

PROGRESSIVE CORP/OH/  
Form 10-Q  
May 02, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2013

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 issuer's classes of common stock, as of the latest practicable date.

Common Shares, \$1.00 par value: 603,170,892 outstanding at March 31, 2013

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

The Progressive Corporation and Subsidiaries

**Consolidated Statements of Comprehensive Income**

(unaudited)

| Three months ended March 31,<br>(millions except per share amounts)                              | 2013       | 2012       | % Change |
|--|------------|------------|----------|
| <b>Revenues</b>  |            |            |          |
| Net premiums earned  | \$ 4,179.3 | \$ 3,861.5 | 8        |
| Investment income  | 100.5      | 114.7      | (12)     |
| Net realized gains (losses) on securities:   |            |            |          |
| Other-than-temporary impairment (OTTI) losses:   |            |            |          |
| Total OTTI losses  | (.2)       | (.5)       | (60)     |
| Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses | 0          | (.4)       | NM       |
| Net impairment losses recognized in earnings   | (.2)       | (.9)       | (78)     |
| Net realized gains (losses) on securities  | 80.8       | 78.4       | 3        |
| Total net realized gains (losses) on securities  | 80.6       | 77.5       | 4        |
| Fees and other revenues  | 68.4       | 65.2       | 5        |
| Service revenues   | 8.4        | 8.2        | 2        |
| Gains (losses) on extinguishment of debt   | 0          | (.7)       | NM       |
| Total revenues   | 4,437.2    | 4,126.4    | 8        |
| <b>Expenses</b>  |            |            |          |
| Losses and loss adjustment expenses  | 2,985.5    | 2,762.4    | 8        |
| Policy acquisition costs   | 358.9      | 359.6      | 0        |
| Other underwriting expenses  | 585.6      | 576.0      | 2        |
| Investment expenses  | 4.9        | 4.2        | 17       |
| Service expenses   | 8.6        | 8.2        | 5        |
| Interest expense   | 30.6       | 31.9       | (4)      |
| Total expenses   | 3,974.1    | 3,742.3    | 6        |
| <b>Net Income</b>  |            |            |          |
| Income before income taxes   | 463.1      | 384.1      | 21       |
| Provision for income taxes   | 154.5      | 126.5      | 22       |
| Net income   | 308.6      | 257.6      | 20       |
| <b>Other Comprehensive Income, Net of Tax</b>  |            |            |          |
| Net unrealized gains (losses) on securities:   |            |            |          |
| Net non-credit related OTTI losses, adjusted for valuation changes                               | .2         | 3.0        | (93)     |
| Other net unrealized gains (losses) on securities  | 99.0       | 199.4      | (50)     |
| Total net unrealized gains (losses) on securities  | 99.2       | 202.4      | (51)     |
| Net unrealized gains on forecasted transactions  | (.3)       | (.6)       | (50)     |
| Foreign currency translation adjustment  | (.2)       | .5         | NM       |

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|   |                 |                 |             |
|---|-----------------|-----------------|-------------|
| Other comprehensive income                      | 98.7            | 202.3           | (51)        |
| <b>Comprehensive income</b>                     | <b>\$ 407.3</b> | <b>\$ 459.9</b> | <b>(11)</b> |
| <b>Computation of Net Income Per Share</b>      |                 |                 |             |
| Average shares outstanding - Basic              | 600.6           | 606.2           | (1)         |
| Net effect of dilutive stock-based compensation | 3.8             | 3.8             | 0           |
| <b>Total equivalent shares - Diluted</b>        | <b>604.4</b>    | <b>610.0</b>    | <b>(1)</b>  |
| Basic: Net income per share                     | \$ .51          | \$ .42          | 21          |
| <b>Diluted: Net income per share</b>            | <b>\$ .51</b>   | <b>\$ .42</b>   | <b>21</b>   |
| <b>Dividends declared per share<sup>1</sup></b> | <b>\$ 0</b>     | <b>\$ 0</b>     |             |

NM = Not Meaningful

<sup>1</sup> Progressive maintains an annual dividend program. See *Note 8 - Dividends* for further discussion. See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

**Consolidated Balance Sheets**

(unaudited)

| (millions)  | March 31,<br>2013  | March 31,<br>2012  | December 31,<br>2012 |
|---|--------------------|--------------------|----------------------|
| <b>Assets</b>   |                    |                    |                      |
| Investments - Available-for-sale, at fair value:  |                    |                    |                      |
| Fixed maturities (amortized cost: \$11,686.0, \$11,623.7, and \$11,373.9)   | \$ 12,046.3        | \$ 11,952.7        | \$ 11,774.1          |
| Equity securities:  |                    |                    |                      |
| Nonredeemable preferred stocks (cost: \$412.5, \$434.0, and \$404.0)  | 820.6              | 832.4              | 812.4                |
| Common equities (cost: \$1,388.5, \$1,457.3, and \$1,370.3)   | 2,111.1            | 2,096.5            | 1,899.0              |
| Short-term investments (amortized cost: \$2,321.7, \$1,520.1, and \$1,990.0)  | 2,321.7            | 1,520.1            | 1,990.0              |
| <b>Total investments</b>  | <b>17,299.7</b>    | <b>16,401.7</b>    | <b>16,475.5</b>      |
| Cash  | 110.2              | 156.0              | 179.1                |
| Accrued investment income   | 87.3               | 96.8               | 90.0                 |
| Premiums receivable, net of allowance for doubtful accounts of \$128.1, \$113.9, and \$138.6  | 3,372.3            | 3,167.5            | 3,183.7              |
| Reinsurance recoverables, including \$32.4, \$41.6, and \$38.9 on paid losses and loss adjustment expenses                              | 947.5              | 818.5              | 901.0                |
| Prepaid reinsurance premiums  | 72.8               | 70.0               | 66.3                 |
| Deferred acquisition costs  | 452.3              | 441.7              | 434.5                |
| Net deferred income taxes   | 49.0               | 80.6               | 109.4                |
| Property and equipment, net of accumulated depreciation of \$642.3, \$591.4, and \$625.0  | 935.9              | 916.4              | 933.7                |
| Other assets  | 216.5              | 200.7              | 321.5                |
| <b>Total assets</b>   | <b>\$ 23,543.5</b> | <b>\$ 22,349.9</b> | <b>\$ 22,694.7</b>   |
| <b>Liabilities and Shareholders' Equity</b>   |                    |                    |                      |
| Unearned premiums   | \$ 5,207.3         | \$ 4,880.6         | \$ 4,930.7           |
| Loss and loss adjustment expense reserves   | 7,948.4            | 7,337.4            | 7,838.4              |
| Accounts payable, accrued expenses, and other liabilities   | 1,934.5            | 1,801.5            | 1,855.5              |
| Debt <sup>1</sup>   | 2,063.5            | 2,080.0            | 2,063.1              |
| <b>Total liabilities</b>  | <b>17,153.7</b>    | <b>16,099.5</b>    | <b>16,687.7</b>      |
| Common Shares, \$1.00 par value (authorized 900.0; issued 797.6, 797.6, and 797.7 including treasury shares of 194.4, 186.4, and 193.1) | 603.2              | 611.2              | 604.6                |
| Paid-in capital   | 1,096.9            | 1,029.4            | 1,077.0              |
| Retained earnings   | 3,720.0            | 3,715.0            | 3,454.4              |
| Accumulated other comprehensive income, net of tax:   |                    |                    |                      |
| Net non-credit related OTTI losses, adjusted for valuation changes  | (.1)               | (2.4)              | (.3)                 |
| Other net unrealized gains (losses) on securities   | 962.0              | 887.6              | 863.0                |
| <b>Total net unrealized gains (losses) on securities</b>  | <b>961.9</b>       | <b>885.2</b>       | <b>862.7</b>         |
| Net unrealized gains on forecasted transactions   | 5.8                | 7.3                | 6.1                  |
| Foreign currency translation adjustment   | 2.0                | 2.3                | 2.2                  |
| <b>Total accumulated other comprehensive income</b>   | <b>969.7</b>       | <b>894.8</b>       | <b>871.0</b>         |
| <b>Total shareholders' equity</b>   | <b>6,389.8</b>     | <b>6,250.4</b>     | <b>6,007.0</b>       |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 23,543.5</b> | <b>\$ 22,349.9</b> | <b>\$ 22,694.7</b>   |

<sup>1</sup> Consists 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)

| Three months ended March 31,<br>(millions)  | 2013     | 2012     |
|---|----------|----------|
| <b>Cash Flows From Operating Activities</b>                                       |          |          |
| Net income  | \$ 308.6 | \$ 257.6 |
| Adjustments to reconcile net income to net cash provided by operating activities: |          |          |
| Depreciation  | 23.7     | 22.3     |
| Amortization of fixed-income securities   | 40.0     | 50.6     |
| Amortization of equity-based compensation   |          |          |