UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1996

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

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 par value: 71,354,898 outstanding at June 30, 1996



## PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

The Progressive Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

| | Three Months | | | Six Months | | |
|---|---|---|---|---|---|---|
| Periods Ended June 30, | 1996 | 1995 | % Change | 1996 | 1995 | % Change |
| (millions - except per share amounts) | | | | | | |
| NET PREMIUMS WRITTEN | $875.1 | $754.4 | 16 | $1,685.3 | $1,441.3 | 17 |

| | | | | | | |
|---|---|---|---|---|---|---|
| REVENUES | | | | | | |
| Premiums earned | $784.5 | $677.4 | 16 | $1,516.5 | $1,301.7 | 17 |
| Investment income | 53.4 | 50.0 | 7 | 106.2 | 94.8 | 12 |
| Net realized gains (losses) on security sales | (0.2) | 22.1 | -- | 4.7 | 37.5 | (87) |
| Service revenues | 10.4 | 10.0 | 4 | 19.8 | 19.3 | 3 |
| Total revenues | 848.1 | 759.5 | 12 | 1,647.2 | 1,453.3 | 13 |
| EXPENSES | | | | | | |
| Losses and loss adjustment expenses | 538.6 | 494.6 | 9 | 1,064.1 | 931.5 | 14 |
| Policy acquisition costs | 119.4 | 114.0 | 5 | 239.5 | 220.6 | 9 |
| Other underwriting expenses | 51.3 | 40.9 | 25 | 92.2 | 84.9 | 9 |
| Investment expenses | 1.4 | 2.5 | (44) | 3.2 | 4.6 | (30) |
| Service expenses | 12.3 | 8.8 | 40 | 21.6 | 17.2 | 26 |
| Interest expense | 15.0 | 14.2 | 6 | 29.3 | 28.5 | 3 |
| Total expenses | 738.0 | 675.0 | 9 | 1,449.9 | 1,287.3 | 13 |
| NET INCOME | | | | | | |
| Income before income taxes | 110.1 | 84.5 | 30 | 197.3 | 166.0 | 19 |
| Provision for income taxes | 31.7 | 23.7 | 34 | 55.5 | 44.5 | 25 |
| Net income | $ 78.4 | $ 60.8 | 29 | $ 141.8 | $ 121.5 | 17 |
| PER SHARE | | | | | | |
| Primary | $ 1.01 | $ .79 | 28 | $ 1.83 | $ 1.59 | 15 |
| Fully diluted | 1.01 | .79 | 28 | 1.83 | 1.59 | 15 |
| WEIGHTED NUMBER AVERAGE EQUIVALENT SHARES | | | | | | |
| Primary | 73.6 | 74.0 | (1) | 74.1 | 74.0 | -- |
| Fully diluted | 73.7 | 74.0 | -- | 74.1 | 74.0 | -- |

See notes to consolidated financial statements.





The Progressive Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(unaudited)

| | June 30, 1996 | June 30, 1995 | December 31, 1995 |
|---|---|---|---|
| (millions) | | | |
| ASSETS | | | |
| Investments: | | | |
| Held-to-maturity: | | | |
| Fixed maturities, at amortized cost (market: $318.8) | $ -- | $309.7 | $ -- |
| Available-for-sale: | | | |
| Fixed maturities, at market (amortized cost: $3,098.5, $2,347.9 and $2,729.5) | 3,091.2 | 2,349.8 | 2,772.9 |
| Equity securities, at market | | | |
| Preferred stocks (cost: $298.2, $315.2 and $379.4) | 298.2 | 314.8 | 382.3 |
| Common stocks (cost: $335.8, $213.1 and $277.6) | 381.9 | 230.1 | 310.0 |
| Short-term investments, at amortized cost (market $297.7, $280.7, and $302.8) | 297.7 | 280.7 | 302.8 |
| Total investments | 4,069.0 | 3,485.1 | 3,768.0 |
| Cash | 11.2 | 13.2 | 16.2 |
| Accrued investment income | 50.1 | 39.1 | 39.8 |
| Premiums receivable, net of allowance for doubtful accounts of $20.4, $16.4, and $19.2 | 794.1 | 622.8 | 649.9 |
| Reinsurance recoverables | 315.8 | 374.3 | 338.1 |
| Prepaid reinsurance premiums | 91.5 | 81.6 | 70.5 |
| Deferred acquisition costs | 193.9 | 183.7 | 181.9 |
| Income taxes | 77.8 | 88.8 | 58.3 |
| Property and equipment, net of accumulated depreciation of $138.5, $119.3 and $128.7 | 166.9 | 152.7 | 159.2 |
| Other assets | 23.4 | 37.9 | 70.6 |
| Total assets | $5,793.7 | $5,079.2 | $5,352.5 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Unearned premiums | $1,399.4 | $1,174.7 | $1,209.6 |
| Loss and loss adjustment expense reserves | 1,693.3 | 1,546.2 | 1,610.5 |
| Policy cancellation reserve | 39.8 | 40.5 | 40.8 |
| Accounts payable and accrued expenses | 426.1 | 324.0 | 339.9 |
| Funded debt | 775.6 | 675.7 | 675.9 |
| Total liabilities | 4,334.2 | 3,761.1 | 3,876.7 |
| Shareholders' equity: | | | |
| 9 3/8% Serial Preferred Shares, Series A (issued and outstanding: 0, 3.5 and 3.4) | -- | 85.8 | 83.6 |
| Common Shares, $1.00 par value (treasury shares of 11.7, 11.2 and 11.0) | 71.3 | 71.9 | 72.1 |
| Paid-in capital | 376.3 | 370.4 | 374.8 |
| Net unrealized appreciation on investment securities | 25.2 | 12.0 | 51.1 |
| Retained earnings | 986.7 | 778.0 | 894.2 |
| Total shareholders' equity | 1,459.5 | 1,318.1 | 1,475.8 |
| Total liabilities and shareholders' equity | $5,793.7 | $5,079.2 | $5,352.5 |

See notes to consolidated financial statements.





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

| Six Months Ended June 30, | 1996 | 1995 |
|---|---|---|
| (millions) | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 141.8 | $ 121.5 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 12.8 | 10.0 |
| Net realized gains on security sales | (4.7) | (37.5) |
| Changes in: | | |
| Unearned premiums | 189.8 | 138.0 |
| Loss and loss adjustment expense reserves | 82.8 | 111.8 |
| Accounts payable and accrued expenses | 55.6 | 0.6 |
| Policy cancellation reserve | (1.0) | (6.8) |
| Prepaid reinsurance | (21.0) | 1.6 |
| Reinsurance recoverables | 22.3 | 5.4 |
| Premiums receivable | (144.2) | (80.4) |
| Deferred acquisition costs | (12.0) | (22.1) |
| Income taxes | (5.5) | (8.8) |
| Other, net | (3.9) | 12.6 |
| Net cash provided by operating activities | 312.8 | 245.9 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases: | | |
| Held-to-maturity: fixed maturities | -- | (0.2) |
| Available-for-sale: fixed maturities | (2,233.4) | (1,530.4) |
| equity securities | (280.0) | (526.3) |
| Sales: | | |
| Available-for-sale: fixed maturities | 1,649.6 | 1,080.7 |
| equity securities | 287.2 | 477.9 |
| Maturities, paydowns, calls and other: | | |
| Held-to-maturity: fixed maturities | -- | 26.7 |
| Available-for-sale: fixed maturities | 202.2 | 254.1 |
| equity securities | 25.6 | 10.4 |
| Net (purchases) sales of short-term investments | 5.1 | (1.6) |
| (Receivable) payable on securities | 76.8 | (18.1) |
| Purchases of property and equipment | (18.1) | (21.0) |
| Net cash used in investing activities | (285.0) | (247.8) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from exercise of stock options | 4.1 | 7.2 |
| Tax benefits from exercise of stock options | 2.9 | 6.8 |
| Proceeds from funded debt | 99.6 | -- |
| Payments on funded debt | (0.2) | (0.2) |
| Redemption of Preferred Shares | (80.8) | -- |
| Dividends paid to shareholders | (11.1) | (12.1) |
| Acquisition of treasury shares | (47.3) | -- |
| Net cash provided by (used in) financing activities | (32.8) | 1.7 |
| Decrease in cash | (5.0) | (0.2) |
| Cash, January 1 | 16.2 | 13.4 |
| Cash, June 30 | $ 11.2 | $ 13.2 |

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 income taxes of $52.4 million and $40.5 million for the six months ended June 30, 1996 and 1995, respectively. Total interest paid was $28.3 million for each of the six months ended June 30, 1996 and 1995.

NOTE 2 On May 31, 1996, the Company redeemed all of its remaining outstanding 9 3/8% Serial Preferred Shares, Series A (Cumulative, Liquidation Preference $25.00 per share) ("Preferred Shares") at a total cost of $82.1 million, including accrued but unpaid dividends through the redemption date. The redemption was funded through the sale on May 28, 1996, of $100 million of the Company's 7.30% Notes due 2006 at par in an underwritten public offering. The remaining proceeds of the offering were added to the investment portfolios of the Company's subsidiaries and will be available for general corporate purposes, which may include supporting premium growth.

NOTE 3 Funded debt at June 30 consisted of:

| | 1996 | | 1995 | |
|---|---|---|---|---|
| | Cost | Market Value | Cost | Market Value |
| 7.3% Notes | $ 99.6 | $ 99.6 | $ -- | $ -- |
| 6.6% Notes | 198.8 | 192.9 | 198.6 | 196.3 |
| 7.0% Notes | 148.3 | 141.0 | 148.3 | 142.6 |
| 8 3/4% Notes | 29.4 | 31.6 | 29.1 | 32.3 |
| 10% Notes | 149.5 | 167.6 | 149.4 | 173.1 |
| 10 1/8% Subordinated Notes | 149.4 | 168.0 | 149.3 | 173.0 |
| Other funded debt | 0.6 | 0.6 | 1.0 | 1.0 |
| | $ 775.6 | $ 801.3 | $ 675.7 | $ 718.3 |

NOTE 4 On June 30, 1996, the Company paid a quarterly dividend of $.055 per Common Share to shareholders of record as of the close of business on June 14, 1996. The dividend was declared by the Board of Directors on April 26, 1996.

On July 26, 1996, the Board of Directors declared a quarterly dividend of $.06 per Common Share, payable September 30, 1996, to shareholders of record as of the close of business on September 13, 1996.

NOTE 5 Certain amounts in the consolidated financial statements for prior periods were reclassified to conform with the 1996 presentation.

NOTE 6 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 periods ended June 30, 1996 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.

RESULTS OF OPERATIONS

For the second quarter 1996, operating income, which excludes net realized gains (losses) on security sales and one-time items, was $78.5 million, or $1.05 per share, compared to $46.4 million, or $.60 per share, last year. The increase was due primarily to favorable underwriting results as discussed below. During the quarter, the Company redeemed all of its outstanding Preferred Shares at a liquidation price of $25.00 per share, which exceeded its carrying value of $24.11 per share, resulting in a one-time $.04 per share impact. The combined ratio was 90.4, compared to 95.9 for the second quarter 1995. For the six months ended June 30, 1996, operating income was $138.7 million, or $1.83 per share, compared to $97.1 million, or $1.26 per share, in 1995. The year-to-date combined ratio was 92.0, compared to 95.0 last year.

Net premiums written increased 16% over the second quarter 1995 and 17% year-to-date, primarily reflecting an increase in unit sales. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 16% for the quarter and 17% for the first six months. Service revenue increased 4% to $10.4 million for the quarter and 3% to $19.8 million for the first six months.

Claim costs, which represent actual and estimated future payments to or for our policyholders, as well as loss estimates for future assignments and assessments under state-mandated assigned risk programs, and costs to settle these claims, decreased as a percentage of premiums earned to 69% for the quarter, compared to 73% in 1995. The lower loss ratio was primarily attributable to declining severity not anticipated by our pricing. In addition, 1995 results included $7.9 million of losses from storms that hit Texas and Louisiana. Year-to-date claim costs were 70%, compared to 72% last year.

Policy acquisition costs and other underwriting expenses were 22% of premiums earned for the second quarter, compared to 23% in 1995, and 22% for the first six months, compared to 23% last year. Service expenses increased 40% for the quarter and 26% for the first six months, primarily due to the costs associated with acquiring a majority interest in a company which provides vehicle inspection services.

Recurring investment income (interest and dividends) increased 7% for the quarter and 12% for the first six months, reflecting an increase in the average investment portfolio, partially offset by an increase in the common stock portfolio, and a decrease in the pretax yields. The Company had net realized gains (losses) on security sales of $(.2) million and $4.7 million for the quarter and first six months, respectively, compared to $22.1 million and $37.5 million in 1995. On June 30, 1996, the Company's portfolio had $38.8 million in total unrealized gains, compared to $78.7 million at December 31, 1995, primarily reflecting an increase in interest rate levels as evidenced by the 3-year treasury note yield increasing from 5.2% to 6.3% during the first six months.

The Company continues to invest in fixed maturity, equity and short-term securities. The majority of the portfolio was in short-term and intermediate-term, investment-grade fixed-income securities ($3,304.5 million, or 81.2%, at June 30, 1996, and $2,764.2 million, or 79.4%, at June 30, 1995).





Long-term investment-grade fixed-income securities represented $69.8 million, or 1.7%, and $101.4 million, or 2.9%, of the total investment portfolio at June 30, 1996 and 1995, respectively. The duration of the fixed-income portfolio was 2.8 years at June 30, 1996, compared to 1.8 years at June 30, 1995.

Equity investments are comprised of preferred stocks ($298.2 million or 7.3% in 1996 and $314.8 million or 9.0% in 1995) and common stocks ($381.9 million or 9.4% in 1996 and $230.1 million or 6.6% in 1995). The increase in common stocks reflects the Company's objective to increase its position in common stock investments to 15% of the entire portfolio and to optimize returns and further diversify the portfolio through foreign equity investments. As of June 30, 1996 and 1995, the non-investment-grade fixed-income portfolio of the Company was $14.6 million, or .4%, and $74.6 million, or 2.1%, respectively, of the total investment portfolio.

The Company's financial instruments with off-balance-sheet risk had net unrealized gains (losses) of $1.5 million, compared to $(.2) million as of June 30, 1996 and 1995, respectively.

The weighted average annualized fully taxable equivalent book yield of the portfolio was 6.6% and 6.9% for the six months ended June 30, 1996 and 1995, respectively.

FINANCIAL CONDITION

Progressive's insurance operations create liquidity by collecting and investing premiums written from new and renewal business in advance of paying claims. For the six months ended June 30, 1996, operations generated a positive cash flow of $312.8 million. During the first six months, the Company repurchased 993,560 Common Shares at an average cost of $41.55 per share. During the second quarter, the Company repurchased 941,600 Common Shares at an average cost of $41.36 per share.

On May 28, 1996, the Company sold $100 million of its 7.30% Notes due 2006 at par in an underwritten public offering. The net proceeds of $99.6 million (after underwriting discount and expenses) were used primarily to fund the Preferred Share redemption (see below). The remaining proceeds were added to the investment portfolios of the Company's subsidiaries and will be available for general corporate purposes, which may include supporting premium growth.

On May 31, 1996, the Company redeemed all of its remaining outstanding Preferred Shares at a total cost of $82.1 million, including accrued but unpaid dividends through the redemption date. The redemption was funded through the Company's debt offering.





RECENT DEVELOPMENTS

The Company has entered into a Settlement Stipulation with the California Department of Insurance to settle Pro-West Insurance Company's Proposition 103 rollback obligation for the sum of $1,750,000. The Settlement Stipulation must be approved by an administrative law judge and the Insurance Commissioner before becoming final. The Company has sought indemnification for this liability from the sellers from whom Pro-West was acquired in October 1990, in accordance with the terms of the acquisition agreements, but the sellers have disputed such obligation. In July 1996, the Company reached an agreement with the sellers to settle the dispute. Under the settlement, the sellers have agreed to reimburse Pro-West in the amount of at least $1,055,000, and potentially up to the full amount of the rollback obligation plus certain expenses, depending on the timing and circumstances of the indemnity payment.





## PART II - OTHER INFORMATION

ITEM 2. Changes in Securities

On May 28, 1996, the Company sold $100 million of its 7.30% Notes due 2006 (the "Notes") in an underwritten public offering. The Notes rank on a parity with all other current and future unsecured and unsubordinated indebtedness of the Company and prior to the subordinated indebtedness and the Common Shares of the Company, as well as any preferred shares that may be outstanding hereafter.

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 Shares and any preferred shares which may be then outstanding.

ITEM 5. Other Information

On May 31, 1996, the Registrant redeemed all of its outstanding Preferred Shares. The redemption was made at the redemption price of $25.00 per share, plus accrued and unpaid dividends therein to the date of redemption.

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

(a) Exhibits:

See exhibit index on page 12.





(b) Reports on Form 8-K during the quarter ended June 30, 1996:

On April 3, 1996, the Registrant filed a Form 8-K to report the voluntary resignation of Chief Operating Officer, Bruce W. Marlow. Mr. Marlow plans to pursue opportunities outside of the auto insurance business. Peter B. Lewis, President and Chief Executive Officer, has assumed Mr. Marlow's responsibilities.

On April 16, 1996, the Registrant filed a Form 8-K to announce the call for redemption, on May 31, 1996, of all of its outstanding 9 3/8% Serial Preferred Shares, Series A (Cumulative, Liquidation Preference $25.00 per share).





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: July 31, 1996 BY: /s/ DAVID M. SCHNEIDER

David M. Schneider
Secretary

Date: July 31, 1996 BY: /s/ CHARLES B. CHOKEL

Charles B. Chokel
Treasurer and Chief Financial Officer

EXHIBIT INDEX

| Exhibit No. Under Reg. S-K. Item 601 | Form 10-Q Exhibit No. | Description of Exhibit |
|---|---|---|
| (4) | 4 | Form of 7.30% Notes due 2006, issued in the aggregate principal amount of $100,000,000 under the Senior Indenture dated September 15, 1993 between the Company and State Street Bank and Trust, as amended and supplemented |
| (10) | 10 | Amending Agreement dated April 1, 1996 between the Company and Bruce W. Marlow relating to certain outstanding stock options previously granted to Mr. Marlow |
| (11) | 11 | Computation of Earnings Per Share |
| (12) | 12 | Computation of Ratio of Earnings to Fixed Charges |
| (27) | 27 | Financial Data Schedule |

1

EXHIBIT NO. 4

FORM OF 7.30% NOTES DUE 2006,

ISSUED IN THE AGGREGATE PRINCIPAL AMOUNT

OF $100,000,000 UNDER THE SENIOR INDENTURE

DATED SEPTEMBER 15, 1993 BETWEEN

THE COMPANY AND STATE STREET BANK AND

TRUST, AS AMENDED AND SUPPLEMENTED

2

(FACE OF SECURITY)

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC") to the Issuer or its agent for registration of transfer, exchange or payment, and such certificate is registered in the name of Cede & Co., or in such other name as requested by an authorized representative of DTC, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

| | |
|---|---|
| REGISTERED | REGISTERED |
| NO. R-001 | $100,000,000 |

CUSIP No. 743315 AH 6

SEE REVERSE FOR CERTAIN DEFINITIONS

THE PROGRESSIVE CORPORATION

7.30% NOTE DUE 2006

THE PROGRESSIVE CORPORATION, an Ohio corporation (the "Issuer"), for value received, hereby promises to pay to CEDE & Co., c/o The Depository Trust Company, 55 Water Street, New York, New York 10041 or registered assigns, at the office or agency of the Issuer at the office of the Trustee in Boston, Massachusetts, the principal sum of ONE HUNDRED MILLION DOLLARS ($100,000,000) on June 1, 2006, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest semiannually on June 1 and December 1 of each year, commencing on December 1, 1996, on said principal sum at said office or agency, in like coin or currency, at the rate per annum specified in the title of this Note, from the June 1 or the December 1, as the case may be, next preceding the date of this Note to which interest has been paid, unless the date hereof is a date to which interest has been paid, in which case from the date of this Note, or unless no interest has been paid on the Notes, in which case from May 28, 1996, until payment of said principal sum has been made or duly provided for; provided, that payment of interest may be made at the option of the Issuer by check mailed to the address of the person entitled thereto as such address shall appear on the Security Register. Notwithstanding the foregoing, if the date hereof is after the fifteenth day of May or November, as the case may be, and before the following June 1 or December 1, this Note shall bear interest from such June 1 or December 1; provided, that if the Issuer shall default in the payment of interest due on such June 1 or December 1, then this Note shall bear interest from the next preceding June 1 or December 1, to which interest has been paid or, if no interest has been paid on this Note, from May 28, 1996. The interest so payable on any June 1 or December

1 will, subject to certain exceptions provided in the Indenture referred to on the reverse hereof, be paid to the person in whose name this Note is registered at the close of business on May 15 or November 15, as the case may be, next preceding such June 1 or December 1.



Reference is made to the further provisions of this Note set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed by the Trustee under the Indenture referred to on the reverse hereof.

IN WITNESS WHEREOF, The Progressive Corporation has caused this instrument to be signed by its duly authorized officers and has caused its corporate seal to be affixed hereto or imprinted hereon.

THE PROGRESSIVE CORPORATION

[CORPORATE SEAL]

By: /s/ Charles B. Chokel
----------------------------
Charles B. Chokel
Treasurer

Attest: /s/David M. Schneider
-------------------------------
David M. Schneider
Secretary

Dated: May 28, 1996

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities, of the series designated herein, referred to in the within-mentioned Indenture.

STATE STREET BANK AND TRUST COMPANY
as Trustee

By:
----------------------------
Authorized Signatory



(BACK OF SECURITY)

THE PROGRESSIVE CORPORATION

7.30% NOTE DUE 2006

This Note is one of a duly authorized issue of debentures, notes, bonds or other evidences of indebtedness of the Issuer (hereinafter called the "Securities") of the series hereinafter specified, all issued or to be issued under and pursuant to an indenture dated as of September 15, 1993, as heretofore supplemented and amended (herein called the "Indenture"), between the Issuer and State Street Bank and Trust Company, as Trustee (herein called the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the Holders of the Securities. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any) and may otherwise vary as in the Indenture provided. This Note is one of a series designated as the 7.30% Notes

Due 2006 of the Issuer, limited in aggregate principal amount to $100,000,000.

In case an Event of Default, as defined in the Indenture, with respect to the 7.30% Notes Due 2006 shall have occurred and be continuing, the principal hereof may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Issuer and the Trustee, with the consent of the Holders of not less than 66-2/3% in aggregate principal amount of the Securities at the time Outstanding (as defined in the Indenture) of all series to be affected (voting as one class), evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the Holders of the Securities of each such series; provided, however, that no such supplemental indenture shall (i) extend the final maturity of any Security, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of any interest thereon, or impair or affect the rights of any Holder to institute suit for the payment thereof, without the consent of the Holder of each Security so affected or (ii) reduce the aforesaid percentage of Securities, the Holders of which are required to consent to any such supplemental indenture, without the consent of the Holder of each Security so affected. It is also provided in the Indenture that, with respect to certain defaults or Events of Default regarding the Securities of any series, prior to any declaration accelerating the maturity of such Securities, the Holders of a majority in aggregate principal amount Outstanding of the Securities of such series may on behalf of the Holders of all the Securities of such series waive any such past default or Event of Default and its consequences. The preceding sentence shall not, however, apply to a default in the payment of the principal of or premium, if any, or interest on any of the Securities. Any such consent or waiver by the Holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Note and any Note which may be issued in exchange or substitution herefor, irrespective of whether or not any notation thereof is made upon this Note or such other Note.



No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on this Note in the manner, at the respective times, at the rate and in the coin or currency herein prescribed.

The Notes are issuable in registered form without coupons in denominations of $1,000 and any integral multiple of $1,000 at the office or agency of the Issuer at the office of the Trustee in Boston, Massachusetts, and in the manner and subject to the limitations provided in the Indenture, but without the payment of any service charge. Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

The Notes are not subject to redemption at the option of the Issuer or through the operation of a sinking fund.

Upon due presentment for registration of transfer of this Note at the office or agency of the Issuer at the office of the Trustee in Boston, Massachusetts, a new Note or Notes of authorized denominations for an equal aggregate principal amount will be issued to the transferee in exchange therefor, subject to the limitations provided in the Indenture, without charge except for any tax or other governmental charge imposed in connection therewith.

The Issuer, the Trustee and any authorized agent of the Issuer or the Trustee may deem and treat the registered Holder hereof as the absolute owner of this Note (whether or not this Note shall be overdue and notwithstanding any notation of ownership or other writing hereon), for the purpose of receiving payment of, or on account of, the principal hereof and, subject to the provisions on the face hereof, interest hereon, and for all other purposes, and neither the Issuer nor the Trustee nor any authorized agent of the Issuer or the Trustee shall be affected by notice to the contrary.

No recourse under or upon any obligation, covenant or agreement of the Issuer in the Indenture or any indenture supplemental thereto or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, shareholder, officer or director, as such, of the Issuer or of any successor corporation, either directly or through the Issuer or any successor corporation, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance hereof and as part of the consideration for the issue hereof.

Terms used herein which are defined in the Indenture shall have the respective meanings assigned thereto in the Indenture.



ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
JT TEN - as joint tenants with right of survivorship and not as tenants in common

CUST - Custodian

UNIF GIFT MIN ACT - Uniform Gifts to Minors Act

---------------
(State)

Additional abbreviations may also be used though not in the above list.

-------------------------------------

FOR VALUE RECEIVED the undersigned hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

- ---------------------------------- ---------------------------------------

- ------------------------------------------------------------------------------

Please print or typewrite name and address including
postal zip code of assignee

- ------------------------------------------------------------------------------

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

- ------------------------------------------------------------------------------

attorney to transfer said Note on the books of the Issuer, with full power of substitution in the premises.

Dated:
----------------------------------- -----------------------------------

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within instrument in every particular, without alteration or enlargement or any change whatever.

EXHIBIT NO. 10

AMENDING AGREEMENT DATED

APRIL 1, 1996

BETWEEN THE COMPANY AND

BRUCE W. MARLOW

RELATING TO CERTAIN OUTSTANDING

STOCK OPTIONS PREVIOUSLY

GRANTED TO MR. MARLOW



AMENDING AGREEMENT

WHEREAS, The Progressive Corporation ("Company") and Bruce W. Marlow ("Optionee") have entered into certain Non-Qualified Stock Option Agreements dated March 11, 1992, June 18, 1993 and April 14, 1994, respectively (the "Agreements"); and

WHEREAS, Company and Optionee mutually desire to amend the Agreements;

NOW, THEREFORE, the parties hereto agree that the Agreements are hereby amended as follows:

1. Section 5 of each of the Agreements is hereby deleted and the following provision is substituted in its stead:

5. TERMINATION OF EMPLOYMENT. (a) If the Optionee's employment with the Company or any of its Subsidiaries ends, by decision of the Company or such Subsidiary or voluntary departure or resignation by Optionee, but only if the end of the Optionee's employment is not due to the Optionee's death, total disability or Cause (as defined below), then:

(i) if and to the extent that the Option has vested and become exercisable prior to the date on which Optionee's employment with Company or such Subsidiary ends, ("Termination Date"), then the vested, unexercised portion of the Option may be exercised during the lesser of (A) two months after such Termination Date, or (B) the balance of the Option term; and

(ii) if and to the extent that the Option has not vested and become exercisable prior to the Termination Date, it shall vest on such date and may be exercised, in whole or in part, by the Optionee at any time on or before, but not after, the fifth anniversary of the Termination Date.

(b) If the Optionee's employment with the Company or any of its Subsidiaries is terminated by the Company or such Subsidiary for Cause, the Option and all rights to purchase Common Shares thereunder shall immediately terminate. For purposes of this Section 5, "Cause" shall mean the commission of a felony, theft of or intentional significant damage to the property or business of Company, gross dereliction of duty or fraud.

(c) If Optionee's employment with the Company or any of its Subsidiaries terminates due to death or total disability, the provisions of Section 5(b)(6) or 5 (b)(7) of the Plan, as applicable, shall apply.

2. Each of the Agreements, as herein amended, is hereby ratified and affirmed and shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the undersigned have duly executed this Amending Agreement as of the 1st day of April, 1996.

THE PROGRESSIVE CORPORATION

By: /s/ David M. Schneider
-----------------------
David M. Schneider
Secretary

OPTIONEE

By: /s/ Bruce W. Marlow
------------------------
Bruce W. Marlow

# 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 | | | | Six Months | | | |
|---|---|---|---|---|---|---|---|---|
| Periods Ended June 30, | 1996 | | 1995 | | 1996 | | 1995 | |
| | Amount | Per Share | Amount | Per Share | Amount | Per Share | Amount | Per Share |
| PRIMARY: | | | | | | | | |
| Net income | $78.4 | | $60.8 | | $141.8 | | $121.5 | |
| Less: Preferred stock dividends | (1.2) | | (2.1) | | (3.5) | | (4.2) | |
| Excess of preferred stock liquidation price over carrying value | (2.9) | | -- | | (2.9) | | -- | |
| Income available to common shareholders | 74.3 | 1.01 | 58.7 | .79 | 135.4 | 1.83 | 117.3 | 1.59 |
| Average shares outstanding | 71.4 | | 71.8 | | 71.8 | | 71.7 | |
| Net effect of dilutive stock options | 2.2 | | 2.2 | | 2.3 | | 2.3 | |
| Total | 73.6 | | 74.0 | | 74.1 | | 74.0 | |
| FULLY DILUTED: | | | | | | | | |
| Net income | $78.4 | | $60.8 | | $141.8 | | $121.5 | |
| Less: Preferred stock dividends | (1.2) | | (2.1) | | (3.5) | | (4.2) | |
| Excess of preferred stock liquidation price over carrying value | (2.9) | | -- | | (2.9) | | -- | |
| Income available to common shareholders | 74.3 | 1.01 | 58.7 | .79 | 135.4 | 1.83 | 117.3 | 1.59 |
| Average shares outstanding | 71.4 | | 71.8 | | 71.8 | | 71.7 | |
| Net effect of dilutive stock options | 2.3 | | 2.2 | | 2.3 | | 2.3 | |
| Total | 73.7 | | 74.0 | | 74.1 | | 74.0 | |

1

EXHIBIT NO. 12

COMPUTATION OF

RATIO OF EARNINGS TO

FIXED CHARGES

2

EXHIBIT 12

THE PROGRESSIVE CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(millions)
(unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| | 1996 | 1995 |
| Income before income taxes | $ 197.3 | $ 166.0 |
| Fixed Charges: | | |
| Interest and amortization on indebtedness | 29.3 | 28.5 |
| Portion of rents representative of the interest factor | 2.2 | 2.0 |
| Total fixed charges | 31.5 | 30.5 |
| Total income available for fixed charges | $ 228.8 | $ 196.5 |
| Ratio of earnings to fixed charges | 7.3 | 6.4 |

<ARTICLE> 7
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<MULTIPLIER> 1,000

| | |
|---|---|
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| <POLICY-HOLDER-FUNDS> | 0 |
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| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
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| <EPS-DILUTED> | 1.83 |
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| <PROVISION-PRIOR> | 0 |
| <PAYMENTS-CURRENT> | 0 |
| <PAYMENTS-PRIOR> | 0 |
| <RESERVE-CLOSE> | 0 |
| <CUMULATIVE-DEFICIENCY> | 0 |