

PROGRESSIVE CORP/OH/
Form 10-Q
August 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2011

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 1-9518

THE PROGRESSIVE CORPORATION

(Exact name of registrant as specified in its charter)

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Ohio
(State or other jurisdiction of incorporation or organization)

34-0963169
(I.R.S. Employer Identification No.)

6300 Wilson Mills Road, Mayfield Village, Ohio
(Address of principal executive offices)

44143
(Zip Code)

(440) 461-5000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Shares, \$1.00 par value: 642,703,902 outstanding at June 30, 2011

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.**

The Progressive Corporation and Subsidiaries

Consolidated Statements of Income

(unaudited)

Periods Ended June 30, (millions - except per share amounts)	Three Months			Six Months		
	2011	2010	% Change	2011	2010	% Change
Revenues						
Net premiums earned	\$ 3,719.9	\$ 3,590.2	4	\$ 7,385.2	\$ 7,091.3	4
Investment income	120.8	130.6	(8)	244.1	260.4	(6)
Net realized gains (losses) on securities:						
Other-than-temporary impairment (OTTI) losses:						
Total OTTI losses	(3.1)	(7.9)	(61)	(4.5)	(17.2)	(74)
Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses	.9	(.7)	NM	.9	5.5	(84)
Net impairment losses recognized in earnings	(2.2)	(8.6)	(74)	(3.6)	(11.7)	(69)
Net realized gains (losses) on securities	28.2	(30.9)	NM	129.3	3.0	4210
Total net realized gains (losses) on securities	26.0	(39.5)	NM	125.7	(8.7)	NM
Service revenues	6.0	5.0	20	11.2	9.2	22
Total revenues	3,872.7	3,686.3	5	7,766.2	7,352.2	6
Expenses						
Losses and loss adjustment expenses	2,660.9	2,543.2	5	5,169.0	4,966.6	4
Policy acquisition costs	348.3	338.8	3	695.0	671.9	3
Other underwriting expenses	466.0	446.2	4	920.7	872.7	6
Investment expenses	3.5	4.6	(24)	6.6	8.2	(20)
Service expenses	4.8	5.5	(13)	8.8	10.7	(18)
Interest expense	31.5	35.1	(10)	63.0	70.3	(10)
Total expenses	3,515.0	3,373.4	4	6,863.1	6,600.4	4
Net Income						
Income before income taxes	357.7	312.9	14	903.1	751.8	20
Provision for income taxes	112.5	101.0	11	295.0	244.3	21
Net income	\$ 245.2	\$ 211.9	16	\$ 608.1	\$ 507.5	20
Computation of Earnings Per Share						
Basic:						
Average shares outstanding	643.6	660.4	(3)	647.6	660.9	(2)
Per share	\$.38	\$.32	19	\$.94	\$.77	22
Diluted:						

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Average shares outstanding	643.6	660.4	(3)	647.6	660.9	(2)
Net effect of dilutive stock-based compensation	4.3	5.3	(19)	4.1	5.2	(21)
Total equivalent shares	647.9	665.7	(3)	651.7	666.1	(2)
Per share	\$.38	\$.32	19	\$.93	\$.76	22
Dividends declared per share¹	\$ 0	\$ 0		\$ 0	\$ 0	

NM = Not Meaningful

¹Progressive maintains an annual dividend program. See *Note 9 - Dividends* for further discussion.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

Consolidated Balance Sheets

(unaudited)

(millions)	2011	June 30, 2010	December 31, 2010
Assets			
Investments Available-for-sale, at fair value:			
Fixed maturities (amortized cost: \$11,499.5, \$11,699.5, and \$11,630.8)	\$ 11,788.5	\$ 11,885.3	\$ 11,850.0
Equity securities:			
Nonredeemable preferred stocks (cost: \$495.5, \$627.3, and \$601.3)	1,029.7	1,145.8	1,157.6
Common equities (cost: \$1,379.8, \$1,005.1, and \$1,021.7)	1,867.9	1,150.0	1,425.0
Short-term investments (amortized cost: \$1,343.5, \$1,648.9, and \$1,090.8)	1,343.5	1,648.9	1,090.8
Total investments	16,029.6	15,830.0	15,523.4
Cash	149.7	153.8	158.9
Accrued investment income	104.3	108.9	109.3
Premiums receivable, net of allowance for doubtful accounts of \$109.5, \$105.8, and \$114.9	2,982.6	2,766.2	2,738.4
Reinsurance recoverables, including \$34.3, \$35.7, and \$37.4 on paid losses and loss adjustment expenses	775.7	675.8	741.5
Prepaid reinsurance premiums	86.7	74.4	88.1
Deferred acquisition costs	451.6	443.1	417.2
Income taxes	111.4	318.2	189.0
Property and equipment, net of accumulated depreciation of \$596.4, \$618.8, and \$564.3	917.1	947.7	932.6
Other assets	198.9	178.5	251.9
Total assets	\$ 21,807.6	\$ 21,496.6	\$ 21,150.3
Liabilities and Shareholders Equity			
Unearned premiums	\$ 4,704.3	\$ 4,572.1	\$ 4,353.8
Loss and loss adjustment expense reserves	7,142.6	6,885.6	7,071.0
Accounts payable, accrued expenses, and other liabilities	1,652.1	1,556.2	1,718.4
Debt ¹	1,959.1	2,178.1	1,958.2
Total liabilities	15,458.1	15,192.0	15,101.4
Common Shares, \$1.00 par value (authorized 900.0; issued 797.7, 797.7, and 797.7, including treasury shares of 155.0, 130.1, and 135.3)	642.7	667.6	662.4
Paid-in capital	1,007.7	964.5	1,007.1
Retained earnings	3,835.6	4,097.9	3,595.7
Accumulated other comprehensive income (loss), net of tax:			
Net non-credit related OTTI losses, adjusted for valuation changes	(4.9)	(6.0)	(1.8)
Other net unrealized gains (losses) on securities	853.1	560.0	769.1
Total net unrealized gains (losses) on securities	848.2	554.0	767.3
Net unrealized gains on forecasted transactions	13.1	20.0	14.7
Foreign currency translation adjustment	2.2	.6	1.7
Total accumulated other comprehensive income (loss)	863.5	574.6	783.7
Total shareholders equity	6,349.5	6,304.6	6,048.9
Total liabilities and shareholders equity	\$ 21,807.6	\$ 21,496.6	\$ 21,150.3

¹Consists of both short- and long-term debt. See *Note 4 Debt*.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited)

Six months ended June 30, (millions)	2011	2010
Cash Flows From Operating Activities		
Net income	\$ 608.1	\$ 507.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	42.6	41.9
Amortization of fixed-income securities	116.4	110.7
Amortization of stock-based compensation	24.5	23.7
Net realized (gains) losses on securities	(125.7)	8.7
Net loss on disposition of property and equipment	7.3	1.1
Changes in:		
Premiums receivable	(244.2)	(311.4)
Reinsurance recoverables	(34.2)	(111.0)
Prepaid reinsurance premiums	1.4	(5.1)
Deferred acquisition costs	(34.4)	(40.9)
Income taxes	34.1	31.8
Unearned premiums	350.4	399.2
Loss and loss adjustment expense reserves	71.5	232.6
Accounts payable, accrued expenses, and other liabilities	194.4	297.1
Other, net	18.9	18.6
Net cash provided by operating activities	1,031.1	1,204.5
Cash Flows From Investing Activities		
Purchases:		
Fixed maturities	(4,265.9)	(2,281.3)
Equity securities	(397.5)	(444.2)
Sales:		
Fixed maturities	3,570.6	1,683.6
Equity securities	240.9	118.9
Maturities, paydowns, calls, and other:		
Fixed maturities	735.4	516.8
Net purchases of short-term investments other	(252.3)	(571.1)
Net unsettled security transactions	39.2	.1
Purchases of property and equipment	(35.6)	(29.9)
Sales of property and equipment	1.2	.5
Net cash used in investing activities	(364.0)	(1,006.6)
Cash Flows From Financing Activities		
Proceeds from exercise of stock options	5.4	8.2
Tax benefit from exercise/vesting of stock-based compensation	2.4	2.7
Dividends paid to shareholders ¹	(263.6)	(108.2)
Acquisition of treasury shares	(420.9)	(107.3)
Net cash used in financing activities	(676.7)	(204.6)
Effect of exchange rate changes on cash	.4	(.2)
Increase (decrease) in cash	(9.2)	(6.9)

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Cash, January 1	158.9	160.7
Cash, June 30	\$ 149.7	\$ 153.8

¹Progressive maintains an annual dividend program. See *Note 9 Dividends* for further discussion.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited)

Note 1 Basis of Presentation The consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries, and a mutual company affiliate. All of the subsidiaries and the mutual company affiliate are wholly owned or controlled. The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, were necessary for a fair statement of the results for the interim periods presented. The results of operations for the period ended June 30, 2011, are not necessarily indicative of the results expected for the full year. These consolidated financial statements and the notes thereto should be read in conjunction with Progressive's audited financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Note 2 Investments The following tables present the composition of our investment portfolio by major security type consistent with our internal classification, which represents how we manage, monitor, and measure the portfolio:

(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses) ¹	Fair Value	% of Total Fair Value
June 30, 2011						
Fixed maturities:						
U.S. government obligations	\$ 2,881.1	\$ 80.3	\$ (.8)	\$ 0	\$ 2,960.6	18.5%
State and local government obligations	1,812.7	46.0	(1.3)	0	1,857.4	11.6
Corporate debt securities	2,765.1	89.5	(5.1)	5.9	2,855.4	17.8
Residential mortgage-backed securities	537.0	12.7	(29.8)	0	519.9	3.2
Commercial mortgage-backed securities	1,755.6	60.4	(3.6)	0	1,812.4	11.3
Other asset-backed securities	1,312.4	15.0	(.8)	1.1	1,327.7	8.3
Redeemable preferred stocks	435.6	28.0	(8.5)	0	455.1	2.8
Total fixed maturities	11,499.5	331.9	(49.9)	7.0	11,788.5	73.5
Equity securities:						
Nonredeemable preferred stocks	495.5	534.8	0	(.6)	1,029.7	6.4
Common equities	1,379.8	494.7	(6.6)	0	1,867.9	11.7
Short-term investments:						
Other short-term investments	1,343.5	0	0	0	1,343.5	8.4
Total portfolio ^{2,3}	\$ 14,718.3	\$ 1,361.4	\$ (56.5)	\$ 6.4	\$ 16,029.6	100.0%

(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses) ¹	Fair Value	% of Total Fair Value
June 30, 2010						
Fixed maturities:						
U.S. government obligations	\$ 4,061.2	\$ 69.2	\$ (15.7)	\$ 0	\$ 4,114.7	26.0%
State and local government obligations	1,723.8	59.0	(1.0)	0	1,781.8	11.2
Corporate debt securities	2,039.3	85.7	(10.1)	2.4	2,117.3	13.4
Residential mortgage-backed securities	560.9	10.0	(37.9)	0	533.0	3.4
Commercial mortgage-backed securities	1,721.0	59.7	(8.7)	0	1,772.0	11.2
Other asset-backed securities	976.1	12.4	(1.8)	.1	986.8	6.2
Redeemable preferred stocks	617.2	20.3	(57.8)	0	579.7	3.7
Total fixed maturities	11,699.5	316.3	(133.0)	2.5	11,885.3	75.1

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Equity securities:						
Nonredeemable preferred stocks	627.3	524.1	0	(5.6)	1,145.8	7.2
Common equities	1,005.1	170.7	(25.8)	0	1,150.0	