglas E. Williams, Ph.D.(j)

30,000

*

Gil J. Van Lunsen(k)

31,260

*

John L. Zabriskie, Ph.D.(l)

100,000

*

All directors and executive officers as a group (12 persons)(m)

5,216,288

10.6

%

Five Percent Shareholders

Kopp Investment Advisors, LLC(n)

2,960,010

6.3

%

OrbiMed Advisors, LLC(o)

2,430,000

5.2

%

FMR Corp.(p)

4,806,500

10.2

%

Deerfield Management Company, LP(q)

2,656,674

5.6

%

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* Less than 1%.

(a) Unless otherwise indicated, each person has sole voting and investment power with respect to shares shown as beneficially owned by such person. For purposes of calculating the number and percentage of shares beneficially owned, the number of shares of common stock deemed outstanding consists of 47,115,717 shares outstanding on August 10, 2007 plus the number of shares of common stock underlying stock options held by the named person that are exercisable as of October 9, 2007. Except as otherwise specified below, the address of each of the beneficial owners identified is c/o Array BioPharma Inc., 3200 Walnut Street, Boulder, Colorado 80301.

(b) Includes options to purchase 814,181 shares of common stock that are exercisable as of October 9, 2007 and 40,000 shares held in uniform gift to minor accounts for the benefit of Mr. Conway s children.

(c) Includes options to purchase 181,109 shares of common stock that are exercisable as of October 9, 2007.

(d) Includes options to purchase 415,340 shares of common stock that are exercisable as of October 9, 2007, 99,000 shares held in trust for the benefit of Dr. Koch s minor children and 43,286 shares of common stock held by Dr. Koch s spouse.

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(e) Includes options to purchase 391,936 shares of common stock that are exercisable as of October 9, 2007, 119,950 shares of common stock held in trust for the benefit of Dr. Snitman s minor children and 598,997 shares held in a grantor retained annuity trust of which Dr. Snitman is the trustee.

(f) Includes options to purchase 77,385 shares of common stock that are exercisable as of October 9, 2007.

(g) Includes 2,000 shares of common stock in trust for the benefit of Mr. Lefkoff s minor children and options to purchase 50,000 shares of common stock that are exercisable as of October 9, 2007. The address of Mr. Lefkoff is c/o Boulder Ventures, 1900 Ninth Street, Suite 200, Boulder, Colorado 80302.

(h) Includes options to purchase 80,000 shares of common stock that are exercisable as of October 9, 2007.

(i) Includes 450,884 shares of stock held by The Caruthers Family, LLC, of which Dr. Caruthers is the manager and a member. Dr. Caruthers disclaims beneficial ownership in these shares except to the extent of his pecuniary interest in such shares. Includes options to purchase 50,000 shares of common stock that are exercisable as of October 9, 2007.

(j) Includes options to purchase 30,000 shares of common stock that are exercisable as of October 9, 2007.

(k) Includes options to purchase 26,000 shares of common stock that are exercisable as of October 9, 2007.

(l) Includes options to purchase 70,000 shares of common stock that are exercisable as of October 9, 2007.

(m) Includes options to purchase 2,185,951 shares of common stock that are exercisable as of October 9, 2007.

(n) Based on information set forth in Schedule 13G filed under the Exchange Act on January 18, 2007, reporting 2,599,010 shares beneficially owned by both Kopp Investment Advisors, LLC and Kopp Holding Company, LLC; 2,644,010 shares beneficially owned by Kopp Holding Company; and all 2,960,010 shares beneficially owned by LeRoy C. Kopp, the chief executive officer and a control person of the foregoing entities. The address of Kopp Investment Advisors, LLC is 7701 France Avenue South, Suite 500 Edina, MN 55435.

(o) Based on information set forth in Schedule 13G/A filed under the Exchange Act on February 9, 2007, reporting 895,300 shares beneficially owned by OrbiMed Advisors, LLC; 1,534,700 shares beneficially owned by OrbiMed Capital, LLC; and all 2,430,000 shares beneficially owned by Samuel D. Isaly, the managing member and a control person of the foregoing entities. The address of OrbiMed Advisors, LLC is 767 3rd Avenue, 30th Floor, New York, NY 10017.

(p) Based on information set forth in Schedule 13G filed under the Exchange Act on June 11, 2007, reporting 4,806,500 shares beneficially owned by both FMR Corp. and Edward C. Johnson 3d, the chief executive officer and a control person of the foregoing entities. The address of FMR Corp. is 82 Devonshire Street, Boston, MA 02109.

(q) Based on information set forth in Schedule 13G filed under the Exchange Act on February 13, 2007, reporting 1,022,307 shares beneficially owned by Deerfield Capital, LP; 929,732 shares beneficially owned by Deerfield Partners, LP; 92,575 shares beneficially owned by Deerfield Special Situations Funds, LP; 1,634,367 shares beneficially owned by Deerfield Management Company, LP; 1,448,100 shares beneficially owned by Deerfield International Limited; 186,267 shares beneficially owned by Deerfield Special Situations Fund International Limited and all 2,656,674 shares beneficially owned by James E. Flynn, the managing member and a control person of the foregoing entities. The address of Deerfield Management Company, LP is 780 Third Avenue, 37th Floor, New York, NY 10017.

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EXECUTIVE OFFICERS

The table below shows the names, ages and positions of our executive officers as of August 10, 2007.

Name	Age	Position
Robert E. Conway	53	Chief Executive Officer
Kevin Koch, Ph.D.	47	President and Chief Scientific Officer
David L. Snitman, Ph.D.	55	Chief Operating Officer and Vice President, Business Development
R. Michael Carruthers	49	Chief Financial Officer
John R. Moore	43	Vice President, General Counsel and Secretary
John Yates	51	Chief Medical Officer

Please see PROPOSAL 1 ELECTION OF DIRECTORS Board of Directors above for the biographies of Mr. Conway, Dr. Koch and Dr. Snitman.

R. Michael Carruthers has served as our Chief Financial Officer since December 1998, and served as Secretary from December 1998 until October 2002. Prior to joining Array, Mr. Carruthers was Chief Financial Officer from October 1993 until December 1998 of Sievers Instrument, Inc. From May 1989 until October 1993, Mr. Carruthers was the treasurer and controller for the Waukesha division of Dover Corporation. Mr. Carruthers is a Certified Public Accountant and was previously employed as an accountant with Coopers & Lybrand, LLP. He currently serves on the Board of Directors of Pyxant Labs. Mr. Carruthers received a B.S. in accounting from the University of Colorado and an M.B.A. from the University of Chicago.

John R. Moore has served as our Vice President and General Counsel since May 2002 and as Secretary since October 2002. Prior to joining Array, Mr. Moore was an associate for three years with the law firm of Wilson Sonsini Goodrich & Rosati where he negotiated transactions involving technology, intellectual property and products. From September 1992 to July 1996, and August 1996 to June 1999, Mr. Moore was an associate with the law firms of Kenyon & Kenyon and Arnold White & Durkee, respectively, where he focused on intellectual property matters. Mr. Moore received a J.D. from the University of North Carolina at Chapel Hill School of Law, a M.S. in Biochemistry from the University of Illinois at Urbana-Champaign and a B.S. in Chemistry from the University of North Carolina at Chapel Hill.

John Yates has served as our Chief Medical Officer since May 2007. Prior to joining Array, Dr. Yates was President and Chief Executive for Takeda Global Research & Development Center from 2004 to 2007, where he was charged with all aspects of pharmaceutical development from first in man through commercialization. From 1990 until 2003, Dr. Yates held various positions of increasing responsibility at Merck & Co, Inc., rising to the level of Vice President, U.S. Medical and Scientific Affairs. While at Merck, Dr. Yates was responsible for all U.S. Phase 4 studies, supporting 15 marketed products as well as conducting outcomes research and health economic studies. Dr. Yates received his M.B. Ch.B. and M.D. degrees from Sheffield University Medical School, in Sheffield, UK. He gained further experience in academic medical research at the University of Melbourne, Australia and the University of Texas Health Science Center in San Antonio, TX.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

This section provides information regarding the compensation program in place for our named executive officers, or NEOs, who consist of our principal executive officer, principal financial officer and the three most highly-compensated executive officers other than the principal executive officer and principal financial officer, for our fiscal year ended June 30, 2007. It includes information regarding, among other things, the overall objectives of our compensation program and each element of compensation that we provide.

General

The Compensation Committee of our Board of Directors, or the Committee, has responsibility for determining the compensation of our NEOs for approval by our independent directors. The Committee also administers our Amended and Restated Stock Option and Incentive Plan and considers and approves new hire and periodic retention grants under the plan to NEOs and other members of management and determines the terms of performance-based compensation under our annual Performance Bonus Program applicable to our NEOs and other salaried employees. The Committee acts pursuant to a charter that has been approved by our Board, a copy of which is available on the Investor Relations section of our website at www.arraybiopharma.com.

Objectives and Philosophy of Our Compensation Program

The compensation program for our NEOs is designed to attract, retain, motivate and reward talented executives who can contribute to our long-term success and thereby build value for our stockholders. Our compensation program is based on the following key principles:

- Pay that is linked with performance and the achievement of our strategic goals.
- Overall compensation that is competitive in the industry in which we compete for executive talent.
- Alignment of NEO interests with those of our stockholders through equity compensation.
- Recognition of individual contributions, teamwork and performance.

Other factors specific to our company weigh heavily into our NEO compensation decisions, such as the following:

Evolution of Business. Our NEOs are executing our business strategy which has evolved from primarily a chemistry services provider to building a commercial-stage biotechnology company, and we believe their compensation should create appropriate incentives that are consistent with this shift. Accordingly, the Committee has reevaluated and adjusted the performance metrics for performance-based compensation for our NEOs as our strategic goals have evolved. In addition, our senior team, which has not appreciably increased in size, is managing a changing and increasingly complex business. We strive to recognize these efforts by compensating NEOs for the increased demands and risks associated with our business model, such as through annual cash bonuses and stock option awards.

Our headquarters location. All of our NEOs are based in Boulder, Colorado. We believe Boulder provides an attractive community for our employees to work and live, and the high quality of life available in Boulder has helped us to attract and retain the talent we need. Real estate prices in the Boulder area, however, approach or even exceed those in many major suburban areas. We therefore endeavor to compensate our executives with a level of cash compensation that will allow them to maintain an attractive lifestyle in Boulder.

Intense competition for management talent. Like any company, we strive to recruit top talent at all levels of our organization. Our business has shifted in recent years from a services-based drug discovery company to an integrated, commercial-stage biopharmaceutical company. The competition for executive talent in certain areas of our business, most notably clinical development talent, is especially intense. As we build our clinical capabilities, we may on occasion find it necessary to exceed the total compensation offered by more established competitors, including our peer group, to attract the talent we need in this area.

Compensation Methodology

The Committee annually reviews target salary, performance bonus and equity compensation for our NEOs and other members of senior management, and periodically reviews other elements of compensation. Compensation decisions are based primarily on the following:

- *Peer and industry data.* The Committee relies on peer and industry data in setting base salaries, determining the appropriate level and mix of equity compensation and the type and portion of compensation tied to performance goals.

- *Annual performance reviews.* Our Chairman conducts annual performance reviews of our Chief Executive Officer, and our Chief Executive Officer conducts and presents the performance reviews of the other NEOs and members of senior management to the Committee at the end of each fiscal year. Based on these reviews, the Committee considers individual factors, such as:

- Long-term performance

- Tenure with the company

- Retention concerns

- Prior and potential for future contributions to company growth

- Industry experience

- *CEO recommendations.* The Committee seeks the input of Mr. Conway in setting the salary and target bonus levels for other NEOs and members of management. The Committee also considers recommendations from Mr. Conway regarding annual performance metrics and target amounts under the Performance Bonus Program.

Following the end of each fiscal year, the Committee reviews and determines the base salaries of Mr. Conway and the other NEOs and members of management, and approves the specific bonus amounts payable to the NEOs and other members of management under the Incentive Bonus Program based on actual company and individual performance. The Committee also determines the annual performance goals under the Performance Bonus Program for the upcoming year through an iterative process with management, adjusting as appropriate the recommendations of management regarding the performance metrics and the target amounts in light of the Company s near- and long-term strategic goals and operational plan for the upcoming year.

The Committee has previously sought the input of outside compensation consultants in determining executive compensation. Although it did not retain compensation consultants for fiscal 2007, it has done so for fiscal 2008.

Peer and Industry Data. To ensure our compensation is competitive, we rely on analyses of peer company and industry survey data. In setting NEO compensation for fiscal 2007, we considered publicly available data of ten peer biotechnology companies. These companies included:

- Albany Molecular Research, Inc.
- Arena Pharmaceuticals, Inc.
- Ariad Pharmaceuticals, Inc.
- ArQule, Inc.
- Cytokinetics, Incorporated
- deCODE genetics
- Exelixis, Inc.
- Incyte Corporation
- Infinity Pharmaceuticals, Inc.
- Lexicon Pharmaceuticals, Inc.
- Rigel Pharmaceuticals, Inc.
- Theravance, Inc.
- Vertex Pharmaceuticals Incorporated

We selected these companies because each of them are small molecule drug discovery and development companies and we consider them to be among our primary competitors, including for executive talent, and they are comparable in development stage and in size to Array, both in terms of market capitalization (mid or small cap) and number of employees. These companies are the same companies we use in comparing our overall performance. We also take into account broader based life sciences industry survey data for executive compensation among companies of our size published by Radford Surveys and Consulting as we believe that this information provides us with a statistically significant sample that supplements our peer group data. We generally strive to achieve total compensation for our NEOs at the 50th percentile of the survey group; however compensation historically has in the aggregate been below this level because an NEO may have additional or fewer responsibilities than the comparable executive level in the survey group, or as a result of other factors, including historical pay, individual performance and marketplace demands for the position.

As our business model evolves, the Committee reevaluates the peer companies used in benchmarking executive compensation, and for fiscal 2008 the following companies will be used:

- Acadia Pharmaceuticals Inc.
- Arena Pharmaceuticals, Inc.
- Ariad Pharmaceuticals, Inc.
- CV Therapeutics, Inc.
- Dendreon Corporation
- Exelixis, Inc.
- Idenix Pharmaceuticals, Inc.
- Incyte Corporation
- Isis Pharmacueticals Inc.
- Lexicon Pharmaceuticals, Inc.
- Regeneron Pharmaceuticals, Inc.
- Seattle Genetics, Inc.
- Xenoport, Inc.
- Xoma Ltd.
- Zymogenetics, Inc.

These peer companies were selected from among publicly-held U.S. biotechnology companies based on the following criteria: companies with comparable operations, a market capitalization of not less than approximately $400 million or more than $1.2 billion, not fewer than 100 or more than 750 employees, clinical development-stage operations and a substantial portion of their revenues not related to marketed products.

Elements of Our Compensation Program

The primary components of executive compensation are industry competitive salaries, bonuses of cash and/or equity based on annual operational and financial objectives and on individual merit, and equity compensation grants of stock options upon hiring and periodically through retention grants.

Salary. We believe base salary is the key compensation-related reference point for individuals considering an employment change and that we must offer industry competitive base salaries. Our peer group analysis and industry survey data therefore serve as a starting point in setting salaries for our NEOs. We generally target a base salary for NEOs at the 50th percentile of the survey group, recognizing that titles and levels of responsibility vary greatly from company to company.

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Performance Bonus Program. As more fully described below, we have established a Performance Bonus Program under which bonuses are paid to our NEOs and other employees based on achievement of company performance goals and objectives established by the Committee as well as on individual performance. The bonus program is intended to strengthen the connection between individual compensation and company success; reinforce our pay-for-performance philosophy by awarding higher bonuses to higher performing employees; and help ensure that our cash compensation is competitive.

Each NEO is eligible to receive a bonus under the program calculated by multiplying his base salary by a percentage value assigned to him or to his position by the Committee. Following the end of each fiscal year, the Committee determines in its discretion the extent to which the company-wide and individual performance goals were attained. Based on this assessment, the Committee awards bonuses equal to a varying percentage of an employee s target bonus amount. The Committee may award a bonus in an amount less than or greater than the amount earned by a participant under the bonus program, and individual bonuses can vary significantly based on performance. No bonuses are guaranteed under the program and the Committee can amend the program at any time until bonuses are paid.

Performance metrics. The performance bonuses for fiscal 2007 were based both on individual performance and on our performance relative to the following performance criteria:

- Financial goals consisting of revenue, earnings per share and year-end cash targets;
- Discovery research goals for our proprietary drug programs;
- Development goals relating to our proprietary drug programs; and
- Partnering goals relating to new out-licensing transactions.

In determining the bonus awards for fiscal 2007, the foregoing goals were weighted as follows: financial goals 15%; discovery research goals 20%; development goals 40%; and the partnering goals 25%. Identical performance goals form the basis for the bonus structure for almost all of our salaried employees, and we believe there is an intangible benefit to focusing all levels of personnel on consistent goals. We also believe there is a strong correlation between achievement of these goals and the success of our business as measured by our stock performance and the perception of analysts and investors.

Annual Performance Goals. The Committee establishes minimum, target and stretch goals for each performance metric based on the company s internal forecasts and through an iterative process with management. The Committee strives to set the stretch performance goals at ambitious levels to provide a meaningful incentive. We have not historically met the stretch goals and have met or slightly exceeded the target level goals. For fiscal 2005 and for fiscal 2006, we achieved 115.0% and 117.5% of the target level goals, respectively, established by the Committee. Generally, the Committee sets the minimum, target and stretch goals such that the relative level of difficulty of achieving the target level is consistent from year to year. A percentage of each NEO s target bonus amount may be awarded following the end of the fiscal year based on whether the minimum, target or stretch goals are met and the weighting of those goals. The Committee has discretion to award bonuses under the program if a particular performance goal is not met.

Individual Performance. The Committee also evaluates individual performance in approving the specific bonus amount that an NEO or other participant is entitled to based on the individual s performance review.

The Committee s approach in establishing Mr. Conway s compensation is to be competitive with peer companies, but to base a large percentage of his target compensation, by means of grants of performance-based compensation, on Array s long-term performance. Accordingly, under Mr. Conway s employment agreement, Mr. Conway is eligible to receive an annual performance-based bonus, anticipated to range between 20% and 60%, with a target of 40% of Mr. Conway s base salary, provided that minimum performance criteria are achieved under the Performance Bonus Program.

Equity Compensation. We provide equity compensation to our NEOs in the form of stock option grants under our Amended and Restated Stock Option and Incentive Plan. The Committee believes stock option awards to our NEOs and other employees encourage retention, because the recipient must remain employed with the company to receive the benefit of the award. The Committee also believes stock options align the interests of management and our stockholders, since they are of no value to the executive if our stock s value does not increase. For these reasons, the Committee considers stock options to be an important part of total compensation for our executives.

Our implementation of Statement of Financial Accounting Standards No. 123(R) makes granting stock options somewhat less attractive by requiring that we expense the fair value of the grant for financial accounting purposes. Although this accounting treatment is one of the factors we consider in awarding options, it has not had a significant impact on our granting practices, since we believe stock options remain a highly valued component of the overall compensation package for management of a growth company such as ours and are the primary means by which our executives share in the company s growth.

Stock options are awarded to all of our salaried employees, including NEOs, upon hiring. In addition, following the end of each fiscal year the Committee considers whether to award retention grants to existing employees, including NEOs. If awarded, retention grants are generally approved on four-year cycles for employees, including our NEOs, which corresponds to the duration of the standard vesting schedule of option grants. The Committee believes these retention grants provide a meaningful ongoing incentive for our NEOs and other employees to remain with Array. The Committee also considers on an annual basis whether to award options rather than cash under our performance bonus program described above, and has discretion to approve additional stock option awards for reasons such as strong individual performance or internal pay equity considerations.

Stock options generally vest in four equal annual installments beginning on the one-year anniversary of the hire date for new hire grants or the date of approval by the Committee (or by its members delegated with limited granting authority) for other types of grants. New hire grants are approved each month with a grant date of the last trading day of the month, and grant dates for other types of awards are on the date approved by the Committee. The exercise price of all employee stock options is equal to the fair market value of our common stock on the date of grant, measured as the closing price of our common stock on the grant date as reported by the Nasdaq Stock Market.

In establishing award levels, including for NEOs, the Committee takes into account an analysis of peer group data and industry survey data and, for retention grants, individual performance. The Committee also considers individual contribution and performance, based in part on input from our Chief Executive Officer for grants to other NEOs and employees, and the difficulty in replacing certain individuals within the organization. We believe that competitors who might try to hire away our employees would offer new equity awards to our employees without regard to the value of any prior awards made by us. Therefore, we do not consider the equity ownership levels of the recipients, the size of prior awards that are fully vested or amounts realized by the executives for previous awards.

Option Grant Practices. Historically, the timing of our grants of stock options has been based on internal, operational factors. New hire grants are typically awarded on the last trading day of each month and retention grants are awarded following the end of each fiscal year. We have not had, and do not intend to implement, a practice of timing our grant awards to give effect to the pending public release of material information, and any grants we may have made to senior executives in proximity to a release of earnings or other material information is coincidental. The Committee has delegated authority to two of its members, Mr. Lefkoff and Dr. Bullock, to approve option grants for non-executives. These may be awards for new hires and are reported on a periodic basis to the Committee.

Deferred Compensation Plan. We established a Deferred Compensation Plan, or the DCP, to provide NEOs and other eligible participants with an opportunity to defer all or a portion of their compensation and to earn tax-deferred returns on the deferrals. Officers and other key employees selected by the Committee (including each of the NEOs) are eligible to participate in the DCP. Participants may defer up to a maximum of 100% of their annual base salary and their annual incentive bonus. Under the DCP, the Committee may, in its sole discretion, make matching contributions which vest over a four-year vesting schedule beginning upon commencement of employment, or may make discretionary contributions in any amount it desires to any participant s account based on vesting provisions determined in the Committee s discretion. Participants become fully vested in any matching or discretionary contributions upon a change in control of the company and upon termination of their service with the company other than for cause.

During fiscal year 2007, Mr. Conway, Dr. Koch, Dr. Snitman, Mr. Moore and Mr. Carruthers were participants under the DCP and they were all 100% vested. To date, the Committee has not approved any discretionary contributions, and has approved matching contributions of up to 4% of the executive s total base salary and bonus compensation for the year.

The DCP is intended to both qualify as a top hat plan within the meaning of Section 201(2) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and to comply with the requirements of Section 409A of the Internal Revenue Code that govern nonqualified deferred compensation plans. The DCP is an unfunded plan for tax purposes and for purposes of Title I of ERISA. A rabbi trust has been established to satisfy our obligations under the DCP.

The Committee selects investment indices consisting of mutual funds, insurance company funds, indexed rates or other methods for participants to choose from for the purpose of providing the basis on which gains and losses are attributed to account balances under the DCP. Participants are entitled to select one or more investment indices and they do not have an ownership interest in the investment indices they select. The Committee may, in its sole discretion, discontinue, substitute or add investment indices at any time.

Payments from the DCP are made in a lump sum or in annual installments for up to ten years at the election of the participant. In addition, participants may elect to receive a short-term payout of a deferral as soon as January 1 of the fourth year after the end of the plan year in which the deferral was made.

Payments Upon Termination or Change in Control. We have entered into employment agreements with each of our NEOs which provide for severance payments upon certain terminations of employment, including in connection with a change in control of Array, and for the acceleration of vesting of outstanding stock options upon a change in control. In our experience, post-termination protection through severance compensation for executive officers is common among our peer group, and the Committee believes that it is essential to our ability to attract and retain talented executives. The Committee believes having a mutually agreed-to severance package in place prior to any termination event provides us with more flexibility to make a change in senior management if such a change is in our and our stockholders best interest. In addition, we believe post-termination compensation if an officer is terminated as a result of a change of control transaction promotes the ability of our officers to act in the best interests of our stockholders even though they could be terminated as a result of the transaction. Our obligation to pay severance to any executive is conditioned on the executive s continued compliance with confidentiality and non-competition obligations for one year after termination, as well as on the execution of a mutually acceptable release agreement.

The terms of the employment agreements, including the severance compensation, are described in more detail below under the headings Employment Agreements and Potential Payments upon Termination or Change in Control beginning on pages 24 and 26, respectively, of this proxy statement.

In addition, our Amended and Restated Stock Option and Incentive Plan has provisions regarding vesting following a change in control, as defined in that plan. In general, upon a transaction that involves the sale of all or substantially all of our assets or the transfer (including by merger or consolidation) of 50% or more of the voting power of our outstanding securities in which Array is not the surviving entity, all outstanding stock options, including those held by our NEOs (except to the extent otherwise provided in the employment agreements with each NEO), vest in full unless as part of the transaction (a) the options are assumed by the acquiring entity or (b) replaced with a comparable options for shares of stock of the acquiring entity, in either event the options would remain in effect under their respective terms and conditions following the change in control. The Committee has discretion to modify the vesting provisions in individual award agreements for options or restricted stock units, including upon a change in control or upon termination of employment.

Employee Stock Purchase Plan. We have a tax-qualified employee stock purchase plan, or ESPP, that is made available to all employees, including our NEOs. The ESPP allows participants to acquire shares of our common stock at a discount of 15% to the market price with up to 15% of their base salary, subject to a $25,000 per calendar year maximum. The purpose of the ESPP is to encourage employees to become stockholders of Array to better align their interests with those of our other stockholders.

Perquisites. Substantially all benefits we provide to our executives are made available to all of our other salaried employees on a non-discriminatory basis, and for this reason are not considered perquisites . Benefits we provide on a non-discriminatory basis include our medical and dental insurance, life insurance, 401(k) plan and the ESPP. Relocation expenses also are reimbursed but are individually negotiated when they occur. The aggregate incremental cost to us of all the perquisites we provided to any NEO in fiscal 2007 was less than $10,000.

Deductibility of Compensation. Section 162(m) of the Internal Revenue Code of 1986, as amended, places a limit of $1,000,000 on the amount of non-performance-based compensation that we may deduct in any one year with respect to each of our five most highly-paid executive officers. We have taken actions necessary to ensure the deductibility of payments under the annual Incentive Bonus Program as performance-based compensation under Section 162(m). To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Committee has not adopted a policy requiring all compensation to be deductible. However, the Committee considers the impact of Section 162(m) when making pay changes to each NEO and its normal practice is to take such action as is necessary to preserve our tax deduction to the extent consistent with our compensation policies. However, we reserve the right to forgo any or all of the tax deduction if we believe it to be in the best long-term interests of our shareholders.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors of Array BioPharma Inc. oversees Array s compensation program on behalf of the Board. In fulfilling its oversight responsibilities, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

In reliance on the review and discussion referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007 and our Proxy Statement to be filed in connection with our 2007 Annual Meeting of Stockholders, each of which will be filed with the Securities and Exchange Commission.

COMPENSATION COMMITTEE

Kyle Lefkoff (Chair)
Francis Bullock, Ph.D.
Marvin Caruthers, Ph.D.
Douglas Williams, Ph.D.

Summary Compensation Table

The following table sets forth compensation earned during the fiscal year ended June 30, 2007 by each of our named executive officers who were serving as executive officers as of June 30, 2007.

Name and Principal Position	Salary ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	All Other Compensation(3)	Total ($)
Robert E. Conway, Chief Executive Officer	$ 412,500	$ 461,759	$ 199,750	$ 33,236	$ 1,107,245
R. Michael Carruthers, Chief Financial Officer	226,250	156,797	81,190	21,536	485,773
Kevin Koch, Ph.D., President and Chief Scientific Officer	350,000	329,659	147,960	28,779	856,398
David L. Snitman, Ph.D., Vice President, Business Development and Chief Operating Officer	292,750	227,758	105,900	24,849	651,257
John R. Moore, Vice Presdient and General Counsel	246,000	104,782	88,250	22,206	461,238

(1) The amounts set forth under this column represent the stock-based compensation expense recognized in fiscal 2007 for financial reporting purposes under Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, disregarding the estimate of forfeitures for service-based vesting conditions. Our methodology, including our underlying estimates and assumptions used in calculating these values, is set forth in Note 2 to our audited financial statements included in our annual report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended June 30, 2007.

(2) Amounts shown in this column consist of cash bonus amounts earned in fiscal 2007 but paid after the fiscal year under our Performance Bonus Plan for fiscal 2007 performance as described above under Compensation Discussion and Analysis Elements of Our Compensation Program *Performance Bonus Plan*.

(3) The amounts set forth in this column consist of the following:

Name	Year	Company Contributions to Retirement and 401(k) Plans ($)	Company Contributions to Nonqualified Deferred Compensation Plan ($)	Total ($)
Robert E. Conway	2007	$ 9,800	$ 23,436	$ 33,236
R. Michael Carruthers	2007	9,100	12,436	21,536
Kevin Koch, Ph.D.	2007	9,600	19,179	28,779
David L. Snitman, Ph.D.	2007	9,380	15,469	24,849
John R. Moore	2007	9,120	13,086	22,206

Grants of Plan-Based Awards

The following table sets forth information about grants of awards to our named executive officers during the fiscal year ended June 30, 2007.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) Threshold ($)	Target ($)	Maximum ($)	All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards ($ / Sh)	Grant Date Fair Value of Stock and Option Awards(3)
Robert E. Conway	11/02/06	$ 85,000	$ 170,000	$ 255,000		$	$
R. Michael Carruthers	11/02/06	34,500	69,000	103,500			
Kevin Koch, Ph.D.	11/02/06	63,000	126,000	189,000			
David L. Snitman, Ph.D.	11/02/06	45,000	90,000	135,000			
John R. Moore	11/02/06	37,500	75,000	112,500			
	9/13/06				20,000	8.37	114,880

(1) Amounts in this column represent the threshold, target and maximum amounts payable under the fiscal 2007 Performance Bonus Plan based on achievement of minimum, target and stretch goals, respectively, under the plan which are described above in Compensation Discussion and Analysis under Elements of Our Compensation Program *Performance Bonus Plan.* Actual amounts paid to each of the named executive officers under this plan for fiscal 2007 are set forth in the Summary Compensation Table above.

(2) Options reported in this column were granted under our Amended and Restated Stock Option and Incentive Plan, as amended. The options vest in four equal annual installments beginning one year from the grant date and expire ten years from the date of grant. Vesting is subject to acceleration as described below under Employment Agreements.

(3) The amounts set forth under this column represent the stock-based compensation expense recognized in fiscal 2007 for financial reporting purposes under Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, disregarding the estimate of forfeitures for service-based vesting conditions. Our methodology, including our underlying estimates and assumptions used in calculating these values, is set forth in Note 2 to our audited financial statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended June 30, 2007.

Outstanding Equity Awards At Fiscal Year End

The following table shows equity awards granted to our named executive officers outstanding as of June 30, 2007. All awards represent grants of stock options under our Amended and Restated Stock Option and Incentive Plan, as amended.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Robert E. Conway	320,000 (1)	0	$ 0.60	11/15/09
	25,000 (2)	0	9.00	08/06/11
	300,000 (3)	0	10.90	11/20/11
	24,750 (4)	0	4.75	01/15/13
	23,751 (5)	7,858	3.75	08/01/13
	8,6686)	8,669	6.68	07/30/14
	100,000 (7)	300,000	6.51	08/04/15
R. Michael Carruthers	20,694 (8)	0	0.235	07/01/09
	22,165 (9)	0	0.60	07/01/10
	19,500 (10)	0	8.60	07/02/11
	85,000 (11)	0	9.22	04/29/12
	12,090 (4)	0	8.48	07/01/12
	11,490 (5)	3,831	3.75	08/01/13
	4,226 (6)	4,227	6.68	07/30/14
	0 (12)	100,000	6.51	08/04/15
Kevin Koch, Ph.D.	35,119 (8)	0	0.235	07/01/09
	28,863 (9)	0	0.60	07/01/10
	27,300 (10)	0	8.60	07/02/11
	200,000 (13)	0	9.22	04/29/12
	17,550 (4)	0	8.48	07/01/12
	16,714 (5)	5,572	3.75	08/01/13
	6,148 (6)	6,148	6.68	07/30/14
	75,000 (14)	225,000	6.51	08/04/15
David L. Snitman, Ph.D.	33,883 (8)	0	0.235	07/01/09
	33,789 (9)	0	0.60	07/01/10
	27,300 (10)	0	8.60	07/02/11
	200,000 (13)	0	9.22	04/29/12
	16,770 (4)	0	8.48	07/01/12
	16,017 (5)	5,340	3.75	08/01/13
	5,891 (6)	5,892	6.68	07/30/14
	50,000 (14)	150,000	6.51	08/04/15
John R. Moore	50,000 (15)	0	11.29	03/26/12
	0 (5)	4,759	3.75	08/01/13
	0 (6)	5,252	6.68	07/30/14
	15,000 (16)	45,000	6.51	08/04/15
	0 (17)	20,000	8.37	9/13/16

(1) The option vested as follows: 133,333 shares on December 31, 1999, 106,667 shares on July 2, 2000, 55,000 shares on November 15, 2000, 378,750 shares on November 22, 2000, 5,000 shares each month from December 15, 2000 through November 15, 2001 and 66,250 shares on November 22, 2001.

(2) The option vested in full on the grant date of August 6, 2001.

(3) The option vested in four equal annual installments beginning November 15, 2002.

(4) The option vested in four equal annual installments beginning July 1, 2003.

(5) The option vested in four equal annual installments beginning July 1, 2004.

(6) The option vests in four equal annual installments beginning July 1, 2005.

(7) The option vests in four equal annual installments beginning November 16, 2006.

(8) The option vested in 48 equal monthly installments beginning August 1, 1999.

(9) The option vested in 48 equal monthly installments beginning August 1, 2000.

(10) The option vested in four equal monthly installments beginning July 2, 2002.

(11) The option vested in four equal monthly installments beginning December 1, 2003.

(12) The option vests in four equal annual installments beginning December 1, 2007.

(13) The option vested in four equal annual installments beginning February 6, 2003.

(14) The option vests in four equal annual installments beginning February 6, 2007.

(15) The option vested in four equal annual installments beginning March 4, 2003.

(16) The option vests in four equal annual installments beginning March 4, 2007.

(17) The option vests in four equal annual installments beginning September 13, 2007.

Option Exercises and Stock Vested

The following table shows information concerning options exercised by the named executive officers during the fiscal year ended June 30, 2007.

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)
Robert E. Conway	225,000	$ 2,316,592
R. Michael Carruthers	20,000	249,500
Kevin Koch, Ph.D.		
David L. Snitman	8,500	109,013
John R. Moore	24,858	190,220

(1) The amounts in this column have been calculated based on the closing price per share on the exercise date, as reported by the Nasdaq Stock Market, less the applicable exercise price per share, multiplied by the number of shares underlying these options.

Non-Qualified Deferred Compensation Table

The following table sets forth compensation paid to or earned by each of our named executive officers who were serving as executive officers during the fiscal year ended June 30, 2007, pursuant to the Array BioPharma Inc. Amended and Restated Deferred Compensation Plan, as amended.

Name	Executive Contributions in Last Fiscal Year ($)(1)	Registrant Contributions in Last Fiscal Year ($)(2)	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals / Distributions ($)	Aggregate Balance as of June 30, 2007 ($)(3)
Robert E. Conway	$ 35,154	$ 23,436	$ 19,137	$ 20,956	$ 192,064
R. Michael Carruthers	12,032	12,032	5,474	7,998	67,429
Kevin Koch, Ph.D.	19,179	19,179	17,070		100,235
David L. Snitman, Ph.D.	15,469	15,469	(1,348)	11,181	72,965
John R. Moore	13,086	13,086	2,104	9,231	70,244

(1) The amounts in this column are also included in the Summary Compensation Table above in the salary column.

(2) The amounts in this column are also included in the Summary Compensation Table above in the All Other Compensation Column.

(3) Of the totals in this column, the following amounts have previously been reported in the Summary Compensation Table for this and for prior years:

Name	Fiscal 2007 ($)	Prior Years ($)	Total ($)
Robert E. Conway	$ 23,436	$ 32,500	$ 55,936
R. Michael Carruthers	12,032	17,595	29,627
Kevin Koch, Ph.D.	19,179	21,400	40,579
David L. Snitman, Ph.D.	15,469	20,373	35,842
John R. Moore	13,086	20,164	33,250

Deferred Compensation Plan

The Array BioPharma Inc. Amended and Restated Deferred Compensation Plan, or the DCP, provides eligible participants with an opportunity to defer all or a portion of their compensation and to earn tax-deferred returns on the deferrals. Officers and other key employees selected by the Compensation Committee (including each of the Named Executive Officers) are eligible to participate in the DCP. Participants may defer up to a maximum of 100% of their annual base salary and their annual incentive bonus. Under the DCP, the Compensation Committee may, in its sole discretion, make matching contributions which vest in equal annual installments over a four-year period, or may make discretionary contributions in any amount it desires to any participant s account based on vesting provisions determined in the Compensation Committee s discretion. Participants become fully vested in any matching or discretionary contributions upon a change in control of the company and upon termination of their service with the company other than for cause. Mr. Conway, Dr. Koch, Dr. Snitman, Mr. Moore and Mr. Carruthers were participants under the DCP in fiscal 2007, and they were all 100% vested. The Compensation Committee has approved matching contributions up to 4% of each of the named executive officers total salary and bonus for the year.

Employment Agreements

Robert E. Conway. On March 1, 2006, we entered into an employment agreement with Mr. Conway to serve as our Chief Executive Officer, following expiration of Mr. Conway s prior employment agreement

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with us. The agreement has a term of four years, commencing as of the November 19, 2005 effective date of the agreement, and may be renewed for additional one-year terms. Either party may terminate the agreement for any reason upon 30 days prior notice to the other party during the initial term or any additional term. The agreement provides for an initial annual salary of $375,000, subject to subsequent adjustment at the discretion of the Board of Directors. Mr. Conway is also eligible to receive a cash and/or equity performance bonus each fiscal year based on a percentage of his base salary if he meets performance criteria established by our Board of Directors under our Performance Bonus Plan. It is anticipated that the performance bonus for any particular fiscal year will range between 20% and 60%, with a target of 40%, of Mr. Conway s base salary, provided that the minimum performance criteria are achieved. We also agreed to reimburse Mr. Conway for reasonable out-of-pocket expenses he incurs in connection with his performance of services under this agreement.

If Mr. Conway s employment is terminated by us without cause, as a result of his disability or because he no longer holds the title of Chief Executive Officer, his duties are materially diminished or he is not elected to serve as a member of the Board of Directors, we agreed to pay him a severance payment equal to (i) one year of his then current base salary (provided that if Mr. Conway s termination results from a change in control of Array, the severance amount is two years current base salary), plus (ii) a pro rata portion of the performance bonus Mr. Conway would have been eligible to receive in the year of termination. The cash severance is payable to Mr. Conway beginning on the date amounts may be paid without incurring additional tax under Section 409A of the Internal Revenue Code, which is referred to as the Section 409A Time Period, in a lump sum based on the number of months in the Section 409A Time Period and then monthly thereafter. The pro rata portion of any performance bonus Mr. Conway would be entitled to receive is payable within 60 days from receipt of our audited financial statements for that fiscal year (but not sooner than the expiration of the Section 409A Time Period). We also agreed to pay 12 months of Mr. Conway s health insurance premiums under COBRA following a termination of service that results in the payment of severance. Severance payments are conditioned on Mr. Conway entering into a mutually acceptable release with us and his compliance with his existing Noncompete Agreement and Confidentiality and Invention Agreement. Under the agreement, all outstanding and unvested options held by Mr. Conway will also vest in full upon a change of control of Array or upon his death. If Mr. Conway terminates his employment without cause or if we terminate his employment for cause, he will not receive any severance payments, performance bonus or acceleration of any of his options granted to him under the agreement.

Mr. Conway is also subject to a Noncompete Agreement and Confidentiality and Invention Agreement in which he agreed during the term of his employment and for the two years thereafter not to engage in any competing activities in the United States or within a 50-mile radius of any area where we are doing business and not to recruit or solicit any of our employees or customers.

Other Executive Officers. Effective September 1, 2000, we entered into employment agreements with Dr. Koch, Dr. Snitman and Mr. Carruthers, and effective as of March 4, 2002, we entered into an employment agreement with Mr. Moore. The initial terms of these agreements expired in September 2004 and, for Mr. Moore, in March 2004 and have renewed for additional one-year terms. Array or the employee may terminate the agreement for any reason upon 30 days prior notice to the other. Under these agreements we will pay the employees annual salaries ranging from $165,000 to $240,000, subject to subsequent adjustment. During fiscal 2007, annual salaries ranged from $230,000 to $360,000. If the employee is terminated as a result of disability or by us without cause, including a reduction in the employee s salary, we have agreed to pay the employee a severance payment equal to the greater of one year, or the remaining term, of his then-current base salary in equal monthly installments, and to cause any unvested options to vest. Upon a change of control of the company, 75% of the employee s outstanding options will vest and the remaining 25% of his options will vest one year later if the employee is still working for us. If an employee decides to terminate his employment following a change of control, he would be entitled to receive the same severance payments described above as if his employment were terminated by us without cause. Each of these employees is also subject to a Noncompete Agreement in which he has agreed for a period of two years following his termination not to engage in any competing activities within a 50-mile radius of any area where we are doing business and not to recruit or solicit any of our employees or customers.

Potential Payments upon Termination or Change in Control

We have entered into employment agreements with each of our named executive officers that provide for certain payments and acceleration and continuation of benefits upon specified terminations of employment or upon a change in control of Array. The post-termination arrangements under these agreements are described above under Employment Agreements. In addition, upon a change in control or upon termination of employment other than for cause, any matching or discretionary contributions under the DCP held by a named executive officer that have not vested, fully vest. As of June 30, 2007, each of our named executive officers was fully vested in the DCP.

The following table reflects the estimated potential payments upon termination or change in control that would be payable to each of the named executive officers who were employed on June 30, 2007. For purposes of calculating the potential payments set forth in the tables below, we have assumed that (i) the date of termination was June 30, 2007 and (ii) the value of each share subject to a stock option that would be accelerated in the circumstances set forth in the table below equals $11.67, the closing market price of our common stock on June 29, 2007, the last business day of the 2007 fiscal year.

	Cash Severance (1)	Performance Bonus	Continuation of Medical Benefit Plans	Acceleration of Equity Awards	Total
Robert E. Conway					
Termination without Cause or Resignation for Good Reason	$ 425,000	$ 170,000	$ 14,076	$ 0	$ 609,076
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	850,000	170,000	14,076	1,653,494	2,687,570
Voluntary retirement	34,932	0	1,173	0	36,105
Disability	425,000	170,000	14,076	0	609,076
Death	35,417	0	1,173	1,653,494	1,690,084
R. Michael Carruthers					
Termination without Cause or Resignation for Good Reason	230,000	0	0	567,434	797,434
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	230,000	0	0	567,434 (2)	797,434
Voluntary retirement	0	0	0	0	0
Disability	230,000	0	0	567,434	797,434
Death	19,167	0	0	567,434	586,601

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Kevin Koch, Ph.D.					
Termination without Cause or Resignation for Good Reason	360,000	0	0	1,235,809	1,595,809
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	360,000	0	0	1,235,809	(2) 1,595,809
Voluntary retirement	0	0	0	0	0
Disability	360,000	0	0	1,235,809	1,595,809
Death	30,000	0	0	1,235,809	1,265,809
David L. Snitman, Ph.D.					
Termination without Cause or Resignation for Good Reason	300,000	0	0	845,694	1,145,694
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	300,000	0	0	845,694	(2) 1,145,694
Voluntary retirement	0	0	0	0	0
Disability	300,000	0	0	845,694	1,145,694
Death	25,000	0	0	845,694	870,694
John R. Moore					
Termination without Cause or Resignation for Good Reason	250,000	0	0	362,099	612,099
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	250,000	0	0	362,099	(2) 612,099
Voluntary retirement	0	0	0	0	0
Disability	250,000	0	0	362,099	612,099
Death	20,833	0	0	362,099	382,932

(1) The amounts reported in the table above do not include payments that are provided on a non-discriminatory basis to salaried employees generally upon termination of employment, which includes accrued salary and vacation pay, distributions of plan balances under our 401(k) plan, our Employee Stock Purchase Plan or the DCP.

(2) If the employee is not terminated in connection with a Change in Control, or the employee resigns on or within 30 days after the closing date of an event which constitutes a change in control, only 75% of unvested options vest. The remaining 25% of unvested options would vest only if the employee continues service until the earlier of a termination without Cause or one year from the Change in Control.

Actual amounts that a named executive officer could receive in the future could differ materially from the amounts reported above as a result of many factors, including our stock price, changes in base salary, target and actual bonus amounts, and the vesting provisions and grants of additional equity awards.

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Retirement Savings Plan

We maintain a 401(k) savings plan that is intended to be a qualified retirement plan under the Internal Revenue Code. Generally, all of our employees, excluding leased and intern employees, are eligible to participate in the plan. They may enter the plan at the first calendar quarter following their original employment date and make salary deferral contributions to the savings plan, subject to the limitations imposed by the Internal Revenue Code. Array matched 100% of the first 4% of each participant s semi-monthly contribution. In addition, Array may make annual discretionary profit sharing contributions in an amount to be determined at the plan year-end by the Board of Directors; no discretionary contributions were made in fiscal 2007. Participants' contributions may be invested in any of several investment alternatives. Participants become vested in our contributions according to a graduated vesting schedule based upon length of service with us. Each of our named executive officers was fully vested in these contributions as of fiscal 2007.

COMPENSATION OF DIRECTORS

Cash compensation to our non-employee directors consists of quarterly retainers and meeting fees. The Compensation Committee periodically reviews and analyzes compensation data among the same peer group as is used in determining executive compensation and, as appropriate, adjusts director compensation to ensure that we are able to attract and retain individuals with the experience and expertise we need to help us achieve our strategic goals. During fiscal 2007, the quarterly retainer for non-employee board members was increased from $4,000 for the first two quarters to $5,000 for the third and fourth quarters; meeting fees remained $1,000 for each Board meeting they attended. Members of the Compensation Committee and the Corporate Governance Committee received $1,000 for each committee meeting they attended, and the chairs of these committees received an additional $1,000 for each committee meeting that they chaired. Audit Committee members received $2,000 for each Audit Committee meeting they attended and the chair received an additional $2,000 for each Audit Committee meeting that he chaired. Our non-employee directors were compensated at a rate of 50% of the foregoing meeting fees if a Board or committee meeting was held via teleconference. In addition, each non-employee director is reimbursed for his reasonable out-of-pocket expenses incurred by him while attending any meeting of the Board or of a committee of the Board.

We also grant to our non-employee directors stock options to purchase our common stock under our Amended and Restated Stock Option and Incentive Plan, as amended, at an exercise price equal to the fair market value on the date of grant. These grants generally have been made every three years to purchase 30,000 shares of our common stock and vest in three equal annual installments, subject to continued board service. We did not grant stock options to any of our non-employee directors during fiscal 2007. The most recently granted stock option grants are scheduled to vest in full in November 2007, subject to continued Board service by the director. In May 2007, our Board of Directors, on the recommendation of the Compensation Committee, approved an increase in the equity compensation to be issued to our independent directors to purchase 45,000 shares of common stock vesting in three equal annual installments subject to continued Board service. We anticipate granting additional equity awards at this level following full vesting outstanding options during fiscal 2008.

Director Compensation Table

The following table sets forth compensation paid to or earned by each of our directors who were serving as directors as of June 30, 2007.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)		Total ($)
Kyle A. Lefkoff, Chairman	$ 40,500	$ 46,480	(2)	$ 86,980
Francis J. Bullock, Ph.D.	23,500	46,480	(2)	69,980
Marvin H. Caruthers, Ph.D.	23,000	46,480	(2)	69,480
Gil J. Van Lunsen	39,000	68,502	(2)	107,502
Douglas E. Williams, Ph.D.	21,000	69,943	(2)	90,943
John L. Zabriskie, Ph.D.	29,000	46,480	(2)	75,480

(1) The amounts reported in this column reflect the dollar amounts recognized as stock-based compensation expense in fiscal 2007 for financial accounting purposes, related to stock options granted in prior years, before reflecting forfeitures, determined in accordance with Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*. See Note 2 to our audited financial statements set forth in our Annual Report on Form 10-K for fiscal 2007 for the assumptions used in determining such amounts.

(2) Consists of options to purchase 10,000 shares which vested in fiscal 2007. As of June 30, 2007, outstanding options to purchase 60,000, 90,000, 60,000, 50,000, 35,000 and 80,000 shares of common stock were held by Mr. Lefkoff, Dr. Bullock, Dr. Caruthers, Mr. Van Lunsen, Dr. Williams and Dr. Zabriskie, respectively.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No current member of the Compensation Committee has been an officer or employee of Array at any time. None of our executive officers serve as a member of the Board of Directors or Compensation Committee of any other company that has one or more executive officers serving as a member of our Board of Directors, nor has such a relationship existed in the past.

CERTAIN RELATIONSHIPS AND TRANSACTIONS

Prior to our initial public offering and in connection with the sale and issuance of our Series A preferred stock in May 1998, and August 1998, our Series B preferred stock in November 1999, and our Series C preferred stock in August 2000, we entered into an agreement with the investors in such financings providing for registration rights with respect to the shares of common stock, including those issuable upon conversion of each series of preferred stock, held and subsequently acquired by these investors. Currently, 3.6 million shares of our common stock are entitled to registration rights pursuant to terms and conditions of this agreement. The registration rights under this agreement allow the holders of at least 30% of the shares of common stock held by such holders then outstanding to require us to register their shares under the Securities Act on up to two occasions, subject to limitations described in the agreement. In addition, these holders can require us to include their shares in future registrations of our shares for our account or the account of another stockholder. These holders may also require us to register their shares on up to two occasions in any calendar year on Form S-3. These registration rights are subject to limitations and conditions, including the right of underwriters to limit the number of shares of common stock held by existing stockholders to be included in a registration. The registration rights as to any holder will terminate when all securities held by the holder entitled to registration rights can be sold within a three-month period under Rule 144 of the Securities Act and when the number of shares held by the holder is less than 1% of our outstanding capital stock on an as converted to common stock basis. In addition, we are generally required to bear all expenses of registration, including the reasonable fees of a single counsel acting on behalf of all selling stockholders, except underwriting discounts and selling commissions.

Stock option grants to our directors and executive officers are described in this Proxy Statement under the heading COMPENSATION OF DIRECTORS Director Compensation Table and EXECUTIVE COMPENSATION. The beneficial ownership of shares of our common stock held by our officers, directors and 5% stockholders is described under PRINCIPAL STOCKHOLDERS. In addition, we have employment agreements with our executive officers and some of our other employees, which are discussed under EXECUTIVE COMPENSATION Employment Agreements.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and certain stockholders to file reports with the SEC on Forms 3, 4 and 5 for the purpose of reporting their ownership of and transactions in common stock. During the fiscal year ended June 30, 2007, to our knowledge and based solely on copies of these reports furnished to us by our directors, executive officers and 10% beneficial shareholders, all Section 16(a) reports were timely filed, except that one stock option exercise by Dr. Koch was filed late on a Form 4.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

KPMG LLP has served as our independent registered public accountants since October 14, 2004. Representatives from KPMG LLP are expected to be present at the Annual Meeting, and will have an opportunity to make a statement at the Annual Meeting if they desire to do so and are expected to be available to respond to appropriate questions at the Annual Meeting.

STOCKHOLDER PROPOSALS FOR 2008 ANNUAL MEETING

Submission of Stockholder Proposals for Inclusion in Next Year s Annual Meeting Proxy Statement

Any proposal or proposals by a stockholder intended to be included in the Proxy Statement and form of proxy relating to the 2008 Array Annual Meeting of Stockholders must be received by Array no later than May 23, 2008, (120 days prior to September 21, 2008) according to the proxy solicitation rules of the SEC, and must comply with the other proxy solicitation rules promulgated by the SEC and with the procedures set forth in our Bylaws. Proposals should be sent to the Secretary of Array at 3200 Walnut Street, Boulder, Colorado 80301. Nothing in this paragraph shall be deemed to require Array to include in its Proxy Statement and proxy relating to the 2008 Annual Meeting of Stockholders any stockholder proposal which may be omitted from the proxy materials according to applicable regulations of the SEC in effect at the time the proposal is received.

Other Stockholder Proposals for Presentation at Next Year s Annual Meeting

A stockholder who wishes to submit a proposal for consideration at the 2008 Annual Meeting outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934 and that will not be included in the Proxy Statement for such meeting must, in accordance with Section 2.2 of our Bylaws, file a written notice with the Secretary of Array which conforms to the requirements of the Bylaws. Our Bylaws are on file with the Securities and Exchange Commission, and may be obtained from our Secretary upon request and are available under the Investor Relations portion of our website at www.arraybiopharma.com. The officer who will preside at the stockholders meeting will determine whether the information provided in such notice satisfies the informational requirements of the Bylaws. Such notice of a stockholder proposal must be delivered no earlier than August 3, 2008, and no later than September 2, 2008. Any stockholder proposal that is not submitted in accordance with the foregoing procedures will not be considered to be properly brought before the 2008 Annual Meeting.

Stockholder Nominations to the Board of Directors

The Corporate Governance Committee of the Board of Directors will consider nominating directors to the Board of Directors who are recommended by stockholders pursuant to the procedures described above for submission of stockholder proposals and the procedures set forth below. Candidates nominated for election or reelection to the Board of Directors should possess the following qualifications:

- Personal characteristics:
- highest personal and professional ethics, integrity and values;
- an inquiring and independent mind, with a respect for the views of others;
- ability to work well with others;
- practical wisdom and mature judgment.
- Broad, policy-making level training and experience in business, government, academia or science to understand business problems and evaluate and formulate solutions.
- Expertise that is useful to Array and complementary to the background and experience of other Board members.
- Willingness to devote the time necessary to carrying out the duties and responsibilities of Board membership and to be an active, objective and constructive participant at meetings of the Board and its Committees.
- Commitment to serve on the Board over a period of several years to develop knowledge about our principal operations.
- Willingness to represent the best interests of all stockholders and objectively appraise management performance.

The Corporate Governance Committee must receive proposals for stockholder nominations on or before the deadline for the submission of stockholder proposals for such annual meeting set forth in our bylaws and required by the rules of the Securities and Exchange Commission, as described above. Stockholder proposals must include:

- information regarding the stockholder making the proposal, including name, address and number of shares of Array BioPharma stock beneficially owned by such stockholder;
- a representation that the stockholder or the stockholder s nominee is entitled to vote at the meeting at which directors will be elected, and that the stockholder or the stockholder s designee intends to cast its vote for the election of the director, if nominated;
- the name and address of the person being nominated and such other information regarding each nominated person that would be required in a proxy statement filed pursuant to the Security and Exchange Commission s proxy rules, including, but not limited to:
- a copy of the nominee s current resumé
- biographical information concerning the nominee for the last five years, including directorships and positions

held with other companies

- the nominee s date of birth

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- a list of references
- a description of any relationship, arrangement or understanding between the stockholder making the proposal and the nominee and any other person (including names), pursuant to which the nomination is being made
- a description of any direct or indirect relationship, arrangement or understanding between the stockholder making the proposal or the nominee and Array BioPharma
- the consent of each nominee to being named in the proxy statement and to serve as a director if elected

Following verification of this information, the Corporate Governance Committee will make an initial analysis of the qualifications of the candidate pursuant to Array s general criteria for director nominations. The Corporate Governance Committee will evaluate all candidates to the Board in the same manner regardless of the source of the nomination.

VOTING PROCEDURES AND COSTS OF PROXY SOLICITATION

All votes will be tabulated by the inspector of election appointed for the Annual Meeting who will separately tabulate affirmative and negative votes, abstentions and shares represented by brokers who are prohibited from exercising discretionary authority because the beneficial owners of such shares have not provided voting instructions, commonly referred to as broker non-votes. Shares represented by proxies that reflect abstentions and broker non-votes will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. The election of directors will be approved by a plurality of the votes duly cast. Abstentions and broker non-votes are not counted for purposes of the election of directors. The approval of PROPOSAL 2 requires approval of a majority of the shares of Common Stock Outstanding. Therefore, broker non-votes and abstentions will have the same effect as a vote against the proposal. The ratification of the independent registered public accountants will be approved by a favorable vote of a majority of the shares of our common stock present in person or by proxy, and entitled to vote at the Annual Meeting. Broker non-votes are not treated as present and entitled to vote for purposes of determining whether a proposal has been approved and, therefore, will not be counted for any purpose in determining the approval of the ratification of the independent registered public accountants and will have no effect on these proposals. Abstentions represent shares entitled to vote and, therefore, the effect of an abstention will be a vote against this proposal.

The cost of preparing, assembling and mailing the proxy materials will be borne by us. We will also request persons, firms and corporations holding shares in their names or in the names of their nominees, which shares are beneficially owned by others, to send the proxy materials to, and to obtain proxies from, such beneficial owners and will reimburse such holders for their reasonable expenses in doing so. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by our directors, officers or other regular employees. No additional compensation will be paid to directors, officers or other regular employees for such services.

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

Your vote is important. Please complete the enclosed Proxy Card and mail it in the enclosed postage-paid envelope as soon as possible.

By Order of the Board of Directors,

John R. Moore
Secretary

September 21, 2007

Annex A

CERTIFICATE OF AMENDMENT
OF
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
ARRAY BIOPHARMA INC.

(Pursuant to Section 242)

Array BioPharma Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the **DGCL**), does hereby certify as follows for the purpose of amending its Amended and Restated Certificate of Incorporation:

FIRST: The name of the corporation is Array BioPharma Inc. (the **Corporation**). The Corporation was originally incorporated on February 6, 1998 pursuant to the DGCL. An Amended and Restated Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on or about November 21, 2000 (the **Certificate of Incorporation**). A Certificate of Correction to the Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on or about November 19, 2004.

SECOND: That the board of directors of the Corporation duly adopted resolutions approving the following amendment to the Certificate of Incorporation (the **Amendment**) in accordance with the provisions of Section 242 of the DGCL, declaring such Amendment to be advisable and calling for the approval of the stockholders of the Corporation to such Amendment.

THIRD: The Amendment was duly adopted and approved in accordance with the provisions of Section 211 of the DGCL by the required vote of the stockholders of the Corporation at the Annual Meeting of the stockholders of the Corporation.

FOURTH: That the Corporation s Certificate of Incorporation is hereby amended as provided herein. Section 4.1 shall be deleted in its entirety and replaced with the following:

4.1 Authorized Shares. The total number of shares of all classes of stock that the Corporation shall have the authority to issue is 130,000,000, of which 120,000,000 shall be Common Stock, all of one class, having a par value of $.001 per share (the **Common Stock**), and 10,000,000 of such shares shall be Preferred Stock, having a par value of $.001 per share (the **Preferred Stock**).

FIFTH: Except as expressly amended by this Amendment, the provisions of the Certificate of Incorporation shall remain in full force and effect.

* * * * * * *

IN WITNESS WHEREOF, this Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation has been executed this day of 2007.

ARRAY BIOPHARMA INC.
By:

R. Michael Carruthers
Chief Financial Officer

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REVOCABLE PROXY

ARRAY BIOPHARMA INC.
3200 Walnut Street, Boulder, Colorado 80301

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD NOVEMBER 1, 2007

The undersigned stockholder of Array BioPharma Inc. (the Company) hereby appoints Robert E. Conway, R. Michael Carruthers and John R. Moore, and each of them, as attorneys and proxies of the undersigned, with full power of substitution and with authority in each of them to act in the absence of the other, to vote and act for the undersigned stockholder at the Annual Meeting of Stockholders to be held at 2:00 p.m., Mountain Time, on November 1, 2007, at the Hotel Boulderado, 2115 13th Street, Boulder, Colorado 80302, and at any adjournments or postponements thereof, upon the following matters and in accordance with the following instructions, with discretionary authority as to any and all other business that may properly come before the meeting.

The undersigned hereby acknowledges prior receipt of a copy of the Notice of Annual Meeting of Stockholders and Proxy Statement dated September 21, 2007 and the Company s Annual Report to Stockholders, and hereby revokes any proxy or proxies heretofore given. This proxy may be revoked at any time before it is voted by delivering to the Secretary of the Company either a written revocation of proxy or a duly executed proxy bearing a later date, or by appearing at the Annual Meeting and voting in person.

PLEASE MARK, SIGN, DATE AND RETURN PROMPTLY, USING THE ENCLOSED ENVELOPE, TO ENSURE A QUORUM AT THE ANNUAL MEETING. IT IS IMPORTANT TO RESPOND, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. DELAY IN RETURNING YOUR PROXY MAY SUBJECT THE COMPANY TO ADDITIONAL EXPENSE.

Proposal One: **Re-election of three directors to the Board of Directors to serve a term of three years, or until their successors have been duly elected and qualified.**

Nominees: **David L. Snitman, Ph.D.**
Gil J. Van Lunsen
John L. Zabriskie, Ph.D.

o FOR all nominees listed above.

o WITHHOLD AUTHORITY to vote for all nominees

o WITHHOLD AUTHORITY to vote for all nominees EXCEPT:

(fill in nominee name(s))

Proposal Two: **Approval of an amendment to the Array BioPharma Inc. Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 60,000,000 to 120,000,000.**

o FOR o AGAINST o ABSTAIN

Proposal Three: **Ratification of the appointment of KPMG LLP as the Company s independent registered public accountants for the fiscal year ending June 30, 2008.**

o FOR o AGAINST o ABSTAIN

WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED FOR PROPOSALS ONE, TWO AND THREE IF UNMARKED, UNLESS CONTRARY DIRECTION IS GIVEN.

If you receive more than one proxy card, please sign and return all cards in the accompanying envelope.

o **MARK HERE IF YOU PLAN TO VOTE YOUR SHARES AT THE ANNUAL MEETING.**

Signature of Stockholder Date: , 2007.

Signature of Stockholder Date: , 2007.

Please sign exactly as your name appears on this Proxy. When shares are held jointly, each holder should sign. When signing as an executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.