

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, 1994

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)

Ohio

34-0963169

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

6300 Wilson Mills Road, Mayfield Village, Ohio

44143

(Address of principal executive offices)

(Zip Code)

(216) 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 X No

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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: 71,825,273 outstanding at April 30, 1994

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

Three Months Ended March 31,	1994	1993	% Change
(millions - except per share amounts)			
NET PREMIUMS WRITTEN	\$558.2	\$421.8	32
REVENUES			
Premiums earned	\$478.7	\$372.2	29
Investment income	36.8	34.5	7
Net realized gains (losses) on security sales	(2.6)	17.8	--
Service revenues	9.5	10.6	(10)
Total revenues	522.4	435.1	20
EXPENSES			
Losses and loss adjustment expenses	309.0	233.6	32
Policy acquisition costs	87.1	70.2	24
Other underwriting expenses	38.9	37.4	4
Investment expenses	2.1	2.0	5
Service expenses	8.1	10.1	(20)
Interest expense	13.5	9.8	38
Total expenses	458.7	363.1	26
NET INCOME			
Income before Federal income taxes	63.7	72.0	(12)
Provision for Federal income taxes	15.6	20.4	(24)
Net income	\$ 48.1	\$ 51.6	(7)
PER SHARE			
Primary	\$.62	\$.71	(13)
Fully diluted	.62	.71	(13)
WEIGHTED NUMBER EQUIVALENT SHARES			
Primary	74.5	69.5	7
Fully diluted	74.5	69.6	7

<FN>

See notes to consolidated financial statements.

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The Progressive Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31,		December 31,
	1994	1993	1993
(millions)			
ASSETS			
Investments:			
Held-to-maturity:			
Fixed maturities, at amortized cost (market: \$358.8, \$255.6 and \$327.4)	\$ 346.9	\$ 234.2	\$ 309.1
Available-for-sale:			
Fixed maturities, at market (amortized cost: \$1,963.3, \$1,551.5 and \$1,761.9)	1,969.3	1,591.2	1,792.6
Equity securities, at market (cost: \$461.7, \$257.7 and \$433.2)	472.8	339.3	453.9
Short-term investments, at amortized cost (market: \$299.8, \$335.0 and \$231.3)	299.8	334.6	230.8
Total investments	3,088.8	2,499.3	2,786.4
Cash	17.7	21.4	8.7
Accrued investment income	36.6	25.8	33.7
Premiums receivable, net of allowance for doubtful accounts of \$8.9, \$9.2 and \$8.7	421.4	328.0	380.6
Reinsurance recoverables	407.3	366.4	380.9
Prepaid reinsurance premiums	87.8	81.2	84.6
Deferred acquisition costs	138.4	110.6	124.6
Federal income taxes	76.2	53.3	78.5
Property and equipment, net of accumulated depreciation of \$108.5, \$99.2 and \$107.1	116.9	65.9	106.7
Other assets	24.5	23.2	26.6
Total assets	\$4,415.6	\$3,575.1	\$4,011.3
LIABILITIES AND SHAREHOLDERS' EQUITY			
Unearned premiums	\$ 854.7	\$ 667.6	\$ 772.0
Loss and loss adjustment expense reserves	1,389.9	1,288.2	1,348.6
Policy cancellation reserve	56.3	49.7	60.1
Accounts payable and accrued expenses	422.1	323.5	355.6
Funded debt	675.4	568.5	477.1
Total liabilities	3,398.4	2,897.5	3,013.4

Shareholders' equity:			
9 3/8% Serial Preferred Shares, Series A (issued and outstanding 3.6, 4.0 and 3.6)	87.0	96.4	87.9
Common Shares, \$1.00 par value (treasury shares of 10.1, 10.0 and 10.1)	72.1	67.1	72.1
Paid-in capital	359.2	181.0	357.6
Net unrealized appreciation on investment securities	11.1	80.0	33.5
Retained earnings	487.8	253.1	446.8
Total shareholders' equity	1,017.2	677.6	997.9
Total liabilities and shareholders' equity	\$4,415.6	\$3,575.1	\$4,011.3

<FN>

See notes to consolidated financial statements.

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The Progressive Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	1994	1993
Three Months Ended March 31,		
(millions)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 48.1	\$ 51.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4.0	4.4
Net realized (gains) losses on security sales	2.6	(17.8)
Changes in:		
Unearned premiums	82.7	52.8
Loss and loss adjustment expense reserves	41.3	14.0
Accounts payable and accrued expenses	30.3	(5.0)
Policy cancellation reserve	(3.8)	(2.4)
Prepaid reinsurance	(3.2)	(3.2)
Reinsurance recoverables	(26.4)	(8.6)
Premiums receivable	(40.8)	(16.0)
Deferred acquisition costs	(13.8)	(9.3)
Federal income taxes	14.2	3.9
Other, net	6.8	8.1
Net cash provided by operating activities	142.0	72.5
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases:		
Held-to-maturity: fixed maturities	(46.3)	(2.7)
Available-for-sale: fixed maturities	(429.5)	(298.9)
equity securities	(54.5)	(23.2)
Sales:		
Available-for-sale: fixed maturities	137.4	71.2
equity securities	28.7	91.2
Maturities, paydowns, calls and other:		
Held-to-maturity: fixed maturities	8.1	18.7
Available-for-sale: fixed maturities	79.6	81.9
Net purchases of short-term investments	(69.0)	(34.6)
Payable on securities	36.2	35.0
Purchase of property and equipment	(14.7)	(6.8)
Net cash used in investing activities	(324.0)	(68.2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	1.0	--
Proceeds from funded debt	198.4	170.0
Payments on funded debt	(.2)	(170.1)
Dividends paid to shareholders	(5.7)	(5.7)
Acquisition of treasury shares	(2.5)	--
Net cash provided by (used in) financing activities	191.0	(5.8)
Increase (decrease) in cash	9.0	(1.5)
Cash, January 1	8.7	22.9
Cash, March 31	\$ 17.7	\$ 21.4

<FN>

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

NOTE 1 SUPPLEMENTAL CASH FLOW INFORMATION -- The Company paid Federal income taxes of \$0 and \$16.1 million for the periods ended March 31, 1994 and 1993, respectively. Total interest paid was \$5.1 million and \$3.2 million for the periods ended March 31, 1994 and 1993, respectively.

NOTE 2 On March 31, 1994, the Company paid a quarterly dividend of \$.05 per Common Share and a regular quarterly dividend of approximately \$.59 per share on the 9 3/8% Serial Preferred Shares, Series A, to shareholders of record as of the close of business on March 11, 1994. Both dividends were declared by the Board of Directors on February 5, 1994.

On April 22, 1994, the Board of Directors declared a quarterly dividend of \$.05 per Common Share and a regular quarterly dividend of approximately \$.59 per share on the 9 3/8% Serial Preferred Shares, Series A. Both dividends are payable June 30, 1994, to shareholders of record as of the close of business on June 10, 1994.

NOTE 3 Certain amounts in the financial statements for 1993 were reclassified to conform with the presentation used for 1994. These reclassifications had no effect on net income.

NOTE 4 The financial statements reflect all normal recurring adjustments which were, in the opinion of management, necessary to present a fair statement of the results for the interim periods. The results of operations for the period ended March 31, 1994 are not necessarily indicative of the results expected for the full year.

ITEM 2. Management's Discussion and Analysis of Financial
 Condition and Results of Operations.

FINANCIAL CONDITION

Progressive's insurance operations create liquidity by collecting and investing premiums written from new and renewal business in advance of paying claims. During the first quarter 1994, operations generated a positive cash flow of \$142.0 million. During the first quarter 1994, the Company repurchased 50,000 Common Shares at an average cost of \$29.24 per share and 40,000 of its 9 3/8% Serial Preferred Shares, Series A, at an average cost of \$27.05 per share.

On January 12, 1994, the Company sold \$200.0 million of its 6.60% Notes due 2004 in an underwritten public offering. The Notes were priced to yield 6.62%. The net proceeds of approximately \$198.4 million were added to the investment portfolios of the Company.

As of March 31, 1994, the Company had contractual commitments related to the construction of its new corporate office complex totalling \$70.9 million, of which \$57.1 million had been paid out of operating cash flows. The total cost of the project is estimated at \$74.8 million.

RESULTS OF OPERATIONS

Net premiums written increased 32% from 1993, reflecting unit growth in the core automobile insurance business caused by the Company's rates becoming more competitive due to cost control efforts. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 29% to \$478.7 million for the quarter, compared to \$372.2 million in 1993. Service revenues were \$9.5 million in the first quarter of 1994, compared to \$10.6 million last year, primarily reflecting the decrease in the size of the

CAIP market.

Claim costs, which represent actual and estimated future payments to or for policyholders, as well as loss estimates for future assignments and assessments under state-mandated assigned risk programs, increased as a percentage of premiums earned to 65%, compared to 63% last year, reflecting normal variation in our expected loss ratio. Policy acquisition and other underwriting expenses were 26% of premiums earned, compared to 29% last year, reflecting a commitment to reduce expenses. Service expenses decreased 20%, reflecting decreased service revenues and the impact of cost-cutting efforts.

Recurring investment income (dividends and interest) increased 7%, reflecting an increase in the average investment portfolio, partially offset by a mix shift to tax-free securities. During the quarter, the Company had net realized losses on security sales of \$2.6 million, compared to net realized gains of \$17.8 million, primarily in the equity portfolio, last year. On March 31, 1994, the Company's portfolio had \$29.0 million in total unrealized gains, compared to \$70.2 million at December 31, 1993, resulting from declines in the financial markets primarily due to an increase in interest rates.

The provision for Federal income taxes was \$15.6 million, compared to \$20.4 million, reflecting realized losses on security sales in the current quarter compared to realized gains last year and a mix shift in the investment portfolio to tax-free securities.

INVESTMENTS

The Company continues to invest in fixed maturity, short-term and equity securities. The majority of the portfolio (\$2,360.8 million, or 76.4%, in 1994 and \$1,997.6 million, or 79.9%, in 1993) at March 31, 1994 and 1993, was in short-term and intermediate-term, investment-grade fixed-income securities. As of March 31, 1994 and 1993, the equity portfolio of the Company was \$472.8 million, or 15.3%, and \$339.3 million, or 13.6%, respectively, of the total investment portfolio. The equity portfolio at March 31, 1994, consisted of three principal components: (i) \$50.7 million, or 10.7%, of standard adjustable rate preferreds, (ii) \$309.4 million, or 65.5%, of perpetual preferreds with mechanisms that may provide an opportunity to liquidate at par, and (iii) \$112.7 million, or 23.8%, of common stocks. The equity portfolio at March 31, 1993 consisted of three principal components; (i) \$104.3 million, or 30.7%, of standard adjustable rate preferred, (ii) \$77.6 million, or 22.9%, of perpetual preferreds with mechanisms that may provide an opportunity to liquidate at par, and (iii) \$157.4 million, or 46.4%, of common stocks. The Company had forward and future positions, offset by short forward, future or interest rate swap positions and unmatched positions with a net market value of \$.4 million and \$3.4 million as of March 31, 1994 and 1993, respectively. The weighted average fully taxable equivalent yield of the portfolio was 6.4% and 7.6% as of March 31, 1994 and 1993, respectively.

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ENVIRONMENTAL AND PRODUCT LIABILITY EXPOSURES

The Company has increased by \$4.9 million its reserves, and the related reinsurance recoverable, for environmental and product liability claims arising out of its 1985 acquisition of American Star Insurance Company (since renamed National Continental Insurance Company). The seller had adjusted claims and paid all losses on the pre-1985 American Star business from 1985 until late in 1992, when it contested its obligation to pay the losses to the extent not covered by collectible reinsurance and to administer claims. As previously reported, the dispute was scheduled to be heard by an arbitration panel during the second quarter. The parties are currently discussing a proposed settlement under which, among other things, the seller would make a cash payment to National Continental and be relieved from most of its obligations to adjust these claims and pay the losses. The arbitration hearing has been postponed pending the outcome of the settlement discussions.

PART II - OTHER INFORMATION

ITEM 2. Changes in Securities.

On January 12, 1994, the Company sold \$200 million of its 6.60% Notes due 2004 (the "Notes") in an underwritten public offering. The Notes rank on a parity with all other current and future unsecured indebtedness of the Company and prior to subordinated indebtedness and the common and preferred shares of the Company.

If certain defaults occur with respect to the Notes, no payment may be made by the Company on account of the principal of or interest on, or to acquire, any of the subordinated indebtedness until the Notes have been paid in full or such defaults have been cured or waived. Upon any acceleration of the principal of the subordinated indebtedness, or upon any payment by the Company or distribution of assets of the Company upon any dissolution, winding up, liquidation or reorganization involving the Company, whether voluntary or involuntary, or in bankruptcy or insolvency, all amounts due or to become due upon the Notes must be paid in full or provided for before any payment may be made on account of the subordinated indebtedness. As a consequence, in the event of any such bankruptcy, insolvency or similar event, holders of the Company's subordinated indebtedness may recover less, ratably, than the holders of the Notes and certain other indebtedness of the Company. Further, under Ohio law, upon any dissolution or winding up of the Company, payment of the indebtedness evidenced by the Notes, and other obligations of the Company, must be made or adequately provided for prior to the distribution of any remaining assets to holders of the Company's common and preferred shares.

ITEM 4. Submission of Matters to a Vote of Security Holders.

At the April 22, 1994 Annual Meeting of the Shareholders of the Company, 59,321,304 Common Shares were represented in person or by proxy.

At the meeting, the shareholders elected the seven directors named below, each to serve for a term of one year. The votes for each director were cast as follows:

	For ---	Withheld -----
Milton N. Allen	59,130,668	190,636
B. Charles Ames	59,149,529	171,775
Stephen R. Hardis	59,150,891	170,413
Peter B. Lewis	59,143,234	178,070
Norman S. Matthews	59,147,723	173,581
Donald B. Shackelford	59,148,675	172,629
Paul B. Sigler	59,128,762	192,542

The shareholders approved the Company's 1994 Executive Bonus Plan as it applies to certain executive officers. This proposal received 52,288,925 affirmative votes, 1,396,702 negative votes, 712,499 abstentions and 4,923,178 broker non-votes.

ITEM 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

See exhibit index on page 10.

(b) Reports on Form 8-K during the quarter ended March 31, 1994:

None

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE PROGRESSIVE CORPORATION

(Registrant)

Date: May 16, 1994

BY: /s/ DAVID M. SCHNEIDER

David M. Schneider
Secretary of the Registrant

Date: May 16, 1994

BY: /s/ CHARLES B. CHOKEL

Charles B. Chokel
Chief Financial Officer of
the Registrant

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EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-Q Exhibit No.	Description of Exhibit
-----	-----	-----
(10) (iii)	10 (A)	Amendment No. 1 to The Progressive Corporation 1994 Gainsharing Plan
(10) (iii)	10 (B)	Amendment No. 1 to The Progressive Corporation 1994 Executive Bonus Plan
(11)	11	Computation of Earnings Per Share
(99)	99	Computation of Premiums Earned

EXHIBIT NO. 10(A)

AMENDMENT NO. 1 TO
THE PROGRESSIVE CORPORATION
1994 GAINSHARING PLAN

AMENDMENT NO. 1
TO
THE PROGRESSIVE CORPORATION
1994 GAINSHARING PLAN

1. The following sentence is hereby added at the end of Paragraph 4 of The Progressive Corporation 1994 Gainsharing Plan:

"For purposes of the Plan, Paid Earnings shall not include any short-term or long-term disability payments made to the participant."
2. This Amendment No. 1 is effective for the 1994 Plan year and for each Plan year thereafter.

EXHIBIT NO. 10(B)

AMENDMENT NO. 1 TO
THE PROGRESSIVE CORPORATION
1994 EXECUTIVE BONUS PLAN

AMENDMENT NO. 1
TO
THE PROGRESSIVE CORPORATION
1994 EXECUTIVE BONUS PLAN

1. Paragraph 5 of The Progressive Corporation 1994 Executive Bonus Plan is hereby amended to read as follows:
 - "5. The salary of each Plan participant shall be as established by the Committee prior to commencement of the Plan year (or prior to April 1, 1994 with respect to the 1994 Plan year), and will be determined through market analysis based on data reported in published national compensation surveys. For purposes of the Plan, "salary" and "Paid Salary" shall include regular, vacation, sick, holiday and funeral pay received by the participant for work or services performed by the participant as an officer or employee of Progressive and the earnings replacement component of any worker's compensation award, but shall not include any (a) short-term or long-term disability payments, (b) lump sum merit adjustments or (c) discretionary bonus payments made to the participant."
2. This Amendment No. 1 is effective for the 1994 Plan year and for each Plan year thereafter.

EXHIBIT NO. 11

 COMPUTATION OF
 EARNINGS PER SHARE

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
 COMPUTATION OF EARNINGS PER SHARE
 (millions - except per share amounts)
 (unaudited)

	Three Months Ended March 31,			
	1994		1993	
	Amount	Per Share	Amount	Per Share
PRIMARY:				
Net income	\$48.1		\$51.6	
Less: Preferred stock dividends	(2.2)		(2.3)	
	\$45.9	\$.62	\$49.3	\$.71
Average shares outstanding	72.1		67.1	
Net effect of dilutive stock options	2.4		2.4	
Total	74.5		69.5	
FULLY DILUTED:				
Net income	\$48.1		\$51.6	
Less: Preferred stock dividends	(2.2)		(2.3)	
	\$45.9	\$.62	\$49.3	\$.71
Average shares outstanding	72.1		67.1	
Net effect of dilutive stock options	2.4		2.5	
Total	74.5		69.6	

EXHIBIT NO. 99

COMPUTATION OF PREMIUMS EARNED

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
 COMPUTATION OF PREMIUMS EARNED
 (millions)
 (unaudited)

	Three Months Ended March 31,		
	1994	1993	% Change
Total direct premiums written	\$605.6	\$451.2	34
Reinsurance ceded, net	(47.4)	(29.4)	61
Net premiums written	558.2	421.8	32
Change in net unearned premiums(1)	(79.5)	(49.6)	60
Premiums earned	\$478.7	\$372.2	29

<FN>

(1) Represents change in unearned premiums net of prepaid reinsurance premiums.