PROGRESSIVE CORP/OH/
Form 10-Q
August 05, 2015

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

FORM 1O-Q

(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015
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 (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 ý 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 ý 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	ý	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 ý

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: 585,932,347 outstanding at June 30, 2015

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.
The Progressive Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months			Six Months		
Periods Ended June 30,	2015	2014	% Change	2015	2014	% Change
(millions—except per share amounts)						
Revenues						
Net premiums earned	$4,995.8	$4,513.5	11	$9,662.1	$8,915.8	8
Investment income	113.3	99.2	14	218.4	202.5	8
Net realized gains (losses) on securities:						
Net impairment losses recognized in earnings	(1.7)	0	NM	(9.6)	0	NM
Net realized gains (losses) on securities	77.7	40.4	92	118.6	159.8	(26)
Total net realized gains (losses) on securities	76.0	40.4	88	109.0	159.8	(32)
Fees and other revenues	74.9	74.4	1	148.6	147.2	1
Service revenues	23.3	14.0	66	40.5	23.8	70
Total revenues	5,283.3	4,741.5	11	10,178.6	9,449.1	8
Expenses						
Losses and loss adjustment expenses	3,617.2	3,269.1	11	6,985.8	6,475.0	8
Policy acquisition costs	417.3	374.8	11	796.7	743.8	7
Other underwriting expenses	662.4	611.7	8	1,312.8	1,222.1	7
Investment expenses	5.7	6.0	(5)	11.0	10.1	9
Service expenses	20.5	12.9	59	36.4	22.6	61
Interest expense	34.9	29.6	18	67.4	56.3	20
Total expenses	4,758.0	4,304.1	11	9,210.1	8,529.9	8
Net Income						
Income before income taxes	525.3	437.4	20	968.5	919.2	5
Provision for income taxes	156.8	144.0	9	304.4	304.5	0
Net income	368.5	293.4	26	664.1	614.7	8
Net income attributable to noncontrolling interest (NCI), net of tax	5.2	0	NM	5.2	0	NM
Net income attributable to Progressive	$363.3	$293.4	24	$658.9	$614.7	7
Other Comprehensive Income (Loss), Net of Tax						
Changes in:						
Total net unrealized gains (losses) on securities	$(149.8)	$88.4	(269)	$(114.4)	$88.3	(230)
Net unrealized gains (losses) on forecasted transactions	(0.3)	(1.3)	(77)	(9.0)	(1.6)	463
Foreign currency translation adjustment	0	0.5	(100)	(0.5)	0.5	(200)
Other comprehensive income (loss)	(150.1)	87.6	(271)	(123.9)	87.2	(242)
Other comprehensive (income) loss attributable to NCI	2.8	0	NM	2.8	0	NM
Comprehensive income attributable to Progressive	$216.0	$381.0	(43)	$537.8	$701.9	(23)

Computation of Net Income Per Share						
Average shares outstanding - Basic	585.7	591.2	(1)	586.6	592.6	(1)
Net effect of dilutive stock-based compensation	3.8	4.3	(12)	3.7	4.0	(8)
Total equivalent shares - Diluted	589.5	595.5	(1)	590.3	596.6	(1)
Basic: Net income per share	$0.62	$0.50	25	$1.12	$1.04	8
Diluted: Net income per share	$0.62	$0.49	25	$1.12	$1.03	8
Dividends declared per share[1]	$0	$0		$0	$0	

NM = Not Meaningful

[1]Progressive maintains an annual dividend program. See Note 8 - Dividends for further discussion.

See notes to consolidated financial statements.

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The Progressive Corporation and Subsidiaries
Consolidated Balance Sheets
(unaudited)

(millions)	June 30, 2015	2014	December 31, 2014
Assets			
Investments - Available-for-sale, at fair value:			
Fixed maturities (amortized cost: $15,520.6, $12,265.4, and $13,374.2)	$15,589.0	$12,498.6	$13,549.2
Equity securities:			
Nonredeemable preferred stocks (cost: $632.4, $497.1, and $590.4)	772.3	760.2	827.5
Common equities (cost: $1,351.7, $1,265.2, and $1,289.2)	2,546.8	2,381.7	2,492.3
Short-term investments (amortized cost: $1,669.3, $3,118.7, and $2,149.0)	1,669.3	3,118.7	2,149.0
Total investments	20,577.4	18,759.2	19,018.0
Cash	263.8	126.1	108.4
Accrued investment income	100.4	82.9	87.3
Premiums receivable, net of allowance for doubtful accounts of $140.6, $133.4, and $152.2	3,867.3	3,566.3	3,537.5
Reinsurance recoverables, including $46.2, $36.2, and $46.0 on paid losses and loss adjustment expenses	1,402.3	1,135.0	1,231.9
Prepaid reinsurance premiums	233.0	89.8	85.3
Deferred acquisition costs	568.2	479.0	457.2
Property and equipment, net of accumulated depreciation of $770.3, $706.3, and $731.0	1,018.9	952.5	960.6
Goodwill	472.9	1.6	1.6
Intangible assets, net of accumulated amortization of $16.3, $0.6, and $0.6	526.0	11.3	11.3
Other assets	274.0	249.0	288.5
Total assets	$29,304.2	$25,452.7	$25,787.6
Liabilities			
Unearned premiums	$6,641.9	$5,582.6	$5,440.1
Loss and loss adjustment expense reserves	9,701.2	8,639.9	8,857.4
Net deferred income taxes	176.0	98.8	98.9
Dividends payable	0	0	404.1
Accounts payable, accrued expenses, and other liabilities	2,252.9	2,134.2	1,893.8
Debt[1]	2,739.0	2,208.0	2,164.7
Total liabilities	21,511.0	18,663.5	18,859.0
Redeemable noncontrolling interest (NCI)	433.4	0	0
Shareholders' Equity			
Common Shares, $1.00 par value (authorized 900.0; issued 797.6, including treasury shares of 211.7, 206.1, and 209.8)	585.9	591.5	587.8
Paid-in capital	1,177.0	1,169.3	1,184.3
Retained earnings	4,694.9	3,989.5	4,133.4
Accumulated other comprehensive income, net of tax:			
Net unrealized gains (losses) on securities	907.5	1,035.3	1,021.9
Net unrealized gains (losses) on forecasted transactions	(7.5)	2.5	1.5

Foreign currency translation adjustment	(0.8)	1.1	(0.3)
Accumulated other comprehensive (income) loss attributable to noncontrolling interest	2.8	0	0
Total accumulated other comprehensive income	902.0	1,038.9	1,023.1
Total shareholders’ equity	7,359.8	6,789.2	6,928.6
Total liabilities, redeemable NCI, and shareholders’ equity	$29,304.2	$25,452.7	$25,787.6

[1]Consists of both short-term and long-term debt. See Note 4 - Debt.
See notes to consolidated financial statements.

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The Progressive Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

Six months ended June 30, (millions — except per share amounts)	2015	2014
Common Shares, $1.00 Par Value		
Balance, Beginning of period	$587.8	$595.8
Treasury shares purchased	(4.0)	(5.7)
Net restricted equity awards issued/vested/(forfeited)	2.1	1.4
Balance, End of period	$585.9	$591.5
Paid-In Capital		
Balance, Beginning of period	$1,184.3	$1,142.0
Tax benefit from vesting of equity-based compensation	8.7	10.6
Treasury shares purchased	(8.2)	(11.1)
Net restricted equity awards (issued)/(vested)/forfeited	(2.1)	(1.4)
Amortization of equity-based compensation	26.5	29.8
Reinvested dividends on restricted stock units	(0.1)	(0.6)
Adjustment to carrying amount of noncontrolling interest	(32.1)	0
Balance, End of period	$1,177.0	$1,169.3
Retained Earnings		
Balance, Beginning of period	$4,133.4	$3,500.0
Net income attributable to Progressive	658.9	614.7
Treasury shares purchased	(95.9)	(123.2)
Cash dividends declared on common shares	0	1.1
Reinvested dividends on restricted stock units	0.1	0.6
Other, net	(1.6)	(3.7)
Balance, End of period	$4,694.9	$3,989.5
Accumulated Other Comprehensive Income, Net of Tax		
Balance, Beginning of period	$1,023.1	$951.7
Attributable to noncontrolling interest	2.8	0
Other comprehensive income (loss)	(123.9)	87.2
Balance, End of period	$902.0	$1,038.9
Total Shareholders' Equity	$7,359.8	$6,789.2

There are 20.0 million Serial Preferred Shares authorized; no such shares are issued or outstanding.
There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.
See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited) (millions)

Six months ended June 30,	2015	2014
Cash Flows From Operating Activities		
Net income available to Progressive	$664.1	$614.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	49.7	46.7
Amortization of intangible assets	15.7	0
Amortization of fixed-income securities	43.5	38.1
Amortization of equity-based compensation	26.5	29.8
Net realized (gains) losses on securities	(109.0)	(159.8)
Net (gains) losses on disposition of property and equipment	0.7	3.3
Changes in:		
Premiums receivable	(300.5)	(255.4)
Reinsurance recoverables	(116.1)	(44.8)
Prepaid reinsurance premiums	(1.2)	(14.9)
Deferred acquisition costs	(46.4)	(31.4)
Income taxes	(82.9)	53.6
Unearned premiums	652.0	407.7
Loss and loss adjustment expense reserves	537.7	160.1
Accounts payable, accrued expenses, and other liabilities	66.9	164.0
Other, net	29.3	29.5
Net cash provided by operating activities	1,430.0	1,041.2
Cash Flows From Investing Activities		
Purchases:		
Fixed maturities	(5,316.7)	(3,332.1)
Equity securities	(257.2)	(176.7)
Sales:		
Fixed maturities	2,780.0	3,329.3
Equity securities	200.4	446.4
Maturities, paydowns, calls, and other:		
Fixed maturities	1,595.1	1,117.8
Equity securities	12.0	14.2
Net sales (purchases) of short-term investments	523.4	(1,846.0)
Net unsettled security transactions	128.4	174.5
Purchases of property and equipment	(53.6)	(44.7)
Acquisition of ARX Holding Corp., net of cash acquired	(752.7)	0
Acquisition of additional shares of ARX Holding Corp.	(12.6)	0
Sales of property and equipment	7.1	3.1
Net cash used in investing activities	(1,146.4)	(314.2)
Cash Flows From Financing Activities		
Tax benefit from vesting of equity-based compensation	8.7	10.7
Proceeds from debt issuance	382.0	344.7
Payment of debt	(6.8)	0
Reacquisition of debt	0	0
Dividends paid to shareholders[1]	(403.6)	(892.6)
Acquisition of treasury shares	(108.1)	(140.0)
Net cash used in financing activities	(127.8)	(677.2)

Effect of exchange rate changes on cash	(0.4)	1.2
Increase in cash	155.4	51.0
Cash, January 1	108.4	75.1
Cash, June 30	$263.8	$126.1

[1]Progressive maintains an annual dividend program. See Note 8 - 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, a mutual insurance company affiliate, and a limited partnership investment affiliate. During the second quarter 2015, Progressive acquired a controlling interest in ARX Holding Corp. (ARX), which wholly owns or controls insurance and non-insurance subsidiaries and affiliates. As of June 30, 2015, Progressive owns 69.1% of the outstanding capital stock of ARX. All of Progressive's other subsidiaries and affiliates are wholly owned or controlled.

Beginning April 1, 2015, we consolidated 100% of ARX's financial information into our results of operations, financial condition, and cash flows. The minority shareholders of ARX retain a 30.9% interest in the operating results of ARX. These interests are reflected in our comprehensive income statements as "Net income/Other comprehensive income attributable to noncontrolling interests (NCI)."

As part of a related stockholders' agreement, Progressive has the ability to "call" the remaining outstanding shares to achieve 100% ownership in ARX by the end of the second quarter of 2021. In addition, the minority ARX shareholders have the right to “put” their ARX shares to Progressive by that date. Since these securities are redeemable upon the occurrence of an event that is not solely within the control of Progressive, we have recorded the redeemable noncontrolling interest as mezzanine equity on our consolidated balance sheets. The redeemable noncontrolling interest was initially recorded at fair value of $411.5 million, reflecting the minority shares at the net acquisition price adjusted for the fair value of the put and call rights. The value of the put and call rights was based on an internally developed modified binomial model. Subsequent changes to the maximum redemption value as determined in accordance with the stockholders' agreement are recorded at the current reporting date.

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, 2015, 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, 2014.

Included in other assets in the consolidated balance sheets for June 30, 2015 and December 31, 2014, and for June 30, 2014, is $8.7 million and $13.4 million, respectively, of "held for sale" property, which represents the fair value of this property less the estimated costs to sell.

Note 2 Investments — Our securities are reported at fair value, with the changes in fair value of these securities (other than hybrid securities and derivative instruments) reported as a component of accumulated other comprehensive income, net of deferred income taxes. The changes in fair value of the hybrid securities and derivative instruments are recorded as a component of net realized gains (losses) on securities.
The following tables present the composition of our investment portfolio by major security type, consistent with our classification of 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, 2015						
Fixed maturities:						
U.S. government obligations	$2,049.3	$14.0	$(0.1)	$0	$2,063.2	10.0 %
State and local government obligations	3,177.2	32.2	(17.1)	0	3,192.3	15.5
Foreign government obligations	18.6	0	0	0	18.6	0.1
Corporate debt securities	3,433.9	23.3	(22.6)	0.2	3,434.8	16.7
Residential mortgage-backed securities	1,879.5	31.1	(17.6)	(0.5)	1,892.5	9.2
Agency residential pass-through obligations	116.0	0.1	(1.8)	0	114.3	0.6
Commercial mortgage-backed securities	2,548.4	26.0	(14.2)	(0.1)	2,560.1	12.4
Other asset-backed securities	2,037.9	3.6	(0.7)	0.7	2,041.5	9.9
Redeemable preferred stocks	259.8	21.7	(9.8)	0	271.7	1.3
Total fixed maturities	15,520.6	152.0	(83.9)	0.3	15,589.0	75.7
Equity securities:						
Nonredeemable preferred stocks	632.4	150.0	(11.3)	1.2	772.3	3.8
Common equities	1,351.7	1,204.7	(9.6)	0	2,546.8	12.4
Short-term investments	1,669.3	0	0	0	1,669.3	8.1
Total portfolio[2,3]	$19,174.0	$1,506.7	$(104.8)	$1.5	$20,577.4	100.0 %

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($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)[1]	Fair Value	% of Total Fair Value
June 30, 2014						
Fixed maturities:						
U.S. government obligations	$3,249.0	$43.5	$(3.1)	$0	$3,289.4	17.5 %
State and local government obligations	2,287.2	46.5	(2.6)	0.1	2,331.2	12.4
Foreign government obligations	0	0	0	0	0	0
Corporate debt securities	2,215.4	47.9	(2.8)	2.3	2,262.8	12.1
Residential mortgage-backed securities	1,312.0	32.7	(9.3)	0	1,335.4	7.1
Agency residential pass-through obligations	0	0	0	0	0	0
Commercial mortgage-backed securities	1,974.4	47.8	(2.9)	0	2,019.3	10.8
Other asset-backed securities	965.4	7.1	(0.1)	0.6	973.0	5.2
Redeemable preferred stocks	262.0	31.5	(6.0)	0	287.5	1.5
Total fixed maturities	12,265.4	257.0	(26.8)	3.0	12,498.6	66.6
Equity securities:						
Nonredeemable preferred stocks	497.1	247.5	(1.4)	17.0	760.2	4.1
Common equities	1,265.2	1,118.9	(2.4)	0	2,381.7	12.7
Short-term investments	3,118.7	0	0	0	3,118.7	16.6
Total portfolio[2,3]	$17,146.4	$1,623.4	$(30.6)	$20.0	$18,759.2	100.0 %

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)[1]	Fair Value	% of Total Fair Value
December 31, 2014						
Fixed maturities:						
U.S. government obligations	$2,641.1	$27.3	$(1.3)	$0	$2,667.1	14.0 %
State and local government obligations	2,095.7	44.6	(1.1)	0	2,139.2	11.2
Foreign government obligations	14.2	0	0	0	14.2	0.1
Corporate debt securities	2,813.9	32.9	(10.4)	0.3	2,836.7	14.9
Residential mortgage-backed securities	1,635.5	34.5	(10.8)	(0.7)	1,658.5	8.7
Agency residential pass-through obligations	0	0	0	0	0	0
Commercial mortgage-backed securities	2,278.7	39.3	(2.6)	0.2	2,315.6	12.2
Other asset-backed securities	1,634.9	3.8	(0.8)	0.8	1,638.7	8.6
Redeemable preferred stocks	260.2	24.7	(5.7)	0	279.2	1.5
Total fixed maturities	13,374.2	207.1	(32.7)	0.6	13,549.2	71.2
Equity securities:						
Nonredeemable preferred stocks	590.4	201.1	(6.4)	42.4	827.5	4.4
Common equities	1,289.2	1,213.2	(10.1)	0	2,492.3	13.1
Short-term investments	2,149.0	0	0	0	2,149.0	11.3
Total portfolio[2,3]	$17,402.8	$1,621.4	$(49.2)	$43.0	$19,018.0	100.0 %

[1]Represents net holding period gains (losses) on certain hybrid securities (discussed below).
[2]Our portfolio reflects the effect of unsettled security transactions and collateral on open derivative positions; at June 30, 2015, $159.7 million was included in "other liabilities," compared to $235.8 million and $31.3 million at June 30, 2014 and December 31, 2014, respectively.

[3]The total fair value of the portfolio at June 30, 2015 and 2014, and December 31, 2014 included $0.7 billion, $1.1 billion, and $1.9 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

Short-Term Investments Our short-term investments may include commercial paper and other investments that are expected to mature within one year. We did not hold any repurchase transactions where we lent collateral at June 30, 2015, June 30, 2014, or December 31, 2014. To the extent our repurchase transactions were with the same counterparty and subject to an enforceable master netting arrangement, we could elect to offset these transactions. Consistent with past practice, we have elected not to offset these transactions and therefore report these transactions on a gross basis on our balance sheets.
Also included in short-term investments are reverse repurchase commitment transactions, where we loan cash to approved counterparties and receive U.S. Treasury Notes pledged as collateral against the cash borrowed. Our exposure to credit risk is limited due to the nature of the collateral (i.e., U.S. Treasury Notes) received. We have counterparty exposure on these trades in the event of a counterparty default to the extent the general collateral security's value is below the amount of cash we delivered to acquire the collateral. The short-term duration of the transactions (primarily overnight) reduces that exposure.

We had no open reverse repurchase commitments at June 30, 2015, June 30, 2014, or December 31, 2014. For the six months ended June 30, 2015, our largest outstanding balance of reverse repurchase commitments was $275.0 million, which was open for one day; the average daily balance of reverse repurchase commitments was $135.8 million.

Hybrid Securities Included in our fixed-maturity and equity securities are hybrid securities, which are reported at fair value:

(millions)	June 30, 2015	2014	December 31, 2014
Fixed maturities:			
State and local government obligations	$0	$5.1	$0
Corporate debt securities	105.6	142.0	139.8
Residential mortgage-backed securities	117.5	27.6	120.7
Commercial mortgage-backed securities	17.3	0	31.2
Other asset-backed securities	12.5	14.3	13.7
Total fixed maturities	252.9	189.0	305.4
Equity securities:			
Nonredeemable preferred stocks	66.6	66.1	122.3
Total hybrid securities	$319.5	$255.1	$427.7

Certain corporate debt securities are accounted for as hybrid securities since they were acquired at a premium and contain a change-in-control put option (derivative) that permits the investor, at its sole option if and when a change in control is triggered, to put the security back to the issuer at a 1% premium to par. Due to this change-in-control put option and the substantial market premium paid to acquire these securities, there is the potential that the election to put, upon the change in control, would result in an acceleration of the recognition of the remaining premium paid on these securities in our results of operations. This would result in a loss of $5.1 million as of June 30, 2015, if all of the bonds experienced a simultaneous change in control and we elected to exercise all of our put options. The put feature limits the potential loss in value that could be experienced in the event a corporate action occurs that results in a change in control that materially diminishes the credit quality of the issuer. We are under no obligation to exercise the put option we hold if a change in control occurs.
The residential mortgage-backed securities accounted for as hybrid securities are obligations of the issuer with payments of principal based on the performance of a reference pool of loans. This embedded derivative results in the securities incorporating the risk of default from both the issuer and the related loan pool.
The commercial mortgage-backed securities in the table above contain fixed interest rate reset features that will increase the coupons in the event the securities are not fully paid off on the anticipated repayment date. These reset features have the potential to more than double our initial purchase yield for each security.

The other asset-backed security in the table above represents one hybrid security that was acquired at a deep discount to par due to a failing auction, and contains a put option that allows the investor to put that security back to the auction at par if the auction is restored. This embedded derivative has the potential to more than double our initial investment yield at acquisition.

The hybrid securities in our nonredeemable preferred stock portfolio are perpetual preferred stocks that have call features with fixed-rate coupons, whereby the change in value of the call features is a component of the overall change in value of the preferred stocks. In the second quarter 2015, we acquired a controlling interest in ARX Holdings Corp. and transferred our previous 5% preferred stock investment in ARX to a component of our total ownership interest (see Note 15 – Acquisition for further discussion). This transfer was offset by purchases of new hybrid securities since June 30, 2014.

Fixed Maturities The composition of fixed maturities by maturity at June 30, 2015, was:

(millions)	Cost	Fair Value
Less than one year	$4,470.5	$4,504.4
One to five years	6,978.4	7,007.0
Five to ten years	3,858.9	3,858.6
Ten years or greater	194.2	200.4
Total[1]	$15,502.0	$15,570.4

[1]Excludes $18.6 million related to our open interest rate swap positions.
Asset-backed securities are classified in the maturity distribution table based upon their projected cash flows. All other securities which do not have a single maturity date are reported based upon expected average maturity. Contractual maturities may differ from expected maturities because the issuers of the securities may have the right to call or prepay obligations.
Gross Unrealized Losses As of June 30, 2015, we had $95.2 million of gross unrealized losses in our fixed-income securities (i.e., fixed-maturity securities, nonredeemable preferred stocks, and short-term investments) and $9.6 million in our common equities. We currently do not intend to sell the fixed-income securities and determined that it is more likely than not that we will not be required to sell these securities for the period of time necessary to recover their cost bases. A review of our fixed-income securities indicated that the issuers were current with respect to their interest obligations and that there was no evidence of any deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity. For common equities, 88% of our common stock portfolio was indexed to the Russell 1000; as such, this portfolio may contain securities in a loss position for an extended period of time, subject to possible write-downs, as described below. We may retain these securities as long as the portfolio and index correlation remain similar. To the extent there is issuer-specific deterioration, we may write-down the securities of that issuer. The remaining 12% of our common stocks were part of a managed equity strategy selected and administered by external investment advisors. If our review of loss position securities indicates there was a fundamental, or market, impairment on these securities that was determined to be other-than-temporary, we would recognize a write-down in accordance with our stated policy.
The following tables show the composition of gross unrealized losses by major security type and by the length of time that individual securities have been in a continuous unrealized loss position:

				Less than 12 Months			12 Months or Greater		
($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
June 30, 2015									
Fixed maturities:									
U.S. government obligations	11	$7.6	$(0.1)	11	$7.6	$(0.1)	0	$0	$0
State and local government obligations	736	1,319.3	(17.1)	720	1,277.5	(16.5)	16	41.8	(0.6)
Corporate debt securities	160	1,693.6	(22.6)	146	1,406.4	(18.5)	14	287.2	(4.1)
Residential mortgage-backed securities	140	1,189.2	(17.6)	87	668.1	(5.9)	53	521.1	(11.7)
Agency residential pass-through obligations	53	104.6	(1.8)	53	104.6	(1.8)	0	0	0
Commercial mortgage-backed securities	155	1,426.9	(14.2)	132	1,205.9	(13.5)	23	221.0	(0.7)
Other asset-backed securities	38	715.3	(0.7)	30	566.2	(0.5)	8	149.1	(0.2)
Redeemable preferred stocks	5	123.7	(9.8)	3	55.6	(3.1)	2	68.1	(6.7)

Total fixed maturities	1,298	6,580.2	(83.9)	1,182	5,291.9	(59.9)	116	1,288.3	(24.0)
Equity securities:									
Nonredeemable preferred stocks	14	345.9	(11.3)	9	163.7	(1.8)	5	182.2	(9.5)
Common equities	73	129.4	(9.6)	72	128.9	(9.5)	1	0.5	(0.1)
Total equity securities	87	475.3	(20.9)	81	292.6	(11.3)	6	182.7	(9.6)
Total portfolio	1,385	$7,055.5	$(104.8)	1,263	$5,584.5	$(71.2)	122	$1,471.0	$(33.6)

($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months No. of Sec.	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater No. of Sec.	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses
June 30, 2014									
Fixed maturities:									
U.S. government obligations	12	$460.0	$(3.1)	1	$14.9	$(0.1)	11	$445.1	$(3.0)
State and local government obligations	55	333.9	(2.6)	22	52.2	(0.1)	33	281.7	(2.5)
Corporate debt securities	15	265.1	(2.8)	6	112.2	(0.5)	9	152.9	(2.3)
Residential mortgage-backed securities	56	684.2	(9.3)	17	263.2	(1.7)	39	421.0	(7.6)
Agency residential pass-through obligations	0	0	0	0	0	0	0	0	0
Commercial mortgage-backed securities	23	256.7	(2.9)	7	37.1	(0.2)	16	219.6	(2.7)
Other asset-backed securities	3	47.4	(0.1)	2	28.3	0	1	19.1	(0.1)
Redeemable preferred stocks	3	93.6	(6.0)	0	0	0	3	93.6	(6.0)
Total fixed maturities	167	2,140.9	(26.8)	55	507.9	(2.6)	112	1,633.0	(24.2)
Equity securities:									
Nonredeemable preferred stocks	4	121.4	(1.4)	1	33.7	(0.2)	3	87.7	(1.2)
Common equities	14	50.4	(2.4)	14	50.4	(2.4)	0	0	0
Total equity securities	18	171.8	(3.8)	15	84.1	(2.6)	3	87.7	(1.2)
Total portfolio	185	$2,312.7	$(30.6)	70	$592.0	$(5.2)	115	$1,720.7	$(25.4)

($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months No. of Sec.	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater No. of Sec.	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses
December 31, 2014									
Fixed maturities:									
U.S. government obligations	11	$428.2	$(1.3)	5	$150.7	$(0.3)	6	$277.5	$(1.0)
State and local government obligations	46	234.2	(1.1)	28	177.9	(0.4)	18	56.3	(0.7)
Corporate debt securities	53	843.2	(10.4)	43	647.5	(6.1)	10	195.7	(4.3)
Residential mortgage-backed securities	70	844.2	(10.8)	33	465.2	(3.1)	37	379.0	(7.7)
Agency residential pass-through obligations	0	0	0	0	0	0	0	0	0
Commercial mortgage-backed securities	63	723.4	(2.6)	54	667.5	(1.4)	9	55.9	(1.2)
Other asset-backed securities	44	741.8	(0.8)	42	715.7	(0.7)	2	26.1	(0.1)
Redeemable preferred stocks	3	103.0	(5.7)	1	33.0	(1.0)	2	70.0	(4.7)
Total fixed maturities	290	3,918.0	(32.7)	206	2,857.5	(13.0)	84	1,060.5	(19.7)
Equity securities:									
Nonredeemable preferred stocks	8	231.4	(6.4)	5	143.2	(3.6)	3	88.2	(2.8)
Common equities	20	68.4	(10.1)	19	61.8	(9.6)	1	6.6	(0.5)
Total equity securities	28	299.8	(16.5)	24	205.0	(13.2)	4	94.8	(3.3)
Total portfolio	318	$4,217.8	$(49.2)	230	$3,062.5	$(26.2)	88	$1,155.3	$(23.0)

Since both June 30, 2014 and December 31, 2014, the number of securities in our fixed-maturity portfolio with unrealized losses increased, reflecting a decline in prices associated with a general increase in interest rates at certain maturities. The unrealized losses at June 30, 2015 included losses on 806 securities added to the portfolio as a result of our acquisition of a controlling interest in ARX during the second quarter, and reflect declines in the prices of these securities since the acquisition date averaging approximately 1.3% of their total cost. We had no material decreases in valuation as a result of credit rating downgrades on our fixed-maturity securities. All of the fixed-maturity securities in an unrealized loss position at June 30, 2015 in the table above are current with respect to required principal and interest payments. Since December 31, 2014, our nonredeemable preferred stocks with unrealized losses increased to 14 securities, averaging approximately 3% of their total cost. We reviewed these securities and concluded that the unrealized losses are market-related adjustments to the values, which we determined not to be other-than-temporary; we expect to recover our initial investments on these securities. The number of issuers with unrealized losses in our common stock portfolio increased during the first six months of 2015, though the total gross unrealized loss for the portfolio decreased during the same period. A review of the securities in a loss position did not uncover fundamental issues with the issuers that would indicate other-than-temporary impairments existed. Additionally, expectations for recovery in the next 12 months would put the fair values at or above our current book values. Lastly, we determined, as of the balance sheet date, that it was not likely these securities would be sold prior to that recovery.

Other-Than-Temporary Impairment (OTTI) The following table shows the total non-credit portion of the OTTI recorded in accumulated other comprehensive income, reflecting the original non-credit loss at the time the credit impairment was determined:

(millions)	June 30, 2015	2014	December 31, 2014
Fixed maturities:			
Residential mortgage-backed securities	$(44.1)	$(44.1)	$(44.1)
Commercial mortgage-backed securities	(0.6)	(0.6)	(0.6)
Total fixed maturities	$(44.7)	$(44.7)	$(44.7)

The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended June 30, 2015 and 2014, for which a portion of the OTTI losses were also recognized in accumulated other comprehensive income at the time the credit impairments were determined and recognized:

	Three Months Ended June 30, 2015		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at March 31, 2015	$12.2	$0.4	$12.6
Change in recoveries of future cash flows expected to be collected[1]	1.8	0	1.8
Balance at June 30, 2015	$14.0	$0.4	$14.4

	Six Months Ended June 30, 2015		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at December 31, 2014	$12.7	$0.4	$13.1
Change in recoveries of future cash flows expected to be collected[1]	1.3	0	1.3
Balance at June 30, 2015	$14.0	$0.4	$14.4

	Three Months Ended June 30, 2014		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at March 31, 2014	$19.1	$0.4	$19.5
Change in recoveries of future cash flows expected to be collected[1]	(6.1)	0	(6.1)
Balance at June 30, 2014	$13.0	$0.4	$13.4

	Six Months Ended June 30, 2014		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at December 31, 2013	$19.2	$0.4	$19.6
Change in recoveries of future cash flows expected to be collected[1]	(6.2)	0	(6.2)
Balance at June 30, 2014	$13.0	$0.4	$13.4

[1]Reflects the current period change in the expected recovery of prior impairments that will be accreted into income over the remaining life of the security.

Although we determined it is more likely than not that we will not be required to sell the securities prior to the recovery of their respective cost bases (which could be maturity), we are required to measure the amount of potential credit losses on the securities that were in an unrealized loss position. In that process, we considered a number of factors and inputs related to the individual securities. The methodology and significant inputs used to measure the amount of credit losses in our portfolio included: current performance indicators on the underlying assets (e.g., delinquency rates, foreclosure rates, and default rates); credit support (via current levels of subordination); historical credit ratings; and updated cash flow expectations based upon these performance indicators. In order to determine the amount of credit loss, if any, the net present value of the cash flows expected (i.e., expected recovery value) was calculated using the current book yield for each security, and was compared to its current amortized value. In the event that the net present value was below the amortized value, a credit loss was deemed to exist, and the security was written down. We did not have any credit impairment write-downs as of June 30, 2015 or 2014.

Realized Gains (Losses) The components of net realized gains (losses) for the three and six months ended June 30, were:

	Three Months		Six Months	
(millions)	2015	2014	2015	2014
Gross realized gains on security sales				
Fixed maturities:				
U.S. government obligations	$9.5	$4.2	$14.4	$10.7
State and local government obligations	0	0	0	4.4
Corporate and other debt securities	6.8	9.8	15.9	32.9
Residential mortgage-backed securities	0.1	1.0	0.2	2.0
Commercial mortgage-backed securities	3.6	3.5	14.4	9.6
Redeemable preferred stocks	0.1	0.4	0.1	0.4
Total fixed maturities	20.1	18.9	45.0	60.0
Equity securities:				
Nonredeemable preferred stocks	34.4	33.2	50.2	59.1
Common equities	12.7	9.4	30.5	92.4
Subtotal gross realized gains on security sales	67.2	61.5	125.7	211.5
Gross realized losses on security sales				
Fixed maturities:				
U.S. government obligations	(0.1)	(0.4)	(0.9)	(5.1)
State and local government obligations	0	(0.1)	0	(0.2)
Corporate and other debt securities	(0.5)	(0.1)	(1.3)	(2.3)
Residential mortgage-backed securities	0	(0.2)	0	(0.2)
Commercial mortgage-backed securities	(0.8)	(4.1)	(1.0)	(6.8)
Redeemable preferred stocks	0	0	0	(3.2)
Total fixed maturities	(1.4)	(4.9)	(3.2)	(17.8)
Equity securities:				
Nonredeemable preferred stocks	(1.4)	0	(1.4)	0
Common equities	(0.1)	0	(0.7)	(3.4)
Subtotal gross realized losses on security sales	(2.9)	(4.9)	(5.3)	(21.2)
Net realized gains (losses) on security sales				
Fixed maturities:				
U.S. government obligations	9.4	3.8	13.5	5.6
State and local government obligations	0	(0.1)	0	4.2
Corporate and other debt securities	6.3	9.7	14.6	30.6
Residential mortgage-backed securities	0.1	0.8	0.2	1.8
Commercial mortgage-backed securities	2.8	(0.6)	13.4	2.8
Redeemable preferred stocks	0.1	0.4	0.1	(2.8)
Total fixed maturities	18.7	14.0	41.8	42.2

Equity securities:				
Nonredeemable preferred stocks	33.0	33.2	48.8	59.1
Common equities	12.6	9.4	29.8	89.0
Subtotal net realized gains (losses) on security sales	64.3	56.6	120.4	190.3
Other-than-temporary impairment losses				
Equity securities:				
Common equities	(1.7)	0	(9.4)	0
Subtotal other-than-temporary impairment losses	(1.7)	0	(9.4)	0
Other gains (losses)				
Hybrid securities	(3.9)	3.7	(0.6)	7.5
Derivative instruments	17.3	(19.9)	(1.5)	(39.2)
Litigation settlements	0	0	0.1	1.2
Subtotal other gains (losses)	13.4	(16.2)	(2.0)	(30.5)
Total net realized gains (losses) on securities	$76.0	$40.4	$109.0	$159.8

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Gross realized gains and losses were predominantly the result of sales transactions in our fixed-income portfolio related to movements in credit spreads and interest rates and sales from our equity portfolios. In addition, gains and losses reflect recoveries from litigation settlements and holding period valuation changes on hybrids and derivatives. Also included are write-downs for securities determined to be other-than-temporarily impaired in our equity portfolio.
Net Investment Income The components of net investment income for the three and six months ended June 30, were:

	Three Months		Six Months	
(millions)	2015	2014	2015	2014
Fixed maturities:				
U.S. government obligations	$7.2	$12.0	$16.3	$25.0
State and local government obligations	16.2	12.6	28.1	25.4
Foreign government obligations	0.1	0.1	0.2	0.2
Corporate debt securities	24.2	18.8	47.1	40.8
Residential mortgage-backed securities	13.2	11.3	26.0	21.2
Agency residential pass-through obligations	0.7	0	0.7	0
Commercial mortgage-backed securities	18.8	16.0	35.7	32.7
Other asset-backed securities	5.5	3.7	10.5	7.9
Redeemable preferred stocks	3.8	3.9	7.6	8.0
Total fixed maturities	89.7	78.4	172.2	161.2
Equity securities:				
Nonredeemable preferred stocks	10.9	9.3	21.4	19.2
Common equities	12.3	11.2	24.0	21.6
Short-term investments	0.4	0.3	0.8	0.5
Investment income	113.3	99.2	218.4	202.5
Investment expenses	(5.7)	(6.0)	(11.0)	(10.1)
Net investment income	$107.6	$93.2	$207.4	$192.4

Trading Securities At June 30, 2015 and 2014, and December 31, 2014, we did not hold any trading securities and did not have any net realized gains (losses) on trading securities for the three and six months ended June 30, 2015 and 2014.

Derivative Instruments For all derivative positions discussed below, realized holding period gains and losses are netted with any upfront cash that may be exchanged under the contract to determine if the net position should be classified either as an asset or liability. To be reported as a net derivative asset and a component of the available-for-sale portfolio, the inception-to-date realized gain on the derivative position at period end would have to exceed any upfront cash received. On the other hand, a net derivative liability would include any inception-to-date realized loss plus the amount of upfront cash received (or netted, if upfront cash was paid) and would be reported as a component of other liabilities. These net derivative assets/liabilities are not separately disclosed on the balance sheet due to their immaterial effect on our financial condition, cash flows, and results of operations.
The following table shows the status of our derivative instruments at June 30, 2015 and 2014, and December 31, 2014, and for the three and six months ended June 30, 2015 and 2014:

(millions)					Balance Sheet[2]				Comprehensive Income Statement			
						Assets (Liabilities) Fair Value			Pretax Net Realized Gains (Losses)			
	Notional Value[1]								Three Months Ended		Six Months Ended	
	June 30,		Dec. 31,			June 30,		Dec. 31,	June 30,		June 30,	
Derivatives designated as:	2015	2014	2014	Purpose	Classification	2015	2014	2014	2015	2014	2015	2014
Hedging instruments												
Closed:												
Ineffective cash flow hedge	$0	$0	$44	Manage interest rate risk	NA	$0	$0	$0	$0	$0	$0	$0
Non-hedging instruments												
Assets:												
Interest rate swaps	750	750	750	Manage portfolio duration	Investments—fixed maturities	18.6	35.1	15.8	15.5	(19.9)	(3.3)	(39.2)
Liabilities:												
U.S. Treasury Note futures	90	0	0	Manage portfolio duration	Other liabilities	(0.3)	0	0	(0.3)	0	(0.3)	0
Closed:												
U.S. Treasury Note futures	326	0	0	Manage portfolio duration	NA	0	0	0	2.1	0	2.1	0
Total	NA	NA	NA			$18.3	$35.1	$15.8	$17.3	$(19.9)	$(1.5)	$(39.2)

[1]The amounts represent the value held at quarter and year end for open positions and the maximum amount held during the period for closed positions.
[2]To the extent we hold both derivative assets and liabilities with the same counterparty that are subject to an enforceable master netting arrangement, we expect that we will report them on a gross basis on our balance sheets, consistent with our historical presentation.
NA= Not Applicable
CASH FLOW HEDGES
In January 2015, upon issuance of $400 million of 3.70% Senior Notes due 2045 (the "3.70% Senior Notes"), we closed a forecasted debt issuance hedge, which was entered into to hedge against a possible rise in interest rates, and

recognized a $12.9 million pretax loss as part of accumulated other comprehensive income (loss); the loss will be recognized as an adjustment to interest expense and amortized over the life of the 3.70% Senior Notes.

Our ineffective cash flow hedge, which is reflected in the table above, resulted from the repurchase of a portion of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 during 2014, and we reclassified the unrealized gain on forecasted transactions to net realized gains on securities. There was no repurchase activity during the first six months of 2015 or 2014.

See Note 4 – Debt for further discussion.

INTEREST RATE SWAPS and U.S. TREASURY FUTURES

We use interest rate swap and treasury futures contracts primarily to manage the fixed-income portfolio duration. At June 30, 2015 and 2014, and December 31, 2014, we held interest rate swap positions for which we are paying a fixed rate and receiving a variable rate, effectively shortening the duration of our fixed-income portfolio. As interest rates rose during the year, our fair value gain increased by $2.8 million on our interest rate swap positions.

During the second quarter 2015, we entered into U.S. treasury futures contracts and recognized a net gain of $1.8 million, including the futures that were closed during the period. Although interest rates rose throughout the quarter, during the period that the contracts were open the interest rates declined resulting in the net gain.

As of June 30, 2015, the balance of the cash collateral that we received from the applicable counterparties on the interest rate swaps and the cash collateral we delivered on the treasury futures was $21.9 million and $1.2 million, respectively. As of June 30, 2014 and December 31, 2014, the balance of the cash collateral that we had received from the applicable counterparties on the interest rate swap positions was $34.1 million and $16.1 million, respectively. We held no treasury futures during 2014.

Note 3 Fair Value — We have categorized our financial instruments, based on the degree of subjectivity inherent in the method by which they are valued, into a fair value hierarchy of three levels, as follows:

- Level 1: Inputs are unadjusted quoted prices in active markets for identical instruments at the measurement date (e.g., U.S. government obligations, active exchange-traded equity securities, and certain short-term securities).

- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the instrument either directly or indirectly (e.g., certain corporate and municipal bonds and certain preferred stocks). This includes: (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3: Inputs that are unobservable. Unobservable inputs reflect our subjective evaluation about the assumptions market participants would use in pricing the financial instrument (e.g., certain structured securities and privately held investments).

Determining the fair value of the investment portfolio is the responsibility of management. As part of the responsibility, we evaluate whether a market is distressed or inactive in determining the fair value for our portfolio. We review certain market level inputs to evaluate whether sufficient activity, volume, and new issuances exist to create an active market. Based on this evaluation, we concluded that there was sufficient activity related to the sectors and securities for which we obtained valuations.

The composition of the investment portfolio by major security type and our outstanding debt was:

	Fair Value				
(millions)	Level 1	Level 2	Level 3	Total	Cost
June 30, 2015					
Fixed maturities:					
U.S. government obligations	$2,063.2	$0	$0	$2,063.2	$2,049.3
State and local government obligations	0	3,192.3	0	3,192.3	3,177.2
Foreign government obligations	18.6	0	0	18.6	18.6
Corporate debt securities	0	3,433.8	1.0	3,434.8	3,433.9
Subtotal	2,081.8	6,626.1	1.0	8,708.9	8,679.0
Asset-backed securities:					
Residential mortgage-backed	0	1,892.5	0	1,892.5	1,879.5
Agency residential pass-through obligations	0	114.3	0	114.3	116.0
Commercial mortgage-backed	0	2,549.2	10.9	2,560.1	2,548.4
Other asset-backed	0	2,041.5	0	2,041.5	2,037.9
Subtotal asset-backed securities	0	6,597.5	10.9	6,608.4	6,581.8
Redeemable preferred stocks:					
Financials	0	97.5	0	97.5	76.8
Utilities	0	61.2	0	61.2	65.0
Industrials	0	113.0	0	113.0	118.0
Subtotal redeemable preferred stocks	0	271.7	0	271.7	259.8
Total fixed maturities	2,081.8	13,495.3	11.9	15,589.0	15,520.6
Equity securities:					
Nonredeemable preferred stocks:					
Financials	167.7	604.6	0	772.3	632.4
Subtotal nonredeemable preferred stocks	167.7	604.6	0	772.3	632.4
Common equities:					
Common stocks	2,546.5	0	0	2,546.5	1,351.4
Other risk investments	0	0	0.3	0.3	0.3
Subtotal common equities	2,546.5	0	0.3	2,546.8	1,351.7
Total fixed maturities and equity securities	4,796.0	14,099.9	12.2	18,908.1	17,504.7
Short-term investments	1,434.2	235.1	0	1,669.3	1,669.3
Total portfolio	$6,230.2	$14,335.0	$12.2	$20,577.4	$19,174.0
Debt	$0	$2,763.9	$178.5	$2,942.4	$2,739.0

	Fair Value				
(millions)	Level 1	Level 2	Level 3	Total	Cost
June 30, 2014					
Fixed maturities:					
U.S. government obligations	$3,289.4	$0	$0	$3,289.4	$3,249.0
State and local government obligations	0	2,331.2	0	2,331.2	2,287.2
Foreign government obligations	0	0	0	0	0
Corporate debt securities	0	2,262.8	0	2,262.8	2,215.4
Subtotal	3,289.4	4,594.0	0	7,883.4	7,751.6
Asset-backed securities:					
Residential mortgage-backed	0	1,335.4	0	1,335.4	1,312.0
Agency residential pass-through obligations	0	0	0	0	0
Commercial mortgage-backed	0	1,991.7	27.6	2,019.3	1,974.4
Other asset-backed	0	973.0	0	973.0	965.4
Subtotal asset-backed securities	0	4,300.1	27.6	4,327.7	4,251.8
Redeemable preferred stocks:					
Financials	0	103.4	0	103.4	79.2
Utilities	0	65.3	0	65.3	65.0
Industrials	0	118.8	0	118.8	117.8
Subtotal redeemable preferred stocks	0	287.5	0	287.5	262.0
Total fixed maturities	3,289.4	9,181.6	27.6	12,498.6	12,265.4
Equity securities:					
Nonredeemable preferred stocks:					
Financials	238.7	477.7	43.8	760.2	497.1
Subtotal nonredeemable preferred stocks	238.7	477.7	43.8	760.2	497.1
Common equities:					
Common stocks	2,381.2	0	0	2,381.2	1,264.7
Other risk investments	0	0	0.5	0.5	0.5
Subtotal common equities	2,381.2	0	0.5	2,381.7	1,265.2
Total fixed maturities and equity securities	5,909.3	9,659.3	71.9	15,640.5	14,027.7
Short-term investments	2,843.3	275.4	0	3,118.7	3,118.7
Total portfolio	$8,752.6	$9,934.7	$71.9	$18,759.2	$17,146.4
Debt	$0	$2,551.6	$0	$2,551.6	$2,208.0

(millions)	Fair Value Level 1	Level 2	Level 3	Total	Cost
December 31, 2014					
Fixed maturities:					
U.S. government obligations	$2,667.1	$0	$0	$2,667.1	$2,641.1
State and local government obligations	0	2,139.2	0	2,139.2	2,095.7
Foreign government obligations	14.2	0	0	14.2	14.2
Corporate debt securities	0	2,836.7	0	2,836.7	2,813.9
Subtotal	2,681.3	4,975.9	0	7,657.2	7,564.9
Asset-backed securities:					
Residential mortgage-backed	0	1,658.5	0	1,658.5	1,635.5
Agency residential pass-through obligations	0	0	0	0	0
Commercial mortgage-backed	0	2,304.0	11.6	2,315.6	2,278.7
Other asset-backed	0	1,638.7	0	1,638.7	1,634.9
Subtotal asset-backed securities	0	5,601.2	11.6	5,612.8	5,549.1
Redeemable preferred stocks:					
Financials	0	97.9	0	97.9	77.3
Utilities	0	65.3	0	65.3	65.0
Industrials	0	116.0	0	116.0	117.9
Subtotal redeemable preferred stocks	0	279.2	0	279.2	260.2
Total fixed maturities	2,681.3	10,856.3	11.6	13,549.2	13,374.2
Equity securities:					
Nonredeemable preferred stocks:					
Financials	204.1	554.1	69.3	827.5	590.4
Subtotal nonredeemable preferred stocks	204.1	554.1	69.3	827.5	590.4
Common equities:					
Common stocks	2,491.9	0	0	2,491.9	1,288.8
Other risk investments	0	0	0.4	0.4	0.4
Subtotal common equities	2,491.9	0	0.4	2,492.3	1,289.2
Total fixed maturities and equity securities	5,377.3	11,410.4	81.3	16,869.0	15,253.8
Short-term investments	1,937.0	212.0	0	2,149.0	2,149.0
Total portfolio	$7,314.3	$11,622.4	$81.3	$19,018.0	$17,402.8
Debt	$0	$2,527.5	$0	$2,527.5	$2,164.7

Our portfolio valuations, excluding the other short-term investments, classified as either Level 1 or Level 2 in the above tables are priced exclusively by external sources, including: pricing vendors, dealers/market makers, and exchange-quoted prices. We did not have any transfers between Level 1 and Level 2 during the first six months of 2015. During the first quarter of 2014, we had two nonredeemable preferred stocks with a value of $41.7 million that were transferred from Level 2 to Level 1 due to the availability of a consistent exchange price; this was the only transfer during 2014. We recognize transfers between levels at the end of the reporting period.

Our short-term security holdings classified as Level 1 are highly liquid, actively marketed, and have a very short duration, primarily 30 days or less to redemption. These securities are held at their original cost, adjusted for any accretion of discount, since that value very closely approximates what an active market participant would be willing to pay for such securities. The remainder of our short-term securities are classified as Level 2 and are not priced externally since these securities continually trade at par value. These securities are classified as Level 2 since they are primarily longer-dated auction securities issued by municipalities that contain a redemption put feature back to the auction pool with a redemption period typically less than seven days. The auction pool is created by a liquidity provider and if the auction is not available at the end of the seven days, we have the right to put the security back to the issuer at par.

At June 30, 2015, vendor-quoted prices represented 43% of our Level 1 classifications (excluding short-term investments), compared to 55% and 50% at June 30, 2014 and December 31, 2014, respectively. The securities quoted by vendors in Level 1 primarily represent our holdings in U.S. Treasury Notes, which are frequently traded and the quotes are considered similar to exchange-traded quotes. The balance of our Level 1 pricing comes from quotes obtained directly from trades made on active exchanges. The decline in vendor-quoted Level 1 prices since June 30, 2014 was due to a reduction of U.S. Treasury Notes.

At June 30, 2015 and 2014, and December 31, 2014, vendor-quoted prices comprised 97% of our Level 2 classifications (excluding short-term investments), while dealer-quoted prices represented 3%. In our process for selecting a source (e.g., dealer, pricing service) to provide pricing for securities in our portfolio, we reviewed documentation from the sources that detailed the pricing techniques and methodologies used by these sources and determined if their policies adequately considered market activity, either based on specific transactions for the particular security type or based on modeling of securities with similar credit quality, duration, yield, and structure that were recently transacted. Once a source is chosen, we continue to monitor any changes or modifications to their processes by reviewing their documentation on internal controls for pricing and market reviews. We review quality control measures of our sources as they become available to determine if any significant changes have occurred from period to period that might indicate issues or concerns regarding their evaluation or market coverage.

As part of our pricing procedures, we obtain quotes from more than one source to help us fully evaluate the market price of securities. However, our internal pricing policy is to use a consistent source for individual securities in order to maintain the integrity of our valuation process. Quotes obtained from the sources are not considered binding offers to transact. Under our policy, when a review of the valuation received from our selected source appears to be outside of what is considered market level activity (which is defined as trading at spreads or yields significantly different than those of comparable securities or outside the general sector level movement without a reasonable explanation), we may use an alternate source’s price. To the extent we determine that it may be prudent to substitute one source’s price for another, we will contact the initial source to obtain an understanding of the factors that may be contributing to the significant price variance, which often leads the source to adjust their pricing input data for future pricing.

To allow us to determine if our initial source is providing a price that is outside of a reasonable range, we review our portfolio pricing on a weekly basis. We frequently challenge prices from our sources when a price provided does not match our expectations based on our evaluation of market trends and activity. Initially, we perform a review of our portfolio by sector to identify securities whose prices appear outside of a reasonable range. We then perform a more detailed review of fair values for securities disclosed as Level 2. We review dealer bids and quotes for these and/or similar securities to determine the market level context for our valuations. We then evaluate inputs relevant for each class of securities disclosed in the preceding hierarchy tables.

For our structured debt securities, including commercial, residential, and asset-backed securities, we evaluate available market-related data for these and similar securities related to collateral, delinquencies, and defaults for historical trends and reasonably estimable projections, as well as historical prepayment rates and current prepayment assumptions and cash flow estimates. We further stratify each class of our structured debt securities into more finite sectors (e.g., planned amortization class, first pay, second pay, senior, subordinated, etc.) and use duration, credit quality, and coupon to determine if the fair value is appropriate.

For our corporate debt and preferred stock (redeemable and nonredeemable) portfolios, we review securities by duration, coupon, and credit quality, as well as changes in interest rate and credit spread movements within that stratification. The review also includes recent trades, including: volume traded at various levels that establish a market, issuer specific fundamentals, and industry specific economic news as it comes to light.

For our municipal securities (e.g., general obligations, revenue, and housing), we stratify the portfolio to evaluate securities by type, coupon, credit quality, and duration to review price changes relative to credit spread and interest rate changes. Additionally, we look to economic data as it relates to geographic location as an indication of price-to-call or maturity predictors. For municipal housing securities, we look to changes in cash flow projections, both historical and reasonably estimable projections, to understand yield changes and their effect on valuation.

Lastly, for our short-term securities, we look at acquisition price relative to the coupon or yield. Since our short-term securities are typically 90 days or less to maturity, with the majority listed in Level 2 being seven days or less to redemption, we believe that acquisition price is the best estimate of fair value.

We also review data assumptions as supplied by our sources to determine if that data is relevant to current market conditions. In addition, we independently review each sector for transaction volumes, new issuances, and changes in spreads, as well as the overall movement of interest rates along the yield curve to determine if sufficient activity and liquidity exists to provide a credible source for our market valuations.

During each valuation period, we create internal estimations of portfolio valuation (performance returns), based on current market-related activity (i.e., interest rate and credit spread movements and other credit-related factors) within each major sector of our portfolio. We compare our internally generated portfolio results with those generated based on quotes we received externally and research material valuation differences. We compare our results to index returns for each major sector adjusting for duration and credit quality differences to better understand our portfolio's results. Additionally, we review on a monthly basis our external sales transactions and compare the actual final market sales price to a previous market valuation price. This review provides us further validation that our pricing sources are providing market level prices, since we are able to explain significant price changes (i.e., greater than 2%) as known events occur in the marketplace and affect a particular security's price at sale.

This analysis provides us with additional comfort regarding the source's process, the quality of its review, and its willingness to improve its analysis based on feedback from clients. We believe this effort helps ensure that we are reporting the most representative fair values for our securities.

Except as described below, our Level 3 securities are also priced externally; however, due to several factors (e.g., nature of the securities, level of activity, and lack of similar securities trading to obtain observable market level inputs), these valuations are more subjective in nature. Certain private equity investments and fixed-income investments included in the Level 3 category are valued using external pricing supplemented by internal review and analysis.

After all the valuations are received and our review is complete, if the inputs used by vendors are determined to not contain sufficient observable market information, we will reclassify the affected security valuations to Level 3. At June 30, 2015 and 2014, and December 31, 2014, securities in our fixed-maturity portfolio listed as Level 3 were comprised substantially of securities that were either: (i) private placements, (ii) thinly held and/or traded securities, or (iii) non-investment-grade or non-rated securities with little liquidity. Based on these factors, it was difficult to independently verify observable market inputs that were used to generate the external valuations we received. Despite the lack of sufficient observable market information for our Level 3 securities, we believe the valuations received in conjunction with our procedures for evaluating third-party prices support the fair values reported in the financial statements.

We held two internally priced securities at June 30, 2015 in our corporate portfolio that we priced at cost since we expect them to be fully redeemed by the end of 2015; therefore, any difference between cost and fair value is immaterial. At June 30, 2014, we held one private preferred equity security (our 5% equity interest in ARX Holding Corp.) with a value of $43.8 million that was priced internally. The same security had a value of $69.3 million at December 31, 2014. The increase in value was due primarily to a higher price to book ratio multiple included in the terms of the stock purchase agreement we entered into during December 2014 to purchase a majority interest in ARX Holding Corp. This was the only internally-priced security in the portfolio at both June 30, 2014 and December 31, 2014.

We review the prices from our external sources for reasonableness using internally developed assumptions to derive prices for the securities, which are then compared to the prices we received. During 2015 or 2014, there were no material assets or liabilities measured at fair value on a nonrecurring basis. Based on our review, all prices received from external sources remained unadjusted.

The following tables provide a summary of changes in fair value associated with Level 3 assets for the three and six months ended June 30, 2015 and 2014:

(millions)	Level 3 Fair Value Three Months Ended June 30, 2015 Fair Value at March 31, 2015	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at June 30, 2015
Fixed maturities:								
Corporate debt securities	$0	$0	$1.0	$0	$0	$0	$0	$1.0
Asset-backed securities:								
Residential mortgage-backed	0	0	0	0	0	0	0	0
Commercial mortgage-backed	11.4	(0.4)	0	0	0	(0.1)	0	10.9
Total fixed maturities	11.4	(0.4)	1.0	0	0	(0.1)	0	11.9
Equity securities:								
Nonredeemable preferred stocks:								
Financials[1]	69.9	0	0	0	(39.4)	(2.0)	(28.5)	0
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$81.6	$(0.4)	$1.0	$0	$(39.4)	$(2.1)	$(28.5)	$12.2

[1]The $69.9 million decrease during the quarter reflects the reclassification of our 5% interest in ARX Holding Corp. upon acquisition of a controlling interest in ARX. The $39.4 million reflects our inception-to-date gain recognized, including the $2.0 million reduction in valuation that occurred during the second quarter 2015.

(millions)	Level 3 Fair Value Six Months Ended June 30, 2015 Fair Value at Dec. 31, 2014	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at June 30, 2015
Fixed maturities:								
Corporate debt securities	$0	$0	$1.0	$0	$0	$0	$0	$1.0
Asset-backed securities:								
Residential mortgage-backed	0	0	0	0	0	0	0	0
Commercial mortgage-backed	11.6	(0.6)	0	0	0	(0.1)	0	10.9
Total fixed maturities	11.6	(0.6)	1.0	0	0	(0.1)	0	11.9
Equity securities:								
Nonredeemable preferred stocks:								
Financials[1]	69.3	0	0	0.0	(39.4)	(1.4)	(28.5)	0
Common equities:								

Other risk investments	0.4	0	0	0	0	(0.1)	0	0.3
Total Level 3 securities	$81.3	$(0.6)	$1.0	$0	$(39.4)	$(1.6)	$(28.5)	$12.2

[1]The $69.3 million decrease during the year reflects the reclassification of our 5% interest in ARX Holding Corp. upon acquisition of a controlling interest in ARX. The $39.4 million reflects our inception-to-date gain recognized, including the $1.4 million reduction in valuation that occurred during the first six months of 2015.

	Level 3 Fair Value Three Months Ended June 30, 2014							
(millions)	Fair Value at March 31, 2014	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at June 30, 2014
Fixed maturities:								
Corporate debt securities	$0	$0	$0	$0	$0	$0	$0	$0
Asset-backed securities:								
Residential mortgage-backed	0	0	0	(0.1)	0.1	0	0	0
Commercial mortgage-backed	28.6	(1.3)	0	0	0	0.3	0	27.6
Total fixed maturities	28.6	(1.3)	0	(0.1)	0.1	0.3	0	27.6
Equity securities:								
Nonredeemable preferred stocks:								
Financials[1]	42.1	0	0	0	0	1.7	0	43.8
Common equities:								
Other risk investments	0.4	0.1	0	0	0	0	0	0.5
Total Level 3 securities	$71.1	$(1.2)	$0	$(0.1)	$0.1	$2.0	$0	$71.9

[1]The $1.7 million represents net holding period gains on a hybrid security, which is reflected in net realized gains (losses) on securities in the comprehensive income statement.

	Level 3 Fair Value Six Months Ended June 30, 2014							
(millions)	Fair Value at Dec. 31, 2013	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at June 30, 2014
Fixed maturities:								
Corporate debt securities	$0	$0	$0	$0	$0	$0	$0	$0
Asset-backed securities:								
Residential mortgage-backed	0.2	0	0	(0.1)	0.1	(0.2)	0	0
Commercial mortgage-backed	29.0	(1.8)	0	0	0	0.4	0	27.6
Total fixed maturities	29.2	(1.8)	0	(0.1)	0.1	0.2	0	27.6
Equity securities:								
Nonredeemable preferred stocks:								
Financials[1]	39.0	0	0	0	0	4.8	0	43.8
Common equities:								
Other risk investments	0.5	0	0	0	0	0	0	0.5
Total Level 3 securities	$68.7	$(1.8)	$0	$(0.1)	$0.1	$5.0	$0	$71.9

[1]The $4.8 million represents net holding period gains on a hybrid security, which is reflected in net realized gains (losses) on securities in the comprehensive income statement.

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The following tables provide a summary of the quantitative information about Level 3 fair value measurements for our applicable securities at June 30, 2015 and 2014, and December 31, 2014:

	Quantitative Information about Level 3 Fair Value Measurements			
($ in millions)	Fair Value at June 30, 2015	Valuation Technique	Unobservable Input	Unobservable Input Assumption
Fixed maturities:				
Asset-backed securities:				
Commercial mortgage-backed	$10.9	External vendor	Prepayment rate[1]	0
Total fixed maturities	10.9			
Equity securities:				
Nonredeemable preferred stocks:				
Financials	0	NA	NA	NA
Subtotal Level 3 securities	10.9			
Pricing exemption securities[2]	1.3			
Total Level 3 securities	$12.2			

NA = Not Applicable. We did not hold any nonredeemable preferred stock Level 3 securities at June 30, 2015.

[1]Assumes that one security has 0% of the principal amount of the underlying loans that will be paid off prematurely in each year.
[2]The fair values for these securities were determined with unobservable inputs not reasonably available to us.

	Quantitative Information about Level 3 Fair Value Measurements			
($ in millions)	Fair Value at June 30, 2014	Valuation Technique	Unobservable Input	Unobservable Input Assumption
Fixed maturities:				
Asset-backed securities:				
Commercial mortgage-backed	$27.6	External vendor	Prepayment rate[1]	0
Total fixed maturities	27.6			
Equity securities:				
Nonredeemable preferred stocks:				
Financials	43.8	Multiple of tangible net book value	Price to book ratio multiple	1.9
Subtotal Level 3 securities	71.4			
Pricing exemption securities[2]	0.5			
Total Level 3 securities	$71.9			

[1]Assumes that two securities have 0% of the principal amount of the underlying loans that will be paid off prematurely in each year.
[2] The fair values for these securities were determined with unobservable inputs not reasonably available to us.

($ in millions)	Quantitative Information about Level 3 Fair Value Measurements Fair Value at Dec. 31, 2014	Valuation Technique	Unobservable Input	Unobservable Input Assumption
Fixed maturities:				
Asset-backed securities:				
Commercial mortgage-backed	$11.6	External vendor	Prepayment rate[1]	0
Total fixed maturities	11.6			
Equity securities:				
Nonredeemable preferred stocks:				
Financials	69.3	Multiple of tangible net book value	Price to book ratio multiple	2.6
Subtotal Level 3 securities	80.9			
Pricing exemption securities[2]	0.4			
Total Level 3 securities	$81.3			

[1]Assumes that one security has 0% of the principal amount of the underlying loans that will be paid off prematurely in each year.
[2] The fair values for these securities were determined with unobservable inputs not reasonably available to us.
Due to the relative size of the Level 3 securities' fair values compared to the total portfolio's fair value, any changes in pricing methodology would not have a significant change in valuation that would materially impact net or comprehensive income.
Note 4 Debt — Debt consisted of:

(millions)	June 30, 2015		June 30, 2014		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
3.75% Senior Notes due 2021	$498.0	$533.0	$497.7	$532.8	$497.8	$535.6
6 5/8% Senior Notes due 2029	295.6	380.9	295.4	395.9	295.5	400.6
6.25% Senior Notes due 2032	394.9	492.1	394.7	514.7	394.8	527.9
4.35% Senior Notes due 2044	346.3	346.5	346.3	355.0	346.3	378.9
3.70% Senior Notes due 2045	395.0	351.7	0	0	0	0
6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067	630.7	659.7	673.9	753.2	630.3	684.5
Other debt instruments	178.5	178.5	0	0	0	0
Total	$2,739.0	$2,942.4	$2,208.0	$2,551.6	$2,164.7	$2,527.5

The other debt instruments consist of ARX debt acquired during the second quarter 2015 through Progressive's acquisition of a controlling interest in ARX. In estimating the fair value of the other debt instruments, it was determined that the fair value of these notes is equal to the carrying value, based on the current rates offered for debt of similar maturities and interest rates. At June 30, 2015, the other debt instruments consist of:

Type of debt instrument	Number of Instruments	Carrying Value	Stated Maturity Date(s)
Term loans	2	$99.5	December 2018 and 2019
Junior subordinated notes[1]	2	41.3	June 2036 and 2037

Senior notes	4	24.0	Various[2]
Surplus note	1	13.7	November 2021
Total		$178.5	

[1] ARX issued junior subordinated floating rate notes to trusts established by ARX in connection with issuances of trust preferred securities
by the trusts (discussed below).
[2] The senior notes mature in May 2033, April 2034, December 2034, and June 2035.

The junior subordinated notes and senior notes have no restrictive financial covenants. The term loans require ARX and its subsidiaries to maintain specified debt leverage and fixed charge coverage ratios, as well as maintain a minimum risk-based capital ratio and minimum financial strength and credit ratings, as provided by A.M. Best Company, Inc. As of June 30, 2015, ARX was in compliance with these covenants. The only restriction on the surplus note is for ARX to maintain at least $50 million of surplus, which it met at June 30, 2015.

Monthly interest and principal payments are made on the term loans, with interest calculated based on the 30-day London Interbank Offered Rate (LIBOR) plus 2.25%. We expect to pay principal of $25.0 million during the next twelve months on these term loans. The term loans are secured with 100% of the outstanding common stock of four subsidiaries of ARX.

Interest on the junior subordinated notes and the senior notes is paid quarterly at a floating rate tied to the three-month LIBOR rate. Principal and interest on the surplus note is payable pursuant to a schedule permitted by the Florida Office of Insurance Regulation, and interest is set quarterly based upon the 10-year U.S. treasury bond rate. We expect to pay principal of $2.2 million during the next twelve months on the surplus note.

The junior subordinated notes and senior notes can be redeemed, in whole or in part, at the option of ARX at par, plus accrued and unpaid interest, on any interest payment date.

Pursuant to agreements entered into by ARX relating to the trust preferred securities transactions, ARX established trusts which are 100% owned by ARX. The trusts, which are the holders of the junior subordinated notes, issued trust preferred securities to third parties. The shares in the trusts are not transferable. The trusts are considered special purpose variable interest entities for which ARX is not the primary beneficiary and, therefore, they are accounted for under the equity method of accounting and not consolidated with ARX. Our ownership interest of $1.3 million in the variable interest entities is reported as a component of "other assets" on our consolidated balance sheets.
We did not repurchase any debt securities during the first six months of 2015 or 2014. During the third quarter of 2014, we repurchased, in the open market, $44.3 million in aggregate principal amount of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (the "6.70% Debentures"). Since the amount paid exceeded the carrying value of the debt we repurchased, we recognized losses on these extinguishments of $4.8 million. In addition, for the portion of the 6.70% Debentures we repurchased, we reclassified $0.5 million on a pretax basis, of the unrealized gain on forecasted transactions from accumulated other comprehensive income on the balance sheet to net realized gains on securities on the comprehensive income statement.

In January 2015, we issued $400 million of our 3.70% Senior Notes due 2045 (the “3.70% Senior Notes”) and, in April 2014, we issued $350 million of our 4.35% Senior Notes due 2044 (the “4.35% Senior Notes”) in underwritten public offerings. We
received proceeds, after deducting underwriter's discounts and commissions, of approximately $394.9 million and $346.3 million, respectively. In addition, we incurred expenses of approximately $0.8 million and $0.7 million, respectively, related to the issuances. Upon issuance of the 3.70% Senior Notes and 4.35% Senior Notes, we also closed forecasted debt issuance hedges, which were entered into to hedge against a possible rise in interest rates, and recognized a $12.9 million and a $1.6 million pretax loss, respectively, as part of accumulated other comprehensive income (loss); the losses will be recognized as an
adjustment to interest expense and amortized over the applicable life of the 3.70% and 4.35% Senior Notes.
During the first quarter 2015, we renewed the unsecured, discretionary line of credit (the "Line of Credit") with PNC Bank, National Association (PNC) in the maximum principal amount of $100 million. The prior line of credit, entered into in the first quarter 2014, has expired. The Line of Credit is on substantially the same terms and conditions as the prior line of credit. Subject to the terms and conditions of the Line of Credit documents, advances under the Line of Credit (if any) will bear interest at a variable rate equal to the higher of PNC's Prime Rate or the sum of the Federal Funds Open Rate plus 50 basis points. Each advance would need to be repaid on the 30th day after the advance or, if

earlier, on April 30, 2016, the expiration date of the Line of Credit. Prepayments are permitted without penalty. All advances under the Line of Credit are subject to PNC's discretion. We had no borrowings under the Line of Credit or the prior line of credit during the first six months of 2015 or throughout 2014.

Note 5 Income Taxes — At June 30, 2015 and 2014, and December 31, 2014, we determined that we did not need a valuation allowance on our gross deferred tax assets. Although realization of the deferred tax assets is not assured, management believes that it is more likely than not that the deferred tax assets will be realized based on our expectation that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes.

For the three and six months ended June 30, 2015, the effective tax rate was 29.9% and 31.4%, respectively, compared to 32.9% and33.1% for the same periods last year. The year-over-year decrease in the effective rate for both the three and six month periods is primarily due to the reversal of approximately $14 million of deferred taxes associated with the appreciation of our previous 5% investment in ARX Holding Corp. as a result of our acquisition of a controlling interest in ARX.

For the six months ended June 30, 2015, there have been no material changes in our uncertain tax positions.

Note 6 Supplemental Cash Flow Information — Cash includes only bank demand deposits. We paid the following in the respective periods:

	Six Months Ended June 30,	
(millions)	2015	2014
Income taxes	$372.1	$240.0
Interest	62.0	54.5

Note 7 Segment Information — Our Personal Lines segment writes insurance for personal autos and recreational vehicles. Our Commercial Lines segment writes primary liability and physical damage insurance for automobiles and trucks owned and/or operated predominantly by small businesses in the business auto, for-hire transportation, contractor, for-hire specialty, tow, and for-hire livery markets. Our Property business writes personal and commercial property insurance for homeowners, renters, and other property owners. Progressive acquired a controlling interest in ARX Holding Corp., parent company of American Strategic Insurance (ASI) and other subsidiaries on April 1, 2015. Periods prior to April 1, 2015, do not include any of the results of ARX or its subsidiaries. Our other indemnity businesses manage our run-off businesses, including the run-off of our professional liability insurance for community banks. Our service businesses provide insurance-related services, including processing Commercial Auto Insurance Procedures/Plans (CAIP) business and serving as an agent for homeowners, general liability, and workers' compensation insurance through our programs with ASI and unaffiliated insurance companies.

All segment revenues are generated from external customers. We evaluate the profitability of our Property segment based on pretax underwriting profit (loss), which is consistent with our other operating segments. At June 30, 2015, $2.3 billion of assets, including intangible assets, were allocated to the Property segment. We are still in the process of determining the allocation of goodwill to our operating segments. We do not allocate our other assets to operating segments.

Following are the operating results for the respective periods:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
(millions)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)
Personal Lines								
Agency	$2,276.4	$171.9	$2,242.3	$142.9	$4,520.9	$366.4	$4,445.5	$321.5
Direct	2,031.8	118.1	1,824.0	115.7	3,987.2	186.3	3,586.2	186.7
Total Personal Lines[1]	4,308.2	290.0	4,066.3	258.6	8,508.1	552.7	8,031.7	508.2
Commercial Lines	489.3	83.2	447.2	78.4	955.7	161.7	884.1	119.3
Property[2]	198.7	1.0	0	0	198.7	1.0	0	0
Other indemnity	(0.4)	(0.4)	0	(4.7)	(0.4)	0	0	(5.4)
Total underwriting operations	4,995.8	373.8	4,513.5	332.3	9,662.1	715.4	8,915.8	622.1
Fees and other revenues[3]	74.9	NA	74.4	NA	148.6	NA	147.2	NA
Service businesses	23.3	2.8	14.0	1.1	40.5	4.1	23.8	1.2
Investments[4]	189.3	183.6	139.6	133.6	327.4	316.4	362.3	352.2
Interest expense	NA	(34.9)	NA	(29.6)	NA	(67.4)	NA	(56.3)
Consolidated total	$5,283.3	$525.3	$4,741.5	$437.4	$10,178.6	$968.5	$9,449.1	$919.2

NA = Not Applicable

[1]Personal auto insurance accounted for 92% of the total Personal Lines segment net premiums earned in both the second quarters and first six months of 2015 and 2014; insurance for our special lines products (e.g., motorcycles, ATVs, RVs, mobile homes, watercraft, and snowmobiles) accounted for the balance of the Personal Lines net premiums earned.

[2]Includes $15.0 million of amortization/depreciation expense associated with the acquisition of a controlling interest in ARX Holding Corp., which is not attributable to the noncontrolling interest in ARX.

[3]Pretax profit (loss) for fees and other revenues is allocated to operating segments.

[4]Revenues represent recurring investment income and total net realized gains (losses) on securities; pretax profit is net of investment expenses.

Our management uses underwriting margin and combined ratio as primary measures of underwriting profitability. Underwriting profitability is calculated by subtracting losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses from the total of net premiums earned and fees and other revenues. The underwriting margin is the pretax underwriting profit (loss) expressed as a percentage of net premiums earned (i.e., revenues from underwriting operations). Combined ratio is the complement of the underwriting margin. Following are the underwriting margins/combined ratios for our underwriting operations for the respective periods:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	Under-writing Margin	Combined Ratio	Under-writing Margin	Combined Ratio	Under-writing Margin	Combined Ratio	Under-writing Margin	Combined Ratio
Personal Lines								
Agency	7.6 %	92.4	6.4 %	93.6	8.1 %	91.9	7.2 %	92.8
Direct	5.8	94.2	6.3	93.7	4.7	95.3	5.2	94.8
Total Personal Lines	6.7	93.3	6.4	93.6	6.5	93.5	6.3	93.7
Commercial Lines	17.0	83.0	17.5	82.5	16.9	83.1	13.5	86.5
Property[1]	0.5	99.5	0	0	0.5	99.5	0	0
Other indemnity[2]	NM	NM	NM	NM	NM	NM	NM	NM

Total underwriting operations	7.5	%	92.5	7.4	%	92.6	7.4	%	92.6	7.0	%	93.0

[1]Includes 7.5 points of amortization/depreciation expense associated with the acquisition of a controlling interest in ARX Holding Corp.
[2]Underwriting margins and combined ratios are not meaningful (NM) for our other indemnity businesses due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

Note 8 Dividends — We maintain a policy of paying an annual variable dividend that, if declared, would be payable shortly after the close of the year. This annual variable dividend is based on a target percentage of after-tax underwriting income multiplied by a companywide performance factor (Gainshare factor), subject to the limitations discussed below. The target percentage is determined by our Board of Directors on an annual basis and announced to shareholders and the public. In December 2014, the Board determined the target percentage for 2015 to be 33-1/3% of annual after-tax underwriting income, which is unchanged from the 2014 target percentage. Underwriting income will include the results of ARX and its subsidiaries subsequent to April 1, 2015, the date of acquisition.

The Gainshare factor can range from zero to two and is determined by comparing our operating performance for the year to certain predetermined profitability and growth objectives approved by the Compensation Committee of the Board. This Gainshare factor is also used in the annual cash bonus program currently in place for our employees (our “Gainsharing program”). Although recalibrated every year, the structure of the Gainsharing program generally remains the same. On a year-to-date basis, as of June 30, 2015, the Gainshare factor was 1.33. Since the final factor will be determined based on our results for the full year, the final factor may vary from the current factor. The Gainshare factor excludes the results of our Property business.

Our annual dividend program will result in a variable payment to shareholders each year, subject to certain limitations. If the Gainshare factor is zero or if our comprehensive income is less than after-tax underwriting income, no dividend would be payable under our annual variable dividend policy. In addition, the ultimate decision on whether or not a dividend will be paid is in the discretion of the Board of Directors. If a dividend for 2015 were to be paid, the Board would likely declare the 2015 annual dividend in December 2015, with a record date in early 2016 and payment shortly thereafter. For the six months ended June 30, 2015, our comprehensive income was $537.8 million, which is higher than the $465.0 million of after-tax underwriting income for the same period.

Following is a summary of our shareholder dividends, both variable and special, that were paid in the last two years:

(millions, except per share amounts)			Amount	
Dividend Type	Declared	Paid	Per Share	Total
Annual – Variable	December 2014	February 2015	$0.6862	$404.1
Annual – Variable	December 2013	February 2014	0.4929	293.9
Special	December 2013	February 2014	1.0000	596.3

Note 9 Other Comprehensive Income (Loss) — The components of other comprehensive income (loss), including reclassification adjustments by income statement line item, were as follows:

				Components of Changes in Accumulated Other Comprehensive Income (after tax)			
(millions)	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	Loss attributable to NCI
Balance at March 31, 2015	$ 1,614.2	$ (564.9)	$ 1,049.3	$ 1,057.3	$ (7.2)	$ (0.8)	$ 0
Other comprehensive income (loss) before reclassifications:							
Investment securities	(161.5)	52.8	(108.7)	(108.7)	0	0	0
Forecasted transactions	0	0	0	0	0	0	0
Foreign currency translation adjustment	0	0	0	0	0	0	0
Loss attributable to noncontrolling interest (NCI)	4.3	(1.5)	2.8	0	0	0	2.8
Total other comprehensive income (loss) before reclassifications	(157.2)	51.3	(105.9)	(108.7)	0	0	2.8
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(1.7)	0.6	(1.1)	(1.1)	0	0	0
Net realized gains (losses) on securities	64.9	(22.7)	42.2	42.2	0	0	0
Interest expense	0.5	(0.2)	0.3	0	0.3	0	0
Total reclassification adjustment for amounts realized in net income	63.7	(22.3)	41.4	41.1	0.3	0	0
Total other comprehensive income (loss)	(220.9)	73.6	(147.3)	(149.8)	(0.3)	0	2.8
Balance at June 30, 2015	$ 1,393.3	$ (491.3)	$ 902.0	$ 907.5	$ (7.5)	$ (0.8)	$ 2.8

				Components of Changes in Accumulated Other Comprehensive Income (after tax)			
(millions)	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	Loss attributable to NCI

Balance at December 31, 2014	$ 1,574.0	$ (550.9)	$ 1,023.1	$1,021.9	$ 1.5	$ (0.3)	$ 0
Other comprehensive income (loss) before reclassifications:							
Investment securities	(62.2)	18.1	(44.1)	(44.1)	0	0	0
Forecasted transactions	(12.8)	4.4	(8.4)	0	(8.4)	0	0
Foreign currency translation adjustment	(0.9)	0.4	(0.5)	0	0	(0.5)	0
Loss attributable to noncontrolling interest (NCI)	4.3	(1.5)	2.8	0	0	0	2.8
Total other comprehensive income (loss) before reclassifications	(71.6)	21.4	(50.2)	(44.1)	(8.4)	(0.5)	2.8
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(9.6)	3.4	(6.2)	(6.2)	0	0	0
Net realized gains (losses) on securities	117.7	(41.2)	76.5	76.5	0	0	0
Interest expense	1.0	(0.4)	0.6	0	0.6	0	0
Total reclassification adjustment for amounts realized in net income	109.1	(38.2)	70.9	70.3	0.6	0	0
Total other comprehensive income (loss)	(180.7)	59.6	(121.1)	(114.4)	(9.0)	(0.5)	2.8
Balance at June 30, 2015	$ 1,393.3	$ (491.3)	$ 902.0	$907.5	$ (7.5)	$ (0.8)	$ 2.8

				Components of Changes in Accumulated Other Comprehensive Income (after tax)			
(millions)	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	Loss attributable to NCI
Balance at March 31, 2014	$ 1,463.5	$ (512.2)	$ 951.3	$946.9	$ 3.8	$ 0.6	$ 0
Other comprehensive income (loss) before reclassifications:							
Investment securities	188.9	(66.1)	122.8	122.8	0	0	0
Forecasted transactions	(1.6)	0.6	(1.0)	0	(1.0)	0	0
Foreign currency translation adjustment	0.8	(0.3)	0.5	0	0	0.5	0
Loss attributable to noncontrolling interest (NCI)	0	0	0	0	0	0	0
Total other comprehensive income (loss) before reclassifications	188.1	(65.8)	122.3	122.8	(1.0)	0.5	0
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	0	0	0	0	0	0	0
Net realized gains (losses) on securities	52.9	(18.5)	34.4	34.4	0	0	0
Interest expense	0.5	(0.2)	0.3	0	0.3	0	0
Total reclassification adjustment for amounts realized in net income	53.4	(18.7)	34.7	34.4	0.3	0	0
Total other comprehensive income (loss)	134.7	(47.1)	87.6	88.4	(1.3)	0.5	0
Balance at June 30, 2014	$ 1,598.2	$ (559.3)	$ 1,038.9	$1,035.3	$ 2.5	$ 1.1	$ 0

				Components of Changes in Accumulated Other Comprehensive Income (after tax)			
(millions)	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	Loss attributable to NCI
Balance at December 31, 2013	$ 1,464.1	$ (512.4)	$ 951.7	$947.0	$ 4.1	$ 0.6	$ 0

Other comprehensive income (loss) before reclassifications:							
Investment securities	320.7	(112.2)	208.5	208.5	0	0	0
Forecasted transactions	(1.6)	0.6	(1.0)	0	(1.0)	0	0
Foreign currency translation adjustment	0.8	(0.3)	0.5	0	0	0.5	0
Loss attributable to noncontrolling interest (NCI)	0	0	0	0	0	0	0
Total other comprehensive income (loss) before reclassifications	319.9	(111.9)	208.0	208.5	(1.0)	0.5	0
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	0	0	0	0	0	0	0
Net realized gains (losses) on securities	184.8	(64.6)	120.2	120.2	0	0	0
Interest expense	1.0	(0.4)	0.6	0	0.6	0	0
Total reclassification adjustment for amounts realized in net income	185.8	(65.0)	120.8	120.2	0.6	0	0
Total other comprehensive income (loss)	134.1	(46.9)	87.2	88.3	(1.6)	0.5	0
Balance at June 30, 2014	$ 1,598.2	$ (559.3)	$ 1,038.9	$1,035.3	$ 2.5	$ 1.1	$ 0

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In an effort to manage interest rate risk, we entered into forecasted transactions on each of our outstanding debt issuances. Upon issuing the debt, the gains (losses) recognized on these cash flow hedges are recorded as unrealized gains (losses) in accumulated other comprehensive income and amortized into interest expense over the term of the related debt issuance. We expect to reclassify $1.9 million (pretax) into income during the next 12 months, related to net unrealized gains on forecasted transactions.

Note 10 Litigation — The Progressive Corporation and/or its insurance subsidiaries are named as defendants in various lawsuits arising out of claims made under insurance policies written by our insurance subsidiaries in the ordinary course of business. We consider all legal actions relating to such claims in establishing our loss and loss adjustment expense reserves.

In addition, The Progressive Corporation and/or its insurance subsidiaries are named as defendants in a number of class action or individual lawsuits arising out of the operations of the insurance subsidiaries. These cases include those alleging damages as a result of our subsidiaries' practices in evaluating or paying medical or injury claims or benefits, including, but not limited to, personal injury protection, medical payments, and bodily injury benefits; the utilization, content, or appearance of policy documents; labor rates paid to auto body repair shops; wage and hour issues; and cases challenging other aspects of our subsidiaries' claims or marketing practices or other business operations. Other insurance companies face many of these same issues.

We plan to contest the pending lawsuits vigorously, but may pursue settlement negotiations in some cases, if appropriate. The outcomes of pending cases are uncertain at this time.We establish accruals for these lawsuits when it is probable that a loss has been or will be incurred and we can reasonably estimate its potential exposure, which may include a range of loss. As to lawsuits in which the loss is not considered both probable and estimable, or is considered probable but not estimable, we do not establish an accrual in accordance with current accounting guidance. With respect to our pending lawsuits that are not related to claims under insurance policies, the accruals that we have established were not material at June 30, 2015. With respect to most of these lawsuits, we do not consider any losses to be both probable and estimable, and we are unable to estimate a meaningful range of loss, if any, at this time, due to the factors discussed in Note 12 - Litigation in our Annual Report to Shareholders for the year ended December 31, 2014, which is included as Exhibit 13 to our Annual Report on Form 10-K (the "Annual Report to Shareholders"). In the event that any one or more of these lawsuits results in a substantial judgment against, or settlement by, Progressive, or if our accruals prove to be inadequate by a significant amount, the resulting liability could have a material adverse effect on our consolidated financial condition, cash flows, and/or results of operations. For a further discussion on our pending litigation and related reserving policies, see Note 12 - Litigation to our consolidated financial statements in our Annual Report to Shareholders.

Note 11 Commitments and Contingencies — During the first six months of 2015, the noncancelable operating lease commitments and noncancelable purchase obligations for Progressive have not changed materially from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2014.

During the second quarter 2015, ASI entered into several multiple-layer property catastrophe excess of loss reinsurance contracts with various reinsurers with terms ranging from one to two years. Pursuant to these reinsurance contracts, at June 30, 2015, ASI had a noncancelable minimum obligation of $81.0 million. As of June 30, 2015, ARX had no other material lease commitments or noncancelable purchase obligations.

Note 12 Redeemable Noncontrolling Interest - The components of redeemable noncontrolling interest (NCI) at June 30, 2015, were:

($ in millions)		
Balance at March 31, 2015	$0	
Fair value at date of acquisition	411.5	
Net income attributable to NCI	5.2	
Other comprehensive loss attributable to NCI	(2.8	)
Purchase of shares from NCI	(12.6	)
Change in redemption value of NCI	32.1	
Balance at June 30, 2015	$433.4	

Note 13 New Accounting Standards — In April 2015, the Financial Accounting Standards Board (FASB) issued an accounting standard update (ASU) related to the presentation of the cost of issuing debt on balance sheets. This standard requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. This standard, which is required to be applied on a retrospective basis, is effective for fiscal years beginning after December 15, 2015 (2016 for calendar-year companies), with early adoption permitted. We have historically deducted the majority of our debt issuance costs from the carrying value of the debt; therefore, we do not expect this standard to have a significant impact on our financial condition, cash flows, or results of operations.
In May 2015, the FASB issued an ASU related to disclosures about short duration contracts. The disclosures are intended to provide users of financial statements with more transparent information about an insurance entity's initial claim estimates and subsequent adjustments to those estimates, the methodologies and judgments used to estimate claims, and the timing, frequency, and severity of claims. This standard, which is required to be applied on a retrospective basis, is effective for fiscal years beginning after December 15, 2015 (2016 for calendar-year companies), except for those disclosures that require application only to the current period (e.g., information about significant changes in estimation methodologies and assumptions made in calculating the claim liability for short-duration contracts). Early adoption is permitted. We are currently analyzing the impact of the new disclosures.
In May 2015, the FASB also issued an ASU related to investments measured at net asset value (NAV). The intent is to exclude investments measured at NAV from the fair value hierarchy. This guidance is effective for annual and interim periods after December 15, 2015 (January 2016 for calendar-year companies). We do not value our securities at NAV; therefore, this standard will not impact our financial condition, cash flows, or results of operations.
Note 14 Reclassification — For the periods ended June 30, 2014 and December 31, 2014, we reclassified goodwill and intangible assets out of "other assets" to be reported as separate line items to conform with the current-year presentation. There was no effect on total assets.

Note 15 Acquisition — On April 1, 2015, The Progressive Corporation acquired approximately 63.2% of the outstanding capital stock of ARX Holding Corp. (ARX), the parent company of American Strategic Insurance Corp., other subsidiaries and affiliates (ASI), primarily from non-management shareholders. Later in the second quarter, Progressive purchased an additional 0.9% of ARX capital stock from certain employee shareholders. The total cost to acquire these shares was approximately $890 million and was funded with available cash. Prior to the acquisition this quarter, we held a 5% interest in ARX as part of our investment portfolio. During the second quarter 2015, we recognized a $2.0 million loss to reflect the net acquisition cost attributable to this holding. This loss was reported in net realized gains (losses) on securities in the comprehensive income statement. At June 30, 2015, our total ownership interest in ARX was 69.1%.

The property business written by ASI accounted for approximately 5% of the total net premiums written during the second quarter 2015. As part of the acquisition, we recorded approximately $470 million of goodwill. Goodwill was calculated as the excess of the purchase price over the estimated fair values of the assets and liabilities acquired, and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. As a result of the ARX acquisition, we are able to build on the pre-existing relationship we had with ASI to expand on our bundling strategy in the Agency channel.

Also as part of the acquisition, we recorded approximately $520 million of other intangible assets; the other intangible assets will be amortized over an average life of about 9 years. The following tables reports the intangible assets by asset category as of June 30, 2015:

($ in millions)

Category	Value at Acquisition	Accumulated Amortization	Useful Life
Policies in force	256.2	9.2	7 years
Agency relationships	159.2	2.8	14 years
Software	69.1	2.1	8 years

ASI Trade name	34.8	0.9	10 years
Agent licenses	1.1	0.0	Indefinite
Total	$520.4	$15.0	

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All assets and liabilities were recorded at fair value at the date of acquisition. If new information is obtained within 12 months from the date of acquisition about facts and circumstances that existed at the acquisition date, we will adjust the amounts previously recorded. For income tax purposes, the historical tax bases of the acquired assets and assumed liabilities carried over and were not recorded at fair value; therefore, no tax-basis goodwill was created.

At the date of acquisition, ARX had total assets of $1.8 billion, including investment securities of $1.2 billion, cash and cash equivalents of $183 million and prepaid reinsurance premiums of $146 million, and liabilities of $1.2 billion, consisting of unearned premiums of $550 million, loss and loss adjustment expense reserves of $306 million, and debt of $185 million. All of ARX's contingencies were recognized as of the acquisition date. For the second quarter 2015, our consolidated results included total revenue and net income from ARX of $208.2 million and $16.8 million, respectively.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

I. OVERVIEW

On April 1, 2015, The Progressive Corporation acquired a controlling interest in ARX Holding Corp. (ARX), parent company of American Strategic Insurance Corp., and other subsidiaries and affiliates (ASI). ASI writes personal and commercial property insurance for homeowners, renters, and other property owners. Beginning in the second quarter 2015, our consolidated results include the results of ARX and its subsidiaries and affiliates, which will impact our year-over-year comparisons. In various places throughout this report, we will separately identify ARX's results as our "Property business." Even though we consolidate 100% of ARX's financial information, the minority shareholders of ARX have a 30.9% interest in the operating results of ARX. These interests are reflected in our comprehensive income statements as "net income/other comprehensive income attributable to noncontrolling interests (NCI)."

During the second quarter 2015, The Progressive Corporation's insurance subsidiaries generated net premiums written and policies in force growth of 13% and 10%, respectively, on a year-over-year basis. Excluding our Property business, our net premiums written and policies in force increased 7% and 2%, respectively, which are in line with the first quarter 2015. Overall, our net income available to Progressive, which is net of the income attributable to the noncontrolling shareholders of ARX, increased 24% to $363.3 million, or $0.62 per share, reflecting an increase in both underwriting profit and recurring investment income, along with more realized gains on securities in the second quarter 2015 and favorable tax adjustments related to the ARX acquisition (see the "Income Taxes" section below for further discussion).

Pretax underwriting profitability increased 12% to $373.8 million for the quarter, primarily reflecting premium growth. Our investment income of $113.3 million was up 14%, due to both an increase in our average invested assets, which includes the addition of $1.2 billion of fixed-income securities from ARX offset by the $0.9 billion of securities liquidated to fund the acquisition, and an increase in the book yield resulting from investing in higher yielding assets. Realized gains on investments were $76.0 million in the second quarter 2015, compared to $40.4 million for the same period last year, for a year-over-year increase of 88%. Comprehensive income was down 43% compared to the second quarter 2014, due to unrealized losses on investments, reflecting a general decline in the equity markets and a rise in interest rates. During the second quarter, our total capital position (debt plus shareholders' equity) increased $337 million to $10.1 billion.

A. Insurance Operations

During the second quarter 2015, we realized an increase in net premiums written of 13% on a companywide basis, compared to the prior year period. Our Agency and Direct Personal Lines businesses increased 2% and 12%, respectively, and our Commercial Lines business grew 14%. For the second quarter 2015, our Property business generated $272.7 million of net premiums written.

To analyze growth in our vehicle businesses, we review written premium per policy (i.e., rates), new business applications (i.e., issued policies), and customer retention.

For the second quarter, on a year-over-year basis, written premium per policy increased across all of our vehicle businesses - 4% in both our Agency and Direct auto businesses, 8% in our Commercial Lines business, and 1% for our special lines products. The increases resulted from both rate changes and shifts in our mix of business. Overall, rates are up slightly year-over-year. Adjusting rates is an ongoing process. We will continue to evaluate future rate needs and react quickly as we recognize loss cost trends at the state level.

Personal Lines new applications for the second quarter increased 7%, compared to the same period last year. Agency and Direct auto new applications increased 3% and 16%, respectively, while special lines increased by 2%. We are beginning to see favorable results from our efforts to improve our competitiveness in the Agency channel by focusing on product design, underwriting, and the system modifications that make it easier for agents to access and use our products. We have seen more shopping in our Direct channel as evidenced by a significant increase in quoting activity. Our Commercial Lines new applications increased 10%, reflecting strong demand and improved competitiveness in our for-hire transportation, for-hire specialty, and business auto market targets.

During the second quarter 2015, our renewal applications increased 2% in Personal Lines and 1% in Commercial Lines. The primary contributors to the Personal Lines increase were our Direct auto business and special lines products renewal applications, which grew 7% and 3%, respectively, while Agency auto renewal applications were down 2%.

We continue to look at ways to help stimulate growth and provide consumers with distinctive insurance options, including the following:

- During the quarter, we introduced "Platinum," (powered by ASI and Progressive) an agent product that combines home and auto insurance and provides the agents with a single offering with features that reflect the needs and desires agents have communicated to us. The market introduction of Platinum was in Texas, but we will be rolling it out to other states soon.
- We continued the roll out of our most recent product design, which introduces improved segmentation, more attractive pricing and features for our "Robinson" (i.e., bundled auto and homeowners) customers.
- We are continuing to roll out a new program in Snapshot®, our usage-based approach to rating, which affords more customers discounts for their good driving behavior, while increasing rates at renewal for a small number of drivers based on their driving behavior. We also are offering a Snapshot enrollment discount that varies at the customer-segment level, such as a higher discount for more preferred drivers, which may help agents increase their Snapshot business with us.

On a companywide basis, year-over-year, policies in force grew 10%, with Personal Lines growing 2%, Commercial Lines growing 4%, and our newly acquired Property business reporting nearly 1.1 million policies in force. Excluding the addition of the Property business policies, policies in force grew 2%. Our Direct auto business grew 7% and our special lines products grew 2%, while our Agency auto business decreased 2% over last year. At June 30, 2015, we had 9.5 million personal auto policies in force, split almost evenly between Agency auto and Direct auto. Including our special lines policies, we ended the second quarter with 13.6 million Personal Lines policies in force, about 364,000 more policies in force than at the end of 2014, while Commercial Lines had nearly 24,000 more policies.

To further grow policies in force, it is critical that we retain our customers for longer periods. Consequently, increasing retention is one of our most important priorities. Our efforts to increase the number of multi-product households continues to be a key initiative to support that goal. Policy life expectancy, which is our actuarial estimate of the average length of time that a policy will remain in force before cancellation or lapse in coverage, is one measure of customer retention. We have historically disclosed our changes in policy life expectancy using a trailing 12-month period since we believe this measure is indicative of recent experience, mitigates the effects of month-to-month variability, and addresses seasonality. Using a trailing 12-month measure, policy life expectancy decreased 7% for our Agency auto business and 3% for our Direct auto business, compared to last year, resulting primarily from increased rates in both channels. The policy life expectancy for our Commercial Lines business was up 9%. Our special lines products policy life expectancy has remained unchanged, compared to last year.

We also review our customer retention for our personal auto products using a trailing 3-month period. Although using a trailing 3-month measure does not address seasonality and can create more volatility, this measure is more responsive to current experience and can be an indicator of how our retention rates are moving. Our trailing 3-month policy life expectancy at June 30, 2015, on a year-over-year basis, was down 6% in Agency auto and 2% in Direct auto, with the emergence of a more favorable trajectory. We will maintain our focus on providing customers with more stable rates and other insurance-related products and services they may need over time in our ongoing efforts to increase retention.

B. Investments

The fair value of our investment portfolio was $20.6 billion at June 30, 2015, which includes the addition of $1.2 billion of securities to our fixed-income portfolio from our acquisition of a controlling interest in ARX during the quarter. Our asset allocation strategy is to maintain 0%-25% of our portfolio in Group I securities, with the balance (75%-100%) of our portfolio in Group II securities. We define Group I securities to include:

- common equities
- nonredeemable preferred stocks
- redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends, which are included in Group II, and
- all other non-investment-grade fixed-maturity securities.

Group II securities include:

- short-term securities, and
- all other fixed-maturity securities, including 50% of the investment-grade redeemable preferred stocks with cumulative dividends.

We use the credit ratings from models provided by the National Association of Insurance Commissioners (NAIC) for classifying our residential and commercial mortgage-backed securities (excluding interest-only securities), and credit ratings from nationally recognized statistical rating organizations (NRSRO) for all other debt securities, in determining whether securities should be classified as Group I or Group II. At June 30, 2015, 20% of our portfolio was allocated to Group I
securities and 80% to Group II securities, compared to 23% and 77%, respectively, at December 31, 2014, which reflects the addition of ARX, primarily weighted to the Group II securities.

Our investment portfolio produced a fully taxable equivalent (FTE) total return of (0.1)% and 1.0% for the second quarter and first six months of 2015, respectively, compared to 1.6% and 3.0% for the second quarter 2014. Our common stock and fixed-income portfolios both contributed to these total returns with FTE returns of 0.0% and (0.1)%, respectively, for the second quarter 2015, and 4.9% and 1.1%, respectively, for the second quarter 2014. For the first six months of 2015, our common stocks and fixed-income securities contributed 1.7% and 0.9%, respectively, compared to 7.2% and 2.4% last year. The return differential in 2015 compared to 2014 is a result of lower equity market returns and rising interest rates at the short end of the yield curve, affecting our fixed income portfolio's valuations. At June 30, 2015, the fixed-income portfolio had a weighted average credit quality of A+, including ARX fixed-income securities with an average credit quality of AA, compared to Progressive's AA- rating at June 30, 2014. We maintain our fixed-income portfolio strategy of investing in high-quality, liquid securities.

Our recurring investment income generated a pretax book yield of 2.4% during the second quarter 2015, compared to 2.3% during the second quarter 2014. At June 30, 2015, our duration was 1.9 years, compared to 1.6 years at June 30, 2014, which is primarily the result of adding the fixed-income securities of ARX, with a duration at quarter end of 3.7 years. We remain confident in our preference for shorter duration positioning during times of low interest rates as a means to limit any decline in portfolio value from an increase in rates, and we expect long-term benefits from any return to more substantial yields.

II. FINANCIAL CONDITION

A. Liquidity and Capital Resources

Progressive's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. Operations generated positive cash flows of about $1.4 billion and $1.0 billion for the first six months of 2015 and 2014, respectively.

Our total capital (debt plus shareholders' equity) was $10.1 billion, at book value, at June 30, 2015, compared to $9.0 billion and $9.1 billion at June 30, 2014 and December 31, 2014, respectively. Our interest expense increased 20% on a year-over-year basis, primarily reflecting the new debt issuances discussed below. Our debt-to-total capital ratio, which reflects debt as a percent of debt plus shareholders' equity and excludes redeemable noncontrolling interest as a part of this calculation, was 27.1%, 24.5%, and 23.8% at June 30, 2015 and 2014, and December 31, 2014, respectively, reflecting the impact of debt issuances, partially offset by debt repurchases, during the last 12 months. We issued $350 million of Senior Notes in the second quarter of 2014 and $400 million of Senior Notes in the first quarter 2015. We issued this debt to take advantage of attractive terms in the market and allow for financial flexibility. We did not repurchase any debt securities in the first half of 2015 or 2014. During the full year 2014, we repurchased $44.3 million of our outstanding debt in the open market. We financed these transactions through available cash.

During the second quarter of 2015, we acquired an additional 64.1% ownership interest in ARX Holding Corp., the parent company of ASI, bringing our total ownership percentage to about 69.1%. As part of a related stockholders' agreement, Progressive has the ability to achieve 100% ownership of ARX by the end of the second quarter of 2021. In addition, the minority ARX shareholders have the right to "put" their ARX shares to Progressive by that date. The total cost of the second quarter acquisitions was approximately $890 million, which we funded with available cash. This acquisition solidifies the pre-existing relationship we had with ASI as our homeowners insurance provider in the Agency channel. We believe this transaction will advance both companies and attract a market segment of bundled customers that is currently under-penetrated by both Progressive and ARX.

Based upon our capital planning and forecasting efforts, we believe that we have sufficient capital resources, cash flows from operations, and borrowing capacity to support our current and anticipated business, scheduled principal and interest payments on our debt, any declared dividends, acquisition-related commitments, and other expected capital requirements. The covenants on our existing debt securities do not include any rating or credit triggers that would require an adjustment of the interest rate or an acceleration of principal payments in the event our securities are downgraded by a rating agency.

We seek to deploy capital in a prudent manner and use multiple data sources and modeling tools to estimate the frequency, severity, and correlation of identified exposures, including, but not limited to, catastrophic and other insured losses, natural disasters, and other significant business interruptions, to estimate our potential capital needs. During the first six months of 2015 and at all times during 2014, our total capital exceeded the sum of our regulatory capital layer plus our self-constructed extreme contingency layer, as described in our Annual Report to Shareholders for the year ended December 31, 2014.

Our available capital allowed us to take several actions to deploy underleveraged capital, including:

- Repurchases of our outstanding debt securities. From time to time, we may elect to repurchase our outstanding debt securities in the open market or in privately negotiated transactions, reducing our future interest expense, when management believes that such securities are attractively priced and capital is available for such purpose. We did not repurchase any debt securities in the first half of 2015 or 2014. During the full year 2014, we repurchased, in the open market, $44.3 million in principal amount of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (the "6.70% Debentures"). Since the amounts paid exceeded the carrying value of the debt we repurchased, we recognized losses on these extinguishments of $4.8 million.

- Repurchases of our common shares. In accordance with our financial policies, we continued our practice of repurchasing our common shares. As of June 30, 2015, we had nearly 16 million shares remaining under our 2011 Board repurchase authorization. The following table shows our share repurchase activity during the respective periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
(millions, except per share amounts)	2015	2014	2015	2014
Total number of shares purchased	1.6	1.8	4.0	5.7
Total cost	$42.2	$45.3	$108.1	$140.0
Average price paid per share	$27.00	$24.45	$26.88	$24.39

- Dividends. As part of our capital management activities, in February 2015 and 2014, we paid annual variable dividends of $0.6862 per share and $0.4929 per share, respectively, which were each declared in December of the prior year. In addition to the annual variable dividend, the Board of Directors declared a $1.00 per common share special dividend in December 2013, which was paid in February 2014.

Short-Term Borrowings

We did not engage in short-term borrowings to fund our operations or for liquidity purposes during the three and six months ended June 30, 2015 or at any point in 2014. As discussed above, our insurance operations create liquidity by collecting and investing insurance premiums in advance of paying claims. Information concerning our insurance operations can be found below under Results of Operations—Underwriting, and details about our investment portfolio can be found below under Results of Operations—Investments.

During the first quarter 2015, we renewed the unsecured, discretionary line of credit with PNC Bank, National Association (PNC) in the maximum principal amount of $100 million. The prior line of credit, which was entered into during the first quarter 2014, has expired. The line of credit is on substantially the same terms and conditions as the prior line of credit. All advances under this agreement are subject to PNC's discretion, would bear interest at a variable, daily rate, and would need to be repaid on the earlier of the 30th day after the advance or the expiration date of the facility, April 30, 2016. We had no borrowings under either line of credit during the first six months of 2015 or throughout 2014.

We did not enter into any repurchase commitment transactions during the first six months of 2015 or 2014, and we had no open repurchase commitments at June 30, 2015 or 2014, or December 31, 2015.

B. Commitments and Contingencies

Contractual Obligations

During the second quarter 2015, we acquired certain contractual obligations by virtue of Progressive's acquisition of a controlling interest in ARX Holding Corp. As of June 30, 2015, ARX had outstanding debt securities of $178.5 million and loss and loss adjustment expense reserves of $354.2 million. Interest on the ARX debt is variable (See Note 4 - Debt for further discussion). In addition, during the second quarter 2015, ASI entered into several multiple-layer property catastrophe excess of loss reinsurance contracts with various reinsurers with terms ranging from one to two years. Pursuant to these reinsurance contracts, at June 30, 2015, ASI had a noncancelable minimum obligation of $81.0 million. As of June 30, 2015, ARX had no other material lease commitments or noncancelable purchase obligations. Otherwise, during the first six months of 2015, the contractual obligations for Progressive have not changed materially from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Off-Balance-Sheet Arrangements

Our off-balance-sheet leverage includes derivative positions, operating leases, and purchase obligations. See the "Derivative Instruments" section of Note 2 - Investments and of this Management's Discussion and Analysis for a summary of our derivative activity since year-end 2014. During the second quarter 2015, we entered into futures contracts on both 5-year and 10-year Treasury notes as a means to manage the overall duration of our fixed-income portfolio. At the end of the second quarter, we had 900 contracts outstanding with a combined market value of $108.9 million. During the quarter, we recorded a net $1.8 million realized gain on the positions, including those closed during the period. There have been no material changes in the other off-balance-sheet items since the discussion in the notes to the financial statements in Progressive's Annual Report on Form 10-K for the year ended December 31, 2014.

III. RESULTS OF OPERATIONS – UNDERWRITING

A. Growth

	Three Months Ended June 30,			Six Months Ended June 30,		
($ in millions)	2015	2014	% Change	2015	2014	% Change
NET PREMIUMS WRITTEN						
Personal Lines						
Agency	$2,345.7	$2,291.0	2	$4,701.8	$4,583.6	3
Direct	2,049.4	1,828.9	12	4,229.0	3,755.5	13
Total Personal Lines	4,395.1	4,119.9	7	8,930.8	8,339.1	7
Commercial Lines	578.7	507.8	14	1,109.8	969.6	14
Property[1]	272.7	0	NM	272.7	0	NM
Other indemnity[2]	(0.4)	0	NM[1]	(0.4)	0	NM[1]
Total underwriting operations	$5,246.1	$4,627.7	13	$10,312.9	$9,308.7	11
NET PREMIUMS EARNED						
Personal Lines						
Agency	$2,276.4	$2,242.3	2	$4,520.9	$4,445.5	2
Direct	2,031.8	1,824.0	11	3,987.2	3,586.2	11
Total Personal Lines	4,308.2	4,066.3	6	8,508.1	8,031.7	6
Commercial Lines	489.3	447.2	9	955.7	884.1	8
Property[1]	198.7	0	NM	198.7	0	NM
Other indemnity[2]	(0.4)	0	NM[1]	(0.4)	0	NM[1]
Total underwriting operations	$4,995.8	$4,513.5	11	$9,662.1	$8,915.8	8

NM = Not Meaningful

[1]Progressive began writing Property business on April 1, 2015, upon acquisition of a controlling interest in ARX Holdings Corp.

[2]Negative written and earned premiums represent reinstatement premiums paid to the reinsurers of our professional liability group business pursuant to their reinsurance contracts.

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Net premiums written represent the premiums from policies written during the period less any premiums ceded to reinsurers. Net premiums earned, which are a function of the premiums written in the current and prior periods, are earned as revenue over the life of the policy using a daily earnings convention.
Policies in force, our preferred measure of growth, represents all policies under which coverage was in effect as of the end of the period specified. As of June 30, our policies in force were:

(thousands)	2015	2014	% Change
POLICIES IN FORCE			
Vehicles:			
Agency auto	4,753.6	4,872.7	(2)
Direct auto	4,744.8	4,423.9	7
Total auto	9,498.4	9,296.6	2
Special lines[1]	4,127.8	4,064.3	2
Total Personal Lines	13,626.2	13,360.9	2
Commercial Lines	538.4	516.5	4
Property	1,054.7	0	NM

[1]Includes insurance for motorcycles, ATVs, RVs, mobile homes, watercraft, snowmobiles, and similar items, as well as a personal umbrella product.
NM=not meaningful; any Property business written by Progressive prior to acquiring ARX on April 1, 2015, was negligible.

To analyze growth in our vehicle businesses, we also review new policies, rate levels, and the retention characteristics of our books of business. The following table shows our year-over-year changes in new and renewal applications (i.e., issued policies):

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2015	2014	2015	2014
APPLICATIONS				
Personal Lines:				
New	7%	(2)%	7%	1%
Renewal	2%	3%	3%	3%
Commercial Lines:				
New	10%	(1)%	14%	(5)%
Renewal	1%	(1)%	2%	(1)%

The year-over-year growth in new applications in our Personal Lines business primarily reflected a significant increase in our Direct auto business, due to an improved competitive position, resulting in increases in quotes, in part reflecting increased advertising spend and effectiveness, and conversion. In addition, we saw growth as more consumers are using the Internet and mobile devices to shop for and buy auto insurance. The Agency channel new application growth turned positive in the second quarter. We continue to focus our initiatives to help increase new application growth in the Agency channel.
The significant increase in our Commercial Lines new applications reflects strong demand and improved competitiveness in our for-hire transportation, for-hire specialty, and business auto market targets.
We continue to refine our personal auto segmentation and underwriting models. Our previous model, which improved segmentation for preferred customers, adjusted pricing for our highest risk in-force customers, and improved the onboarding experience for our Direct customers through a redesigned electronic signature process, has performed well. Our current model, which is continuing to be rolled out across the country, features more competitive preferred

pricing, more sophisticated pricing for households that insure more than one product through Progressive, and enhancements to our usage-based program.

Snapshot®, our usage-based approach to rating, provides customers the opportunity to improve their auto insurance rates based on their personal driving behavior. Snapshot is currently available to our Agency and Direct auto customers in 46 states plus the District of Columbia. The portion of our business using Snapshot continues to grow at a rate considerably faster than the business as a whole, and we continue to revise our product model to respond to demand. In our latest Snapshot program, which we began rolling out late in 2014, we are affording more customers discounts for their driving behavior, while increasing rates at renewal for a small number of drivers based on their driving behavior. We are also offering a Snapshot enrollment discount that varies at the customer-segment level, such as a higher discount for more preferred drivers.

We are also continuing with our efforts to further penetrate customer households through cross-selling auto policies with our special lines products and vice versa, as well as through Progressive Home Advantage® (PHA), to meet a broad range of customer needs. PHA is the program in which we “bundle” our auto product with property insurance provided by ASI or unaffiliated insurance carriers. Bundled products are becoming an integral part of our consumer offerings and an important part of our strategic agenda. These customers represent a sizable segment of the market, and our experience is that they tend to stay with us longer and generally have lower claims costs. An increasing number of our customers, especially Direct auto customers, are now multi-product customers with combinations of special lines, homeowners, or renters, as well as auto coverage.

As of June 30, 2015, PHA was available to Direct customers nationwide, Agency customers in 29 states and the District of Columbia, including two states added during the second quarter 2015. In the Direct channel, PHA is provided by ASI, as well as 10 active, unaffiliated insurance providers.

During the quarter, we introduced a new product in our Agency channel called "Platinum," (powered by ASI and Progressive). The Platinum product is a home and auto insurance combined offering that provides the agents a single offering with compensation, coordinated policy periods, and other features that meet the needs and desires that our agents have expressed. We believe we are now suited to respond to their requests. Platinum is targeted to those agents who have the appropriate customers and believe our bundled offering is a "must have" for their agency. The market introduction of Platinum was in Texas, but we will be rolling it out to other states soon.

Another part of our bundling strategy is our offering of a renters product. We started writing our own renters insurance product in the Agency channel during 2014 and are currently offering this product in 13 states. We intend to roll out this product to additional states during the year. A primary purpose of offering renters insurance is to write and retain more customers with a multi-product relationship.

Expanding our capabilities in the mobile space also remains an important initiative. Consumers want the ability to transact all forms of business when and where they want and on whatever device best suits their needs (e.g., smartphone, tablet). We provide consumers with the following capabilities in the mobile space:

- Obtain a quote for and buy an auto insurance policy on our mobile website in all states and the District of Columbia,
- Obtain a quote for up to five drivers and four vehicles and, in most states, quote up to 12 drivers and 12 vehicles,
- Receive the comparison rate experience in most of the country.

Our policyholders are able to use mobile devices for many of their insurance needs, including the ability to:

- Access their policy documents, make payments, and view both their payment schedule and billing history,
- Add endorsements and make account changes,
- Receive text alerts for billing and severe weather,
- View, store, and share their digital insurance ID card, which can be used as legal proof of insurance in most of the country, and
- Report their claims and submit related photos using the application, as well as use their phone's GPS capabilities to specify the location of the claim.
- Request roadside assistance

Quotes, sales, payments, and document requests from mobile devices have been increasing and now represent low double-digit percentages of such transactions with Progressive. We recognize the importance of the mobile space and look for opportunities to add new functionality to our mobile websites and applications.

In addition, much of our agency-dedicated website, which includes quote/buy, servicing, and reporting capabilities, is accessible to agents through tablet computers.

Through our Progressive Commercial Advantage[SM] program, we offer our commercial auto customers general liability and business owners policies and workers' compensation coverage written by unaffiliated insurance companies or agencies. The workers' compensation coverage is offered in 44 states, while the other products are offered throughout the continental United States.

We experienced the following changes in written premium per policy:

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2015	2014	2015	2014
WRITTEN PREMIUM PER POLICY				
Personal Lines—auto	4%	3%	4%	2%
Commercial Lines	8%	4%	6%	4%

The increased written premium per policy in our personal auto business included higher written premium per policy in both our Agency and Direct auto businesses, reflecting rate increases taken during the last year as well as an increase in the number of vehicles per policy. For our Commercial Lines business, the increase in written premium per policy primarily reflected rate increases and a shift in a mix of business in our truck product tiers. Adjusting rates is a continuous process and we will continue to evaluate future rate needs and react quickly as we recognize changing trends at the state level.

Another important element affecting growth is customer retention. One measure of retention is policy life expectancy, which is our actuarial estimate of the average length of time that a policy (including any renewals) will remain in force before cancellation or lapse in coverage. The following table shows our year-over-year changes in policy life expectancy using both 3-month and 12-month measures. In addition, we are disclosing our quarterly year-over-year change in our renewal ratio in our personal auto business. The renewal ratio is the percent of policies that have come up for renewal during the quarter that have actually renewed.

	Growth Over Prior Year	
	2015	2014
RETENTION MEASURES		
Personal Lines - auto		
Policy life expectancy		
Trailing 3-months	(4)%	3%
Trailing 12-months	(4)%	3%
Renewal ratio	(0.1)%	0.2%
Commercial Lines - policy life expectancy (trailing 12-months)	9%	(4)%

The personal auto decline is primarily due to rate increases in certain states in both our Agency and Direct channels. In our Commercial Lines business, the increase in policy life expectancy primarily reflects an improved competitive position.

Recognizing the importance that retention has on our ability to continue to grow profitably, we emphasize competitive pricing for a given risk, quality service, and having the products and services available for our customers as their needs change during their insurable life.

B. Profitability

Profitability for our underwriting operations is defined by pretax underwriting profit, which is calculated as net premiums earned plus fees and other revenues less losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses. We also use underwriting profit margin, which is underwriting profit expressed as a percentage of net premiums earned, to analyze our results. For the respective periods, our underwriting profitability results were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)	
($ in millions)	$	Margin	$	Margin	$	Margin	$	Margin
Personal Lines								
Agency	$171.9	7.6 %	$142.9	6.4 %	$366.4	8.1 %	$321.5	7.2 %
Direct	118.1	5.8	115.7	6.3	186.3	4.7	186.7	5.2
Total Personal Lines	290.0	6.7	258.6	6.4	552.7	6.5	508.2	6.3
Commercial Lines	83.2	17.0	78.4	17.5	161.7	16.9	119.3	13.5
Property[1]	1.0	0.5	0	0	1.0	0.5	0	0
Other indemnity[2]	(0.4)	NM	(4.7)	NM	0	NM	(5.4)	NM
Total underwriting operations	$373.8	7.5 %	$332.3	7.4 %	$715.4	7.4 %	$622.1	7.0 %

[1]Progressive began writing Property business on April 1,2015, when it acquired a controlling interest of ARX Holding Corp. Includes $15.0 million of amortization/depreciation expense associated with the acquisition of a controlling interest in ARX Holding Corp., which is not attributable to the noncontrolling interest in ARX.

[2]Underwriting margins for our other indemnity businesses are not meaningful (NM) due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

Our underwriting margin exceeded our long-term profitability target of at least 4% for both the second quarter and first six months of 2015 and 2014. Pricing and market conditions are always significant drivers of underwriting margins over any defined period.

Further underwriting results for our Personal Lines business, including results by distribution channel, the Commercial Lines business, and our underwriting operations in total, were as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
Underwriting Performance[1]	2015	2014	Change	2015	2014	Change
Personal Lines—Agency						
Loss & loss adjustment expense ratio	73.1	73.6	(0.5) pts.	72.5	73.0	(0.5) pts.
Underwriting expense ratio	19.3	20.0	(0.7) pts.	19.4	19.8	(0.4) pts.
Combined ratio	92.4	93.6	(1.2) pts.	91.9	92.8	(0.9) pts.
Personal Lines—Direct						
Loss & loss adjustment expense ratio	74.7	73.7	1.0 pts.	75.0	74.0	1.0 pts.
Underwriting expense ratio	19.5	20.0	(0.5) pts.	20.3	20.8	(0.5) pts.
Combined ratio	94.2	93.7	0.5 pts.	95.3	94.8	0.5 pts.
Total Personal Lines						
Loss & loss adjustment expense ratio	73.9	73.6	0.3 pts.	73.7	73.4	0.3 pts.
Underwriting expense ratio	19.4	20.0	(0.6) pts.	19.8	20.3	(0.5) pts.
Combined ratio	93.3	93.6	(0.3) pts.	93.5	93.7	(0.2) pts.
Commercial Lines						
Loss & loss adjustment expense ratio	61.3	60.3	1.0 pts.	61.2	64.7	(3.5) pts.
Underwriting expense ratio	21.7	22.2	(0.5) pts.	21.9	21.8	0.1 pts.
Combined ratio	83.0	82.5				