PROGRESSIVE CORP/OH/
Form 424B5
March 12, 2018
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
4.20% Senior Notes due 2048	$600,000,000	$74,700 (1)

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended.

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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-223538

PROSPECTUS SUPPLEMENT

TO PROSPECTUS DATED MARCH 9, 2018

$600,000,000

The Progressive Corporation

4.20% Senior Notes due 2048

We are offering $600 million aggregate principal amount of 4.20% Senior Notes due 2048. The notes will bear interest at a rate of 4.20% per annum. Interest will be payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2018. The notes will mature on March 15, 2048. We have the option to redeem all or a portion of the notes at the redemption prices discussed under the caption Description of Notes Optional Redemption in this prospectus supplement.

The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior indebtedness. The notes will be senior to any future subordinated indebtedness and to the serial preferred shares being offered concurrently with this notes offer by means of a separate prospectus supplement (the concurrent offering). The notes will be effectively subordinated to any secured indebtedness we may incur in the future to the extent of the value of the assets securing such indebtedness and will be structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

We do not intend to apply for listing of the notes on any securities exchange.

Investing in the notes involves risks. See the sections entitled Risk Factors at Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 and in this prospectus supplement beginning on page S-8.

	Price to Public (1)	Underwriting Discounts and Commissions	Proceeds to Progressive
Per Note	99.173%	0.750%	98.423%
Total	$ 595,038,000	$ 4,500,000	$ 590,538,000

(1) Plus accrued interest, if any, from March 14, 2018, if settlement occurs after such date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to distribute the notes in book-entry form through the facilities of The Depository Trust Company for the benefit of its direct and indirect participants on or about March 14, 2018.

JOINT BOOKRUNNERS

Credit Suisse	**Goldman Sachs & Co. LLC**

CO-MANAGERS

J.P. Morgan	**Morgan Stanley**	**PNC Capital Markets LLC**

The date of this prospectus supplement is March 9, 2018.

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We have not, and the underwriters have not, authorized anyone to provide any information other than that incorporated by reference or contained in this prospectus supplement or the accompanying prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in or incorporated by reference into this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of the applicable document.

This document is in two parts. The first part is the prospectus supplement, which describes our business and the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

When we use the terms Progressive, the company, we, us, or our in this prospectus supplement, we mean The Progressive Corporation, and any of its subsidiaries or affiliates, unless we state or the context implies otherwise. The term subsidiaries in this prospectus supplement includes our majority-owned subsidiary ARX Holding Corp. (ARX), both Progressive s and ARX s wholly owned insurance and non-insurance subsidiaries, and affiliates in which Progressive or ARX has a controlling financial interest, unless we state or the context implies otherwise.

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FORWARD-LOOKING STATEMENTS

In this section, when we use the terms Progressive, the company, we, us or our, we mean The Progressive Corporation and its subsidiaries, on a consolidated basis, unless we state or the context implies otherwise.

Safe harbor statement under the Private Securities Litigation Reform Act of 1995: Investors are cautioned that certain statements in this prospectus and the documents incorporated by reference in this prospectus that are not based upon historical fact are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements often use words such as estimate, expect, intend, plan, believe, and other words and terms of similar meaning, or are tied to future periods, in connection with a discussion of future operating or financial performance. Forward-looking statements are based on current expectations and projections about future events, and are subject to certain risks, assumptions and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation:

- uncertainties related to estimates, assumptions, and projections generally;
- inflation and changes in general economic conditions (including changes in interest rates and financial markets);
- the possible failure of one or more governmental, corporate, or other entities to make scheduled debt payments or satisfy other obligations;
- our ability to access capital markets and financing arrangements when needed to support growth or other capital needs, and the favorable evaluations by credit and other rating agencies on which this access depends;
- the potential or actual downgrading by one or more rating agencies of our securities or governmental, corporate, or other securities we hold;
- the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolios and other companies with which we have ongoing business relationships, including reinsurers and other counterparties to certain financial transactions or under certain government programs;
- the accuracy and adequacy of our pricing, loss reserving, and claims methodologies;
- the competitiveness of our pricing and the effectiveness of our initiatives to attract and retain more customers;
- initiatives by competitors and the effectiveness of our response;
- our ability to obtain regulatory approval for the introduction of products to new jurisdictions, for requested rate changes and the timing thereof and for any proposed acquisitions;
- the effectiveness of our brand strategy and advertising campaigns relative to those of competitors;

legislative and regulatory developments at the state and federal levels, including, but not limited to, matters relating to vehicle and homeowners insurance, health care reform and tax law changes;

the outcome of disputes relating to intellectual property rights;

the outcome of litigation or governmental investigations that may be pending or filed against us;

severe weather conditions and other catastrophe events;

the effectiveness of our reinsurance programs;

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changes in vehicle usage and driving patterns, which may be influenced by oil and gas prices, changes in residential occupancy patterns and the effects of the emerging sharing economy ;

advancements in vehicle or home technology or safety features, such as accident and loss prevention technologies or the development of autonomous or partially autonomous vehicles;

our ability to accurately recognize and appropriately respond in a timely manner to changes in loss frequency and severity trends;

technological advances;

acts of war and terrorist activities;

our ability to maintain the uninterrupted operation of our facilities, systems (including information technology systems), and business functions, and safeguard personal and sensitive information in our possession, whether from cyber-attacks, other technology events or other means;

our continued access to and functionality of third-party systems that are critical to our business;

our continued ability to access cash accounts and/or convert securities into cash on favorable terms when we desire to do so;

restrictions on our subsidiaries ability to pay dividends to The Progressive Corporation;

possible impairment of our goodwill or intangible assets if future results do not adequately support either, or both, of these items;

court decisions, new theories of insurer liability or interpretations of insurance policy provisions and other trends in litigation;

changes in health care and auto and property repair costs; and

other matters described from time to time in our releases and publications, and in our periodic reports and other documents filed with the Securities and Exchange Commission (the Commission).

In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for one or more contingencies. Also, our regular reserve reviews may result in adjustments of varying magnitude as additional information regarding claims activity becomes known. Reported results, therefore, may be volatile in certain accounting periods.

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SUMMARY

The following is a summary of the more detailed information appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. It does not contain all of the information that may be important to you. You should read this prospectus supplement and the accompanying prospectus in their entirety and the documents we have referred you to, including those incorporated by reference in this prospectus supplement and the accompanying prospectus, especially the risks of investing discussed under Risk Factors, before investing in the notes. In the subsection below entitled The Progressive Corporation, when we use the terms Progressive, the company, we, us, or our, we mean The Progressive Corporation and its subsidiaries, on a consolidated basis, unless we state or the context implies otherwise.

The Progressive Corporation

The Progressive insurance organization began business in 1937. The Progressive Corporation, an insurance holding company, was formed in 1965. The Progressive Corporation acquired a majority controlling interest in ARX in 2015. Our insurance subsidiaries provide personal and commercial automobile insurance, residential property insurance, and other specialty property-casualty insurance and related services. We operate our vehicle businesses throughout the United States and our Property business in most U.S. jurisdictions.

Our vehicle insurance products protect our customers against losses due to collision and physical damage to their motor vehicles, uninsured and underinsured bodily injury, and liability to others for personal injury or property damage arising out of the use of those vehicles. Our residential property insurance products protect our customers against losses due to damages to their structure or possessions within the structure, as well as liability for accidents occurring in the structure or on the property. Our non-insurance subsidiaries generally support our insurance and investment operations. Our business operations include the following:

Our Personal Lines business writes insurance for personal autos and recreational and other vehicles, such as motorcycles, all-terrain vehicles, RVs, watercraft, snowmobiles and similar items. The Personal Lines business is generated by independent agents or brokers or is written directly by us online, via mobile devices and over the phone.

The Commercial Lines business writes primary liability, physical damage and other related insurance for automobiles and trucks owned and/or operated predominantly by small businesses and is primarily distributed through the independent agency channel. This business operates in the business auto, for-hire transportation, contractor, for-hire specialty, tow and for-hire livery markets.

Our Property business writes residential property insurance, primarily through independent agents or brokers.

Our service businesses include two commission-based service businesses and businesses providing insurance-related services, primarily policy issuance and claims adjusting services for Commercial Automobile Insurance Procedures/Plans.

We manage our vehicle claims handling on a companywide basis through approximately 200 stand-alone claims offices, 68 Service Centers, and nearly 3,000 third-party owned network shops located throughout the United States. For our Property business, we handle property claims separately through a network primarily of independent claims adjusters.

Our investment group employs what management believes is a conservative approach to investment and capital management intended to ensure that we have sufficient capital to support all of the insurance that we can profitably write and to contribute to our comprehensive income.

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Progressive s insurance businesses operate in a highly regulated environment. Our insurance subsidiaries are subject to regulation and supervision by state insurance departments in the jurisdictions in which they are domiciled or licensed to transact business. Each jurisdiction has a unique and complex set of laws and regulations. State insurance departments have broad administrative powers relating to licensing insurers, agents and adjusters, regulating premium changes and policy forms, establishing reserve requirements, prescribing statutory accounting methods and the form and content of statutory financial reports, and regulating the type and amount of investments permitted. In addition, insurance statutes or regulations in many states limit the extent to which insurance companies may pay dividends and transfer assets to their affiliates (including a parent company) and either prohibit, or require prior regulatory approval for, the payment of dividends and other distributions in excess of such limits.

Our principal executive offices are located at 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 and our phone number is (440) 461-5000. Additional information about The Progressive Corporation and its subsidiaries can be found in our documents filed with the Commission that are incorporated in this prospectus by reference, as provided in the accompanying prospectus under Where You Can Find More Information. Our website is www.progressive.com. Information on our website does not constitute part of this prospectus supplement.

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The Offering

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. For a more detailed description of the terms and conditions of the notes, see the section entitled Description of Notes in this prospectus supplement.

Issuer	The Progressive Corporation, an Ohio corporation.
Notes Offered	$600 million in aggregate principal amount of 4.20% Senior Notes due 2048.
Maturity Date	March 15, 2048.
Interest Rate and Payment Dates	Interest on the notes will accrue at the rate of 4.20% per annum, payable semiannually in cash in arrears on each March 15 and September 15, commencing on September 15, 2018. Interest on the notes will be computed on the basis of a 360-day year comprised of twelve 30-day months.
Optional Redemption	Prior to September 15, 2047 (six months prior to their maturity date), we may redeem all or a portion of the notes at any time and from time to time at the make whole redemption prices described under Description of Notes Optional Redemption in this prospectus supplement.
	On or after September 15, 2047 (six months prior to their maturity date), we may redeem all or a portion of the notes at any time and from time to time at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest to the redemption date. See Description of Notes Optional Redemption in this prospectus supplement.
Ranking	The notes will be our senior unsecured obligations. The notes will rank equally in right of payment with all of our other existing and future senior unsecured indebtedness and senior in right of payment to any of our future subordinated indebtedness. The notes will be effectively subordinated to any of our future secured indebtedness to the extent of the value of the assets securing such indebtedness and will be structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.
	As of December 31, 2017, Progressive had approximately $3.3 billion of senior unsecured debt and no secured debt outstanding. As of December 31, 2017, our subsidiaries had approximately $25.6 billion of outstanding indebtedness and other liabilities (including external borrowings, unearned premiums, loss and loss adjustment expense reserves, net deferred income taxes, accounts payable, accrued expenses and other liabilities, but excluding intercompany liabilities and debt) to which the notes would have ranked structurally subordinate. Neither Progressive nor any of our subsidiaries has incurred additional external borrowings since that date.

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Certain Covenants	We will issue the notes under an Indenture dated as of September 15, 1993, as supplemented from time to time, between us and U.S. Bank National Association (as successor in interest to State Street Bank and Trust Company, which succeeded The First National Bank of Boston), as trustee. The indenture governing the notes will, among other things, restrict our ability to: incur certain liens; and sell all or substantially all of our assets or merge with or into other companies, in each case, unless certain conditions are satisfied. These covenants are subject to a number of important qualifications and limitations. For more details, see the section entitled Description of Notes Certain Covenants, in this prospectus supplement.
Use of Proceeds	We estimate that the net proceeds from the sale of the notes will be approximately $589.5 million after deducting the underwriting discounts and estimated offering expenses payable by us. We intend to use the net proceeds for general corporate purposes.
No Public Trading Market	We do not intend to list the notes on any national securities exchange or to arrange for quotation on any automated dealer quotation systems. There can be no assurance that an active trading market will develop for the notes.
Concurrent Offering	We are concurrently offering serial preferred shares by means of a separate prospectus supplement. The serial preferred shares being offered in the concurrent offering will rank subordinate in right of payment to the Senior Notes offered hereby. The offering of the Senior Notes is not conditioned on the completion of the concurrent offering, and vice versa. There can be no assurance that the concurrent offering will be completed.
Risk Factors	See the section entitled Risk Factors beginning on page S-8 of this prospectus supplement and the Risk Factors section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which is incorporated by reference into this prospectus, for a discussion of factors you should carefully consider before deciding to invest in the notes.
Trustee and Paying Agent	U.S. Bank National Association.
Governing Law	The notes will be, and the indenture under which they will be issued is, governed by New York law.

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RISK FACTORS

The notes offered by this prospectus supplement and the accompanying prospectus may involve a high degree of risk. You should read carefully the following risk factors and the Risk Factors section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which is incorporated by reference into this prospectus supplement and the accompanying prospectus, in addition to the other information set forth in this prospectus supplement and the accompanying prospectus, before making an investment in the notes.

Risks Related to this Offering of Notes

Any inability of our subsidiaries to pay dividends to us in sufficient amounts could negatively impact our ability to meet our obligations under the notes.

We are a holding company and our principal assets are the capital stock of our subsidiaries. We rely primarily on dividends from our subsidiaries to meet our obligations to pay interest and principal on outstanding debt obligations, dividends and other distributions to shareholders, as well as holding company expenses, and to repurchase our outstanding securities. The ability of our insurance subsidiaries to pay dividends to us in the future will depend on their statutory surplus, their earnings and regulatory restrictions.

We and our insurance subsidiaries are subject to regulation by some states as an insurance holding company system. These regulations generally provide that transactions among companies within the holding company system must be fair and reasonable. Transfers of assets among affiliated companies, certain dividend payments to affiliates from insurance subsidiaries, and certain material transactions between companies within the system may require prior notice to, or prior approval by, state regulatory authorities. Our insurance subsidiaries and our mutual insurance company and our Lloyd s company are domiciled in California, Delaware, Florida, Illinois, Indiana, Louisiana, Michigan, New Jersey, New York, Ohio, Texas and Wisconsin. In addition, California and Florida treat certain of our subsidiaries as domestic insurers for certain purposes under their respective commercial domicile laws. The applicable insurance regulatory restrictions include specific limitations on the maximum amount of dividends available to be paid by our insurance subsidiaries without prior approval of insurance regulatory authorities. The ability of our insurance subsidiaries to pay dividends also is restricted by regulations that set standards of solvency that must be met and maintained, the nature of and limitation on the investments that may be made by our regulated subsidiaries, the nature of and limitations on dividends to policyholders and shareholders, the nature and extent of required participation in insurance guaranty funds and the involuntary assumption of hard-to-place or high-risk insurance business.

Any inability of our insurance subsidiaries to pay dividends to us in an amount sufficient to meet our debt service and other obligations and other cash requirements could negatively impact our ability to meet our obligations under the notes.

The notes will be structurally subordinated to the obligations of our subsidiaries.

Our subsidiaries are separate and distinct legal entities. Except to the extent that we are a creditor with recognized claims against one of our subsidiaries, claims of the subsidiary s creditors, including policyholders, have priority with respect to the assets and earnings of that subsidiary over the claims of our creditors, including holders of the notes. If any of our subsidiaries should become insolvent, liquidate or otherwise reorganize, our creditors, including holders of the notes, and our shareholders will have no right to proceed against the assets of that subsidiary or to cause the liquidation, bankruptcy or winding-up of the subsidiary under applicable laws. The applicable insurance laws of the jurisdiction where each of our insurance subsidiaries is domiciled would govern any proceedings relating to that insurance subsidiary. The insurance authority of that jurisdiction would act as a liquidator or rehabilitator for the subsidiary. Both creditors and policyholders of the subsidiary would be entitled to payment in full from the subsidiary s assets before we, as a shareholder, would be entitled to receive any distribution from the subsidiary that we might apply to make payments of principal and interest on the notes or other indebtedness.

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Accordingly, the payments on our notes will be structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries. As of December 31, 2017, our subsidiaries had approximately $25.6 billion of outstanding indebtedness and other liabilities (including external borrowings, unearned premiums, loss and loss adjustment expense reserves, net deferred income taxes, accounts payable, accrued expenses and other liabilities, but excluding intercompany liabilities and debt) to which the notes would have ranked structurally subordinate. None of our subsidiaries has incurred additional external borrowings since that date.

The notes will be unsecured and rank effectively subordinate to the claims of secured creditors, if any, to the extent of the value of the collateral securing those claims.

As of December 31, 2017, we had no secured indebtedness, and we have incurred no secured indebtedness since that date. Holders of any secured indebtedness we may incur in the future will have claims that are prior to your claims as holders of the notes to the extent of the value of the assets securing such indebtedness. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, insolvency or other bankruptcy proceeding, holders of our secured indebtedness will have prior claim to our assets that constitute their collateral. Holders of the notes will participate ratably with all holders of our other unsecured indebtedness that is deemed to be of the same class as the notes and with all of our other unsecured creditors with respect to our unencumbered assets. In that event, because the notes will not be secured by any of our assets, it is possible that our remaining assets might be insufficient to satisfy your claims in full.

Our level of indebtedness could limit cash flow available for our operations and could adversely affect our ability to service our debt or obtain additional financing, if necessary.

As of December 31, 2017, Progressive s total senior unsecured debt outstanding was approximately $3.3 billion. Including subsidiary debt, our debt-to-total-capital ratio, excluding redeemable noncontrolling interest (NCI) of $503.7 million, was 26.3%. After giving effect to the offering, Progressive s total debt outstanding on December 31, 2017 would have been approximately $3.9 billion and, including subsidiary debt and also giving effect to the concurrent offering, our debt-to-total-capital ratio, excluding NCI, would have been approximately 28.5%. We have incurred no additional debt since December 31, 2017.

Our level of indebtedness could restrict our operations and make it more difficult for us to satisfy our obligations under the notes. For example, our level of indebtedness could, among other things:

- affect our liquidity by limiting our ability to obtain additional financing for working capital, or limit our ability to obtain financing for capital expenditures (including necessary technologies and systems) and acquisitions or make any available financing more costly;
- require us to dedicate all or a substantial portion of our cash flow to service our debt, which would reduce funds available for other business purposes, such as operating expenses, capital expenditures, dividends or acquisitions;
- limit our flexibility in planning for or reacting to changes in the markets in which we compete;
- place us at a competitive disadvantage relative to our competitors with less indebtedness;
- render us more vulnerable to general adverse economic and industry conditions; and
- make it more difficult for us to satisfy our financial obligations, including those relating to the notes.

In addition, the indenture governing the notes and the terms of the agreements governing our other outstanding indebtedness contain, or may in the future contain, restrictive covenants that could limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt, including the notes.

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Our ability to service our debt and meet our cash requirements depends on many factors, some of which are beyond our control.

Our ability to satisfy our obligations will depend on our future operating performance, cash flows, and financial results, which will be subject, in part, to factors beyond our control, including interest rates and general economic, financial and business conditions and other factors described in the documents incorporated by reference in this prospectus, including those described under Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. If we are unable to generate sufficient cash flow to service our debt, we may be required to:

- refinance all or a portion of our debt, including the notes;
- obtain additional financing, which may be on unfavorable terms;
- sell some of our assets or operations;
- reduce or delay capital expenditures and/or acquisitions; or
- revise or delay our strategic plans.

If we are required to take any of these actions, it could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that we would be able to take any of these actions or take them on satisfactory terms, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our various debt instruments, including the indenture.

Restrictive covenants in the agreements governing our indebtedness may reduce our operating flexibility.

The indenture governing the notes offered hereby contains various covenants that limit our ability to:

- incur certain liens; and
- sell all or substantially all of our assets or merge with or into other companies,

in each case, unless certain conditions are met. These restrictions could limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in the economy or our business, conduct operations or otherwise take advantage of business opportunities that may arise.

Our breach of any of these covenants could result in a default under the terms of the relevant indebtedness, which could cause such indebtedness to become immediately due and payable. If we are unable to repay such amount, the lenders could initiate litigation or a bankruptcy or liquidation proceeding, or proceed against any collateral that secures the indebtedness or if they obtain a judgment against us, our other assets. If our lenders accelerate the repayment of borrowings, we may have insufficient assets to repay the notes.

Despite current indebtedness levels, we and certain of our subsidiaries may incur substantially more debt. This could further exacerbate the risks associated with our leverage.

The terms of the indenture governing the notes do not prohibit us or our subsidiaries from incurring additional indebtedness. If new debt is added to our and our subsidiaries current debt levels, the related risks that we and they now face could intensify.

We may choose to redeem the notes when prevailing interest rates are relatively low.

The notes are redeemable at our option and we may choose to redeem some or all of the notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being redeemed. Our redemption right also may adversely affect your ability to sell your notes if and at any time after the notes are called for partial or full redemption. See the section entitled Description of Notes Optional Redemption in this prospectus supplement.

There may be no trading market for the notes.

We do not intend to list the notes to be offered under this prospectus supplement on any securities exchange or to seek approval for quotations of the notes through any automated quotation system. There is no established market for the notes and there is a risk that:

- an active trading market for the notes will not develop;
- you will not be able to sell your notes at fair market value or at all; or
- you will not receive any specific price upon any sale of the notes.

If a public market for the notes does develop, the notes could trade at prices that may be lower than their principal amount or purchase price, depending on many factors, including prevailing interest rates, the market for similar notes and our financial performance and prospects.

The Tax Cuts and Jobs Act could have a negative effect on holders of the notes.

On December 20, 2017, the U.S. Congress passed the legislation commonly known as the Tax Cuts and Jobs Act, and on December 22, 2017, President Trump signed it into law. The Tax Cuts and Jobs Act makes significant changes to the U.S. federal income tax rules applicable to both individuals and entities, including corporations. There remains uncertainty as to the impact of the Tax Cuts and Jobs Act on an investment in the notes. You should consult with your tax advisor with respect to U.S. tax reform and its potential effect on your investment in the notes.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the notes will be approximately $589.5 million after deducting the underwriting discounts and estimated offering expenses payable by us. We intend to use the net proceeds for general corporate purposes.

CAPITALIZATION

The following table sets forth our capitalization, on a consolidated basis, as of December 31, 2017:

on an actual basis; and

on an as-adjusted basis to give effect to the sale of the notes in this offering and the concurrent offering of serial preferred shares.

The information set forth below should be read in conjunction with our consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2017, which are incorporated by reference into this prospectus supplement. See Where You Can Find More Information in the accompanying prospectus.

	As of December 31, 2017	
	Actual	As Adjusted
	(Millions)	
Debt:		
4.20% Senior Notes due 2048	$	$ 589.5
3.75% Senior Notes due 2021	498.8	498.8
2.45% Senior Notes due 2027	496.1	496.1
6 5/8% Senior Notes due 2029	296.1	296.1
6.25% Senior Notes due 2032	395.3	395.3
4.35% Senior Notes due 2044	346.5	346.5
3.70% Senior Notes due 2045	395.2	395.2
4.125% Senior Notes due 2047	841.2	841.2
Other debt instruments[1]	37.1	37.1
Total debt	3,306.3	3,895.8
Redeemable noncontrolling interest (NCI):	503.7	503.7
Shareholders equity:		
Serial Preferred Shares, Series B (cumulative, liquidation preference $1,000 per share) (no shares authorized or issued and outstanding on an actual basis; authorized 0.5, issued and outstanding 0.5 on an adjusted basis)		493.9
Common shares, $1.00 par value (authorized 900.0, issued 797.5, including treasury shares of 215.8)	581.7	581.7
Paid-in capital	1,389.2	1,389.2
Retained earnings	6,031.7	6,031.7
Accumulated other comprehensive income, net of tax:		
Net unrealized gains on securities	1,295.0	1,295.0
Net unrealized losses on forecasted transactions	(14.8)	(14.8)
Accumulated other comprehensive loss attributable to NCI	2.0	2.0
Total accumulated other comprehensive income	1,282.2	1,282.2
Total shareholders equity	9,284.8	9,778.7

Total debt, NCI and shareholders equity	$ 13,094.8	$ 14,178.2

(1) Other debt instruments were issued by ARX and its subsidiaries and include term loans due December 2018 and 2019.

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We are concurrently offering serial preferred shares by means of a separate prospectus supplement (the concurrent offering). The serial preferred shares being offered in the concurrent offering will rank subordinate in right of payment to the notes offered hereby. The offering of the notes is not conditioned on the completion of the concurrent offering, and vice versa. There can be no assurance that the concurrent offering will be completed.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth selected consolidated statements of operations and financial position data and other data for the periods or as of the dates indicated. The financial data for each of the five years in the period ended December 31, 2017 are derived from our audited consolidated financial statements. The following amounts should be read in conjunction with the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Commission and available as described under Where You Can Find More Information in the accompanying prospectus.

	Years Ended December 31,				
	2017	2016	2015 (Millions)	2014	2013
Consolidated Statement of Income Data:					
Revenues:					
Net premiums earned	$ 25,729.9	$ 22,474.0	$ 19,899.1	$ 18,398.5	$ 17,103.4
Investment income	563.1	478.9	454.6	408.4	422.0
Total net realized gains (losses) on securities	49.6	51.1	112.7	224.2	318.4
Fees and other revenues	370.6	332.5	302.0	309.1	291.8
Service revenues	126.8	103.3	86.3	56.0	39.6
Other gains (losses)	(1.0)	1.6	(0.9)	(4.8)	(4.3)
Total revenues	26,839.0	23,441.4	20,853.8	19,391.4	18,170.9
Expenses:					
Losses and loss adjustment expenses	18,808.0	16,879.6	14,342.0	13,306.2	12,472.4
Policy acquisition costs	2,124.9	1,863.8	1,651.8	1,524.0	1,451.8
Other underwriting expenses	3,480.7	2,972.0	2,712.1	2,467.1	2,350.9
Investment expenses	23.9	22.4	22.8	18.9	18.8
Service expenses	109.5	92.0	77.5	50.9	38.8
Interest expense	153.1	140.9	136.0	116.9	118.2
Total expenses	24,700.1	21,970.7	18,942.2	17,484.0	16,450.9
Income before income taxes	2,138.9	1,470.7	1,911.6	1,907.4	1,720.0
Provision for income taxes	540.8	413.5	611.1	626.4	554.6
Net income	1,598.1	1,057.2	1,300.5	1,281.0	1,165.4
Net (income) loss attributable to noncontrolling interest (NCI)	(5.9)	(26.2)	(32.9)		
Net income attributable to Progressive	$ 1,592.2	$ 1,031.0	$ 1,267.6	$ 1,281.0	$ 1,165.4
Other Comprehensive Income (Loss):					
Changes in:					
Total net unrealized gains on securities	$ 355.4	$ 130.6	$ (212.9)	$ 74.9	$ 84.3
Net unrealized gains/losses on forecasted transactions	(5.4)	(1.2)	(9.7)	(2.6)	(2.0)
Foreign currency translation adjustment	1.1	0.4	(1.2)	(0.9)	(1.6)
Other comprehensive income (loss)	351.1	129.8	(223.8)	71.4	80.7
Other comprehensive (income) loss attributable to NCI	(2.3)	3.2	1.1		
Comprehensive income attributable to Progressive	$ 1,941.0	$ 1,164.0	$ 1,044.9	$ 1,352.4	$ 1,246.1

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	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(Millions, except share amounts and ratios)				
Per share earnings attributable to Progressive:					
Basic	$ 2.74	$ 1.77	$ 2.16	$ 2.17	$ 1.95
Diluted	$ 2.72	$ 1.76	$ 2.15	$ 2.15	$ 1.93
Net premiums written	$ 27,132.1	$ 23,353.5	$ 20,564.0	$ 18,654.6	$ 17,339.7
GAAP operating ratios:					
Loss and loss adjustment expense ratio	73.1	75.1	72.1	72.3	73.0
Underwriting expense ratio	20.3	20.0	20.4	20.0	20.5
Combined ratio	93.4	95.1	92.5	92.3	93.5
Statutory operating ratios:					
Loss and loss adjustment expense ratio	73.1	75.2	71.7	72.3	73.0
Underwriting expense ratio	19.7	19.6	20.1	19.8	20.4
Combined ratio	92.8	94.8	91.8	92.1	93.4
Consolidated Balance Sheet Data:					
Total assets	$ 38,701.2	$ 33,427.5	$ 29,819.3	$ 25,787.6	$ 24,408.2
Debt	3,306.3	3,148.2	2,707.9	2,164.7	1,860.9
Redeemable noncontrolling interest	503.7	483.7	464.9		
Shareholders equity	9,284.8	7,957.1	7,289.4	6,928.6	6,189.5

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DESCRIPTION OF NOTES

The following description of the particular terms of the notes offered by this prospectus supplement supplements the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus (the notes are a series of the debt securities described under the caption Description of Senior Debt Securities in the accompanying prospectus). You should carefully read this entire prospectus supplement and the accompanying prospectus to understand fully the terms of the notes. All of the information set forth below is qualified in its entirety by the more detailed explanation set forth in the accompanying prospectus.

General

The notes are senior debt securities issued by us under the indenture dated September 15, 1993, as supplemented from time to time, between us and U.S. Bank National Association (as successor in interest to State Street Bank and Trust Company, as successor to The First National Bank of Boston), as trustee, which indenture is more fully described in the accompanying prospectus.

The notes will mature on March 15, 2048. We have the option to redeem the notes at any time and from time to time prior to their stated maturity on the terms described below. Holders of the notes do not have any similar option to require us to redeem the notes before their stated maturity.

The notes will not be entitled to the benefit of any sinking fund.

We will pay interest on the notes at an annual rate of 4.20% from the date of issuance. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Interest will be payable semiannually on March 15 and September 15 of each year, beginning September 15, 2018, to the persons in whose names the notes are registered at the close of business on the preceding March 1 or September 1, respectively, except that any interest payable upon maturity or earlier redemption of the notes will be payable to the person to whom the principal of the note is payable. If any interest payment date or the maturity date falls on any date that is not a business day, then the related payment will be made on the next succeeding business day, without any interest or other additional payment in respect of the delay. As used in this prospectus supplement, business day means any day, other than a Saturday or Sunday, that is not a day on which banking institutions or trust companies are generally authorized or required by law, regulation or executive order to close in The City of New York.

The principal amount of the notes that we will issue is initially limited to $600 million.

The notes will be our senior unsecured obligations. The notes will rank equal in right of payment with all of our other existing and future senior unsecured indebtedness, and senior in right of payment to any of our existing or future subordinated indebtedness. The notes will be effectively subordinated to our future secured indebtedness, if any, to the extent of the value of the assets securing such indebtedness, and will be structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

As of December 31, 2017, Progressive had approximately $3.3 billion of senior unsecured debt and no secured debt outstanding. As of December 31, 2017, our subsidiaries had approximately $25.6 billion of outstanding indebtedness and other liabilities (including external borrowings, unearned premiums, loss and loss adjustment expense reserves, net deferred income taxes, accounts payable, accrued expenses and other liabilities, but excluding intercompany debt) to which the notes would have ranked structurally subordinate. Neither Progressive nor any of our subsidiaries has incurred additional external borrowings since that date.

The Progressive Corporation is organized as a holding company that owns subsidiary companies. Our wholly and majority-owned subsidiaries conduct all of our business operations. As a holding company with no business operations of its own, The Progressive Corporation relies primarily on dividends from its subsidiaries to meet its financial obligations. The holding company s ability to meet its obligations, including the obligations under the notes offered under this prospectus, may be adversely affected by dividend limitations or prior approval requirements applicable to our insurance subsidiaries under state insurance laws.

The indenture does not limit the amount of notes or other debt securities that we or any of our subsidiaries may issue or the amount of debt that we or our subsidiaries may incur in the future.

Optional Redemption

Prior to September 15, 2047 (six months prior to their maturity date), we may redeem the notes at any time in whole, or from time to time in part, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed or (2) a make whole amount, which will be calculated as described below, plus, in each case, accrued and unpaid interest to the redemption date on the principal amount of the notes being redeemed.

On or after September 15, 2047 (six months prior to their maturity date), we may redeem the notes at any time in whole, or from time to time in part, at a redemption price equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest to the redemption date on the principal amount of the notes being redeemed.

Calculation of Make Whole Amount

The *make whole* amount will equal the sum of the present values of the Remaining Scheduled Payments of the notes to be redeemed, discounted to the redemption date, on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), at a rate equal to the Treasury Rate plus 20 basis points.

Remaining Scheduled Payments means, with respect to any redemption, the remaining scheduled payments of the principal and interest, exclusive of interest accrued to the date of redemption, that would be due after the redemption date of the notes to be redeemed assuming such notes were not redeemed and were held until September 15, 2047 (six months prior to their maturity date).

Treasury Rate means, with respect to any redemption, an annual rate equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date.

Comparable Treasury Issue means, with respect to any redemption, the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed assuming, for such purpose, that the notes matured September 15, 2047 (six months prior to their maturity date) that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to such remaining term of such notes.

Independent Investment Banker means one of the Reference Treasury Dealers selected by the company.

Comparable Treasury Price means, with respect to any redemption, (i) the average of three Reference Treasury Dealer Quotations obtained by the trustee for the redemption date after excluding the highest and lowest of five Reference Treasury Dealer Quotations obtained or (ii) if the trustee obtains fewer than five Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations obtained.

Reference Treasury Dealer means, with respect to any redemption, Credit Suisse Securities (USA) LLC and Goldman Sachs & Co. LLC (or any of their respective affiliates so long as such affiliate is and continues to be a primary U.S. Government securities dealer) and three other primary U.S. Government securities dealers chosen by Progressive. If any of the foregoing ceases to be a primary U.S. Government securities dealer, Progressive will appoint in its place another nationally recognized investment banking firm that is a primary U.S. Government securities dealer.

Reference Treasury Dealer Quotation means, with respect to any redemption, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by a Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding the redemption date.

Redemption Procedures

We will give you at least 30 days (but not more than 60 days) prior notice of any redemption. If less than all of the notes are redeemed, the trustee will select the notes to be redeemed by a method determined by the trustee to be fair and appropriate.

On or before the redemption date, we will deposit with the trustee money sufficient to pay the redemption price and accrued interest on the notes to be redeemed on the redemption date. On and after the redemption date, interest will cease to accrue on any notes that have been called for redemption (unless we default in the payment of the redemption price and accrued interest).

Reopening of Series of Notes

The notes are initially being issued in the aggregate principal amount of $600 million. We may, without the consent of the holders, increase such principal amount in the future by issuing additional notes on the same terms and conditions and with the same CUSIP number as the notes being offered under this prospectus supplement, provided that any such additional notes are fungible with the notes offered hereby for U.S. federal income tax purposes.

Certain Covenants

The indenture will impose the following additional restrictive covenants on Progressive for the benefit of the holders of the notes offered by this prospectus supplement. You should refer to the accompanying prospectus for a description of certain other covenants and provisions contained in the indenture.

Limitation on Liens. The indenture will provide that Progressive will not, nor will it permit any Designated Subsidiary to, incur, issue, assume or guarantee any indebtedness for money borrowed if (i) that indebtedness is secured by a pledge, mortgage, deed of trust or other lien on any shares of stock or indebtedness of any Designated Subsidiary (a lien) and (ii) the aggregate amount of the indebtedness so secured exceeds an amount equal to 15% of Progressive s Consolidated Tangible Net Worth, unless the notes are also secured equally and ratably with the other indebtedness. For purposes of this restriction, a lien will not include the pledge to, or deposit with, any state or provincial insurance regulatory authorities of any investment securities by Progressive or any of its subsidiaries.

This restriction will not apply to indebtedness secured by:

- liens on any shares of stock or indebtedness of or acquired from a corporation merged or consolidated with or into, or otherwise acquired by, Progressive or a Designated Subsidiary;

- liens to secure indebtedness of a Designated Subsidiary to Progressive or another Designated Subsidiary, but only as long as the indebtedness is owned or held by Progressive or a Designated Subsidiary; and

- any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any lien referred to in the two bullet points above.

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Consolidation, Merger, Sale, Conveyance and Lease. The indenture will permit Progressive to consolidate or merge with or into any other entity or entities, or to sell, convey or lease all or substantially all of its property to any other entity, only if:

- the entity formed by such consolidation, or into which Progressive is merged or which acquires or leases all or substantially all of the property of Progressive, is a corporation or other entity organized under the laws of the United States, any state thereof or the District of Columbia, and the entity expressly assumes Progressive s obligations under the notes and the indenture; and

- immediately after the transaction, no event of default (as defined in the indenture) exists.

This restriction shall not apply if Progressive is the entity that survives any of these transactions.

Definitions. For purposes of these additional restrictions, these terms have the following meanings:

Consolidated Tangible Net Worth shall mean, at any date, the total assets appearing on the consolidated balance sheet of Progressive and its consolidated subsidiaries as of the end of the then most recent fiscal quarter of Progressive, prepared in accordance with generally accepted accounting principles, less the sum of (a) the total liabilities appearing on such balance sheet and (b) intangible assets. Intangible assets means the value, as shown on or reflected in such balance sheet, of (i) all trade names, trademarks, licenses, patents, copyrights and goodwill, (ii) organizational costs and (iii) unamortized debt discount and expense, less unamortized premium.

Designated Subsidiary shall mean (i) Progressive Casualty Insurance Company, so long as it remains a subsidiary of Progressive, (ii) any other consolidated subsidiary of Progressive, the assets of which constitute 10% or more of the Total Assets, and (iii) any subsidiary which is a successor to all or substantially all of the business or properties of such subsidiaries.

Total Assets shall mean, at any date, the total assets appearing on the consolidated balance sheet of Progressive and its consolidated subsidiaries as of the end of the then most recent fiscal quarter of Progressive, prepared in accordance with generally accepted accounting principles.

Book-Entry Delivery and Form

The notes will be issued in the form of one or more fully registered global notes (each a global note) in a denomination or aggregate denominations equal to the portion of the aggregate principal amount of outstanding notes to be represented by such global security or securities, which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York (the Depositary) and registered in the name of Cede & Co., the Depositary s nominee. We will not issue notes in certificated form except in certain circumstances. Beneficial interests in the global notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in the Depositary (the Depositary Participants). Investors may elect to hold interests in the global notes through either the Depositary (in the United States), or Clearstream Banking Luxembourg S.A. (Clearstream Luxembourg) or Euroclear Bank S.A./N.V., as operator of the Euroclear System (Euroclear) (in Europe) if they are participants in those systems, or indirectly through organizations that are participants in those systems. Clearstream Luxembourg and Euroclear will hold interests on behalf of their participants through customers securities accounts in Clearstream Luxembourg s and Euroclear s names on the books of their respective depositaries, which in turn will hold such interests in customers securities accounts in the depositaries names on the books of the Depositary. At the present time, Citibank, N.A. acts as U.S. depositary for Clearstream Luxembourg and JPMorgan Chase Bank acts as U.S. depositary for Euroclear (the U.S. Depositaries). Beneficial interests in the global notes will be held in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. Except as set forth below, the global notes may be transferred, in whole but not in part, only to another nominee of the Depositary or to a successor of the Depositary or its nominee.

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The Depositary has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. The Depositary holds securities that its participants (Direct Participants) deposit with the Depositary. The Depositary also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers (which may include the underwriters), banks, trust companies, clearing corporations and certain other organizations. The Depositary is owned by a number of its Direct Participants and by NYSE Euronext and the Financial Industry Regulatory Authority, Inc. Access to the Depositary s book-entry system is also available to others, such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). The rules applicable to the Depositary and its Direct and Indirect Participants are on file with the Commission.

Payments of principal and of interest, if any, on the notes registered in the name of the Depositary or its nominee will be made by us through the paying agent to the Depositary or its nominee, as the case may be, as the registered owner of the global note. None of us, the trustee, any paying agent and the registrar for the notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Clearstream Luxembourg has advised us that it is incorporated under the laws of Luxembourg as a professional depositary. Clearstream Luxembourg holds securities for its participating organizations, known as Clearstream Luxembourg participants, and facilitates the clearance and settlement of securities transactions between Clearstream Luxembourg participants through electronic book-entry changes in accounts of Clearstream Luxembourg participants, thereby eliminating the need for physical movement of certificates. Clearstream Luxembourg provides to Clearstream Luxembourg participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream Luxembourg interfaces with domestic markets in several countries. As a professional depositary, Clearstream Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector, also known as the Commission de Surveillance du Secteur Financier. Clearstream Luxembourg participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Clearstream Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream Luxembourg participant either directly or indirectly.

Distributions with respect to the notes held beneficially through Clearstream Luxembourg will be credited to the cash accounts of Clearstream Luxembourg participants in accordance with its rules and procedures, to the extent received by the U.S. Depositary for Clearstream Luxembourg.

Euroclear has advised us that it was created in 1968 to hold securities for its participants, known as Euroclear participants, and to clear and settle transactions between Euroclear participants and between Euroclear participants and participants of certain other securities intermediaries through simultaneous electronic book-entry delivery against payment, eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear is owned by Euroclear Clearance System Public Limited Company and operated through a license agreement by Euroclear Bank S.A./N.V., known as the Euroclear operator. The Euroclear operator provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing and related services. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. The Euroclear operator is regulated and examined by the Belgian Banking and Finance Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law, collectively referred to as the terms and conditions. The terms and conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under the terms and conditions only on behalf of Euroclear participants, and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the terms and conditions, to the extent received by the U.S. Depositary for Euroclear.

If the Depositary is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by us within 90 days, we will issue the notes in definitive form in exchange for the entire global note representing such notes. In addition, we may at any time, and in our sole discretion, determine not to have the notes represented by the global note and, in such event, will issue notes in definitive form in exchange for the global note representing such notes. In any such instance, an owner of a beneficial interest in the global note will be entitled to physical delivery in definitive form of notes represented by such global note equal in principal amount to such beneficial interest and to have such notes registered in its name.

Title to book-entry interests in the notes will pass by book-entry registration of the transfer within the records of Clearstream Luxembourg, Euroclear or the Depositary, as the case may be, in accordance with their respective procedures. Book-entry interests in the notes may be transferred within Clearstream Luxembourg and within Euroclear and between Clearstream Luxembourg and Euroclear in accordance with procedures established for these purposes by Clearstream Luxembourg and Euroclear. Book-entry interests in the notes may be transferred within the Depositary in accordance with procedures established for this purpose by the Depositary. Transfers of book-entry interests in the notes among Clearstream Luxembourg and Euroclear and the Depositary may be effected in accordance with procedures established for this purpose by Clearstream Luxembourg, Euroclear and the Depositary.

Global Clearance and Settlement Procedures

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between Depositary Participants will occur in the ordinary way in accordance with the Depositary s rules and will be settled in immediately available funds using the Depositary s Same-Day Funds Settlement System. Secondary market trading between Clearstream Luxembourg participants and Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream Luxembourg and Euroclear and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through the Depositary, on the one hand, and directly or indirectly through Clearstream Luxembourg or Euroclear participants, on the other, will be effected through the Depositary in accordance with the Depositary s rules on behalf of the relevant European international clearing system by its U.S. Depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time).

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The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depositary to take action to effect final settlement on its behalf by delivering or receiving the notes in the Depositary, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to the Depositary. Clearstream Luxembourg participants and Euroclear participants may not deliver instructions directly to their respective U.S. Depositaries.

Because of time-zone differences, credits of the notes received in Clearstream Luxembourg or Euroclear as a result of a transaction with a Depositary Participant will be made during subsequent securities settlement processing and dated the business day following the Depositary settlement date. Such credits, or any transactions in the notes settled during such processing, will be reported to the relevant Euroclear participants or Clearstream Luxembourg participants on that business day. Cash received in Clearstream Luxembourg or Euroclear as a result of sales of notes by or through a Clearstream Luxembourg participant or a Euroclear participant to a Depositary Participant will be received with value on the business day of settlement in the Depositary but will be available in the relevant Clearstream Luxembourg or Euroclear cash account only as of the business day following settlement in the Depositary.

Although the Depositary, Clearstream Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of securities among participants of the Depositary, Clearstream Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures and they may discontinue the procedures at any time.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

The following section discusses certain material U.S. federal income tax considerations of the acquisition, ownership and disposition of a note. This discussion is based on the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations promulgated thereunder, administrative positions of the Internal Revenue Service (IRS) and judicial decisions now in effect, all of which are subject to change (possibly with retroactive effect) or to different interpretations.

We have not sought a ruling from the IRS with respect to the U.S. federal income tax consequences of acquiring, holding or disposing of a note. There can be no assurance that the IRS will not challenge one or more of the conclusions described in this prospectus supplement.

This discussion does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to a particular holder in light of the holder s circumstances (for example, a person subject to the alternative minimum tax provisions of the Code). This discussion does not address the U.S. federal income tax consequences to investors subject to special treatment under the federal income tax laws, such as dealers in securities or foreign currency, traders who elect to mark the notes to market, partnerships or other pass-through entities, tax-exempt entities, banks and other financial institutions, insurance companies, brokers, regulated investment companies, real estate investment trusts, controlled foreign corporations, passive foreign investment companies, persons holding a note as part of a straddle, hedge, conversion transaction or other risk reduction transaction, persons subject to special rules applicable to former citizens and residents of the United States, and U.S. Holders (as defined below) who have a functional currency other than the U.S. dollar.

This discussion does not address any aspect of state, local or foreign law, or U.S. federal estate and gift tax law. In addition, this discussion is limited to a purchaser of a note who will hold the note as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment).

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds our notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our notes, we urge you to consult your tax advisors.

This discussion of certain material U.S. federal income tax considerations is not tax advice. Prospective purchasers of the notes are advised to consult their tax advisors regarding the federal, state, local and foreign tax consequences of the purchase, ownership and disposition of the notes.

U.S. Holders

The following discussion is limited to a holder of a note that is a U.S. Holder. For purposes of this discussion, a U.S. Holder is a beneficial owner of a note that, for U.S. federal income tax purposes, is (i) a citizen or resident (as defined in Section 7701(b) of the Code) of the United States, (ii) a corporation (or an entity treated as a corporation) created or organized in the United States or a political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of source, or (iv) a trust if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons, within the meaning of the Treasury regulations promulgated under the Code, have the authority to control all substantial decisions of the trust, or certain trusts which have a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

Taxation of stated interest on the notes. Generally, payments of stated interest on a note will be includible in a U.S. Holder s gross income and taxable as ordinary income for U.S. federal income tax purposes at the time such interest is paid or accrued in accordance with the U.S. Holder s regular method of tax accounting. The notes will not be treated as issued with original issue discount.

Bond premium. A U.S. Holder whose basis in a note immediately after its acquisition by such U.S. Holder exceeds the principal amount of such note will be considered as having purchased the note with bond premium.

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A U.S. Holder generally may elect to amortize bond premium over the remaining term of the note, using a constant yield method, as an offset to interest income. An electing U.S. Holder must reduce its tax basis in the note by the amount of the aggregate amortized bond premium. If such holder does not elect to amortize bond premium, such premium will decrease the gain or increase the loss that such holder would otherwise recognize on the note. The election to amortize bond premium, once made, will generally apply to all debt obligations held or subsequently acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Market discount. If a U.S. Holder acquires a note for an amount that is less than the principal amount of such note, then the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless such difference is less than a specified de minimis amount. Unless a U.S. Holder elects to accrue market discount as described below, a U.S. Holder will be required to treat any principal payment on, or any gain on the sale, exchange or redemption of a note as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such note at or prior to the time of such payment or disposition. Further, a disposition of a note by gift (and in certain other non-taxable transactions) could result in the recognition of market discount income, computed as if such note had been sold for its fair market value. In addition, a U.S. Holder of a note may be required to defer, until the maturity of such note or the earlier disposition of such note in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such note.

Market discount in respect of a note is generally considered to accrue ratably during the period from the acquisition date to the maturity date of such note, unless the U.S. Holder elects to accrue market discount on the note under the constant yield method.

A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or constant yield method), in which case the rules described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, will apply to all market discount obligations acquired in or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

Under recently enacted legislation, a U.S. Holder that acquires notes for less than their principal amount and that uses an accrual method of accounting for tax purposes may be required to include such discount, including any de minimis amount of original issue discount, in income no later than the time that the discount is reflected on certain financial statements that it maintains. Further guidance is needed to clarify the precise application of this rule.

Premiums upon redemptions. We may be required to pay a premium above the principal amount of the notes if we exercise our option to redeem the notes prior to maturity, which premium generally decreases the closer our option is exercised to maturity of the notes. We intend to treat this redemption option as not affecting the yield to maturity of the notes and creating original issue discount because, under applicable Treasury regulations, such borrower options that would increase the yield of a note if exercised can generally be disregarded.

Sale, exchange, retirement or other taxable disposition of a note. A U.S. Holder generally will recognize capital gain or loss upon a sale, exchange, retirement or other taxable disposition of a note measured by the difference, if any, between (i) the amount of cash and the fair market value of any property received (except to the extent that the cash or other property received in respect of a note is attributable to the payment of accrued interest on the note not previously included in income, which amount will be taxable as ordinary income) and (ii) the holder s adjusted tax basis in the note. A U.S. Holder s tax basis in a note generally will be the amount paid for the note, increased by any market discount previously included in the U.S. Holder s gross income and reduced by the amount of any amortizable bond premium applied to reduce interest inclusions with respect to the notes. The gain or loss will be long-term capital gain or loss if the note has been held for more than one year at the time of the sale, exchange or retirement. Certain non-corporate U.S. Holders may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitation.

Information reporting requirements and backup withholding tax. A U.S. Holder of a note may be subject, under certain circumstances, to information reporting and backup withholding, at a current rate of 24%, with respect to certain reportable payments, including interest, principal (and premium, if any) on, and gross proceeds from a disposition of, a note. Backup withholding will not apply with respect to payments made to certain holders, including corporations and tax-exempt organizations, provided their exemptions from backup withholding are properly established. U.S. Holders of a note are urged to consult their tax advisors as to their qualifications for exemption from withholding and the procedure for obtaining such exemption.

The backup withholding rules apply if the U.S. Holder, among other things, (i) fails to furnish a social security number or other taxpayer identification number (TIN) certified under penalties of perjury within a reasonable time after the request therefor, (ii) furnishes an incorrect TIN, (iii) fails to properly report the receipt of interest or dividends or (iv) under certain circumstances, fails to provide a certified statement, signed under penalties of perjury, that the TIN furnished is the correct number and that the holder is not subject to backup withholding. A U.S. Holder who does not provide us with its correct TIN also may be subject to penalties imposed by the IRS.

Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules from a payment to a U.S. Holder will be allowed as a refund or as a credit against that U.S. Holder s U.S. federal income tax liability, provided the requisite procedures are followed. We will report annually to the IRS and to each U.S. Holder of a note the amount of any reportable payments and the amount of tax withheld, if any, with respect to those payments.

Medicare tax on investment income. A 3.8% Medicare tax will be imposed on the net investment income earned by U.S. citizens and residents and certain estates and trusts. For this purpose, net investment income generally includes the interest paid on the notes, as well as gain from the sale of the notes. In the case of an individual, the tax will be imposed on the lesser of (1) the individual s net investment income for the tax year or (2) the individual s modified adjusted gross income for the tax year in excess of certain specified amounts.

Non-U.S. Holders

The following is a general discussion of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a note by a Non-U.S. Holder. For purposes of this discussion, a Non-U.S. Holder is a beneficial owner (other than a partnership) of notes other than a U.S. Holder. For purposes of the discussion below, interest and gain on the sale, exchange or other disposition of the notes will be considered to be U.S. trade or business income if such income or gain is:

- effectively connected with the conduct of a U.S. trade or business; and

- in the case of a Non-U.S. Holder that is eligible for and elects the benefits of an applicable income tax treaty, attributable to a U.S. permanent establishment (or, in the case of an individual, a fixed base) in the United States.

Interest. Subject to the discussion of FATCA below under Additional Withholding Requirements, interest paid to a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax if such interest is not U.S. trade or business income and is portfolio interest. Generally, interest on the notes will qualify as portfolio interest if the Non-U.S. Holder:

- does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote;

- is not a controlled foreign corporation with respect to which we are a related person within the meaning of the Code;

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- certifies, under penalties of perjury on a Form W-8BEN or W-8BEN-E, that such holder is not a U.S. person and provides such holder s name and address; and

- is not a bank receiving the interest pursuant to a loan agreement entered into in its ordinary course of business.

The gross amount of payments of interest that do not qualify for the portfolio interest exception and that are not U.S. trade or business income will be subject to U.S. withholding tax at a rate of 30% unless a treaty applies to reduce or eliminate withholding. U.S. trade or business income will be taxed at regular graduated U.S. rates rather than the 30% withholding rate. In the case of a Non-U.S. Holder that is a corporation, such U.S. trade or business income also may be subject to a branch profits tax of 30%. To claim an exemption from withholding for U.S. trade or business income, or to claim the benefits of a treaty, a Non-U.S. Holder must provide a properly executed Form W-8BEN or W-8BEN-E (claiming treaty benefits) or W-8ECI (claiming exemption from withholding because income is U.S. trade or business income) (or such successor forms as the IRS designates), as applicable, prior to the payment of interest. These forms must be periodically updated. A Non-U.S. Holder who is claiming the benefits of a treaty may be required to obtain a U.S. taxpayer identification number and to provide certain documentary evidence issued by foreign governmental authorities to prove residence in the foreign country. Also, under the Treasury regulations, special procedures are provided for payments through qualified intermediaries.

Sale, exchange, retirement or other taxable disposition of the notes. A Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale, exchange, retirement or other taxable disposition of the notes unless:

- the gain is U.S. trade or business income (in which case the branch profits tax may also apply to a corporate Non-U.S. Holder); or

- the Non-U.S. Holder is an individual who is present in the United States for 183 or more days in the taxable year of the disposition and meets other requirements.

Information reporting requirements and backup withholding tax. We must report annually to the IRS and to each Non-U.S. Holder any interest that is paid to the Non-U.S. Holder. Copies of these information returns also may be made available under the provisions of a specific treaty or other agreement to the tax authorities of the country in which the Non-U.S. Holder resides.

The backup withholding tax and certain information reporting will not apply to such payments of interest with respect to which either the requisite certification (i.e., a Form W-8BEN, W-8BEN-E or W-8ECI as described above) has been received or an exemption otherwise has been established, provided that neither we nor our paying agent have actual knowledge that the holder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied.

The payment of the proceeds from the disposition of the notes to or through a non-U.S. office of a non-U.S. broker will not be subject to information reporting or backup withholding unless the non-U.S. broker is a U.S. related person, meaning that the broker is: (i) a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States; (ii) is a controlled foreign corporation for U.S. federal income tax purposes; or (iii) is a foreign partnership that, at any time during its taxable year, has more than 50% of its income or capital interests owned by United States persons or is engaged in the conduct of a U.S. trade or business. In the case of the payment of the proceeds from the disposition of the notes to or through a non-U.S. office of a broker that is either a U.S. person or a U.S. related person, the Treasury regulations require information reporting (but not backup withholding) on the payment unless the broker has documentary evidence in its files that the owner is a Non-U.S. Holder and the broker has no knowledge to the contrary.

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Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Holder will be refunded or credited against the holder s U.S. federal income tax liability, if any, if the holder timely provides the required information to the IRS.

Additional Withholding Requirements

Under Sections 1471 through 1474 of the Code (such Sections commonly referred to as FATCA), a 30% United States federal withholding tax may apply to any interest income paid on the notes and, for a disposition of a note occurring after December 31, 2018, the gross proceeds from such disposition, in each case paid to (i) a foreign financial institution (as specifically defined in the Code) for itself or for the benefit of an accountholder of such financial institution, (A) if the foreign financial institution does not provide sufficient documentation, typically on IRS Form W-8BEN-E, evidencing either (x) an exemption from FATCA, or (y) its compliance (or deemed compliance) with FATCA (which may alternatively be in the form of compliance with an intergovernmental agreement with the United States) in a manner which avoids withholding or (B) if the accountholder fails to comply with certain identifying documentation requirements, or (ii) a non-financial foreign entity (as specifically defined in the Code) which does not provide sufficient documentation, typically on IRS Form W-8BEN-E, evidencing either (x) an exemption from FATCA, or (y) adequate information regarding certain substantial United States beneficial owners of such entity (if any). If an interest payment is both subject to withholding under FATCA and subject to the withholding tax discussed above under Non-U.S. Holders Information reporting requirements and backup withholding tax, the withholding under FATCA may be credited against, and therefore reduce, such other withholding tax. You should consult your own tax advisors regarding these rules and whether they may be relevant to your ownership and disposition of the notes.

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE MAY NOT BE APPLICABLE DEPENDING UPON YOUR PARTICULAR SITUATION. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO YOU OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

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CERTAIN BENEFIT PLAN INVESTOR CONSIDERATIONS

Each purchaser of notes in this offering that is a Plan will be deemed to make the representations in the following paragraph. For this purpose, a Plan is (i) any employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (ERISA), (ii) individual retirement accounts (IRAs and each, an IRA) and other arrangements subject to Section 4975 of the Code, and (iii) an entity whose underlying assets include plan assets within the meaning of ERISA by reason of the investments by such plans or accounts or arrangements therein.

Each purchaser of notes in this offering that is a Plan and that acquires notes in connection with this offering will be deemed to represent by its purchase of notes offered hereby that a fiduciary (the Fiduciary) independent of us, the underwriters, or any of our or their respective affiliates (the Transaction Parties) acting on the Plan s behalf is responsible for the Plan s decision to acquire notes in this offering and that such Fiduciary:

1. is either a U.S. bank, a U.S. insurance carrier, a U.S. registered investment adviser, a U.S. registered broker-dealer or an independent fiduciary with at least $50 million of assets under management or control, in each case under the requirements specified in the U.S. Code of Federal Regulations, 29 C.F.R. Section 2510.3-21(c)(1)(i), as amended from time to time;

2. in the case of a Plan that is an IRA, is not the IRA owner, beneficiary of the IRA or relative of the IRA owner or beneficiary;

3. is capable of evaluating investment risks independently, both in general and with regard to the prospective investment in notes;

4. is a fiduciary under ERISA or the Code, or both, with respect to the decision to acquire notes;

5. has exercised independent judgment in evaluating whether to invest the assets of the Plan in notes;

6. understands and has been fairly informed of the existence and the nature of the financial interests of the Transaction Parties in connection with the Plan s acquisition of notes;

7. understands that the Transaction Parties are not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity to the Plan, in connection with the Plan s acquisition of notes; and

8. confirms that no fee or other compensation will be paid directly to any of the Transaction Parties by the Plan, or any fiduciary, participant or beneficiary of the Plan, for the provision of investment advice (as opposed to other services) in connection with the Plan s acquisition of notes.

UNDERWRITING

We intend to offer the notes through the underwriters. Subject to the terms and conditions in the underwriting agreement among us and the underwriters, we have agreed to sell to each underwriter, and each underwriter has severally agreed to purchase from us, the principal amount of notes that appears opposite its name in the table below:

Underwriter	Principal Amount of Securities
Credit Suisse Securities (USA) LLC	$ 228,000,000
Goldman Sachs & Co. LLC	$ 228,000,000
J.P. Morgan Securities LLC	$ 48,000,000
Morgan Stanley & Co. LLC	$ 48,000,000
PNC Capital Markets LLC	$ 48,000,000
Total	$ 600,000,000

The offering of the notes by the underwriters is subject to receipt and acceptance and subject to the underwriters right to reject any order in whole or in part. The underwriters are committed to take and pay for all of the notes being offered, if any are taken. In certain circumstances, if an underwriter defaults, the underwriting agreement may be terminated.

Notes sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any notes sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price of up to 0.450% of the principal amount of notes. Any such securities dealers may resell any notes purchased from the underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to 0.250% of the principal amount of notes. If all the notes are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms.

The notes are a new issue of securities with no established trading market. The company has been advised by the underwriters that they intend to make a market in the notes but they are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

The company estimates that its share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $1.0 million.

The company has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

In connection with the offering, the underwriters may purchase and sell notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by an underwriter of a greater number of notes than it is required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the other underwriters a portion of the underwriting discount received by it because the other underwriter has repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

We expect that delivery of the notes will be made against payment therefor on or about the closing date of this offering specified on the cover page, which is three business days following the date of pricing of the notes (this settlement cycle being referred to as T+3). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade their notes on the date of pricing will be required, by virtue of the fact that the notes initially will settle in T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of notes who wish to trade their notes on the date of pricing should consult their own advisor.

These activities, as well as other purchases by the underwriters for their own accounts, may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time without notice. These transactions may be effected in the over-the-counter market or otherwise.

Selling Restrictions

Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement and the accompanying prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

European Economic Area

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the Prospectus Directive). Consequently no key information document required by Regulation (EU) No 1286/2014 (the PRIIPs Regulation) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Each underwriter has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any notes to any retail investor in the EEA. For the purposes of this provision:

a. the expression retail investor means a person who is one (or more) of the following:

i. a retail client as defined in point (11) of Article 4(1) of MiFID II;

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ii. a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

iii. not a qualified investor as defined in the Prospectus Directive;

and

b. the expression offer includes the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes.

Hong Kong

The notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) (Companies (Winding Up and Miscellaneous Provisions) Ordinance) or which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (Securities and Futures Ordinance), or (ii) to professional investors as defined in the Securities and Futures Ordinance and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

Japan

The notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended), or the FIEA. The notes may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan (including any person resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any relevant laws and regulations of Japan.

Korea

The notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea and none of the notes may be offered or sold, directly or indirectly, in Korea or to any resident of Korea, or to any persons for reoffering or resale, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined in the Foreign Exchange Transaction Law of Korea and rules and regulations promulgated thereunder), except as otherwise permitted under applicable laws and regulations.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or

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indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the SFA)) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to conditions set forth in the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, the securities (as defined in Section 239(1) of the SFA) of that corporation shall not be transferable for 6 months after that corporation has acquired the notes under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer in that corporation s securities pursuant to Section 275(1A) of the SFA, (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore (Regulation 32).

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor, the beneficiaries rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that trust has acquired the notes under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer that is made on terms that such rights or interest are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction (whether such amount is to be paid for in cash or by exchange of securities or other assets), (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32.

Switzerland

The notes may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (SIX) or on any other stock exchange or regulated trading facility in Switzerland. This prospectus supplement and the accompanying prospectus do not constitute a prospectus within the meaning of and have been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. No underwriter may publicly distribute or otherwise make publicly available in Switzerland this prospectus supplement, the accompanying prospectus or any other offering or marketing material relating to the notes.

Neither this prospectus supplement, the accompanying prospectus nor any other offering or marketing material relating to the offering, the Company or the notes has been or will be filed with or approved by any Swiss regulatory authority. In particular, this prospectus supplement and the accompanying prospectus will not be filed with, and the offer of notes will not be supervised by, the Swiss Market Supervisory Authority, and the offer of notes has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (the CISA). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the notes.

Taiwan

The notes have not been and will not be registered with the Financial Supervisory Commission of Taiwan, the Republic of China (Taiwan), pursuant to relevant securities laws and regulations and may not be offered or sold in Taiwan through a public offering or in any manner which would constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or would otherwise require registration with or the approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering or sale of the notes in Taiwan.

United Kingdom

In the United Kingdom, this prospectus supplement is for distribution only to and is directed only at: (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (the Order); or (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Articles 49(2)(a) to (d) of the Order (all such persons together being referred to as Relevant Persons). In the United Kingdom, this prospectus supplement and its contents are directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. In the United Kingdom, any investment or investment activity to which this prospectus supplement relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person may not act or rely on this prospectus supplement or any of its contents.

Each underwriter has represented and agreed that:

a. it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to the issuer; and

b. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Other Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the issuer and to persons and entities with relationships with the issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. If any of the underwriters or their affiliates have a lending relationship with us, certain of those underwriters or their affiliates routinely hedge, and certain other of those underwriters or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby and the serial preferred shares being offered in the concurrent offering. Any such credit default swap or short positions could adversely affect future trading prices of the notes offered hereby. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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LEGAL MATTERS

Certain legal matters in connection with the notes will be passed upon for Progressive by Baker & Hostetler LLP, Cleveland, Ohio. Certain legal matters relating to the offering of the notes will be passed upon for the underwriters by Sullivan & Cromwell LLP, New York, New York. Sullivan & Cromwell LLP will rely upon Baker & Hostetler LLP as to matters of Ohio law.

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PROSPECTUS

THE PROGRESSIVE CORPORATION

Senior Debt Securities

Serial Preferred Shares

By this prospectus, we may offer from time to time our notes, debentures or other evidences of unsecured, senior indebtedness (the senior debt securities), and our serial preferred shares, without par value (the serial preferred shares), as further described in this prospectus. We sometimes refer to the senior debt securities in this prospectus as debt securities and the senior debt securities and serial preferred shares collectively as securities.

We may offer senior debt securities and serial preferred shares in one or more series. This prospectus describes some of the general terms that may apply to those securities and the general way in which they may be offered. We will specify the terms applicable to each series of securities, and the manner in which they will be offered, in a supplement to this prospectus (a prospectus supplement). We may not use this prospectus to sell securities unless this prospectus is accompanied by a prospectus supplement. You should read this prospectus and the applicable prospectus supplement carefully before you invest.

Unless stated otherwise in the applicable prospectus supplement, the securities will not be listed on any securities exchange.

Our principal executive office is located at 6300 Wilson Mills Road, Mayfield Village, Ohio 44143, and our telephone number is (440) 461-5000.

Investing in our securities involves risks. See Risk Factors on page 3 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 9, 2018

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ABOUT THIS PROSPECTUS

This prospectus is a part of a registration statement that we filed with the Securities and Exchange Commission (the SEC or Commission). Under the registration statement, we may offer from time to time the securities described in this prospectus. This prospectus provides you with a general description of the securities that we may offer. Our discussions of those securities and certain related documents are summaries only and are not necessarily complete. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of the securities being offered. The prospectus supplement may add, update or change information contained in this prospectus.

This prospectus includes certain documents and information that are incorporated by reference below, and it omits some of the information contained in the registration statement and the exhibits thereto. Before you invest, you should read this prospectus, any applicable prospectus supplement and the documents and other information that are incorporated by reference into this prospectus and any applicable prospectus supplement, together with the registration statement and the documents that are attached to the registration statement as exhibits. Descriptions of the documents and other information that are incorporated by reference in this prospectus, as well as information about how to obtain copies of the registration statement and related documentation from us, can be found below under Where You Can Find More Information.

When we use the terms Progressive, the company, we, us, or our in this prospectus, we mean The Progressive Corporation, and not any of its subsidiaries or affiliates, unless we state or the context implies otherwise. The term subsidiaries in this prospectus includes our majority owned subsidiary ARX Holding Corp. (ARX), both Progressive s and ARX s wholly owned insurance and non-insurance subsidiaries, and affiliates in which Progressive or ARX has a controlling financial interest, unless we state or the context implies otherwise.

No person has been authorized to give any information or to make any representations not contained or incorporated by reference into this prospectus, any applicable prospectus supplement or any applicable free writing prospectus that we may provide in connection with any offering made hereby and thereby, and if given or made, such information or representations must not be relied upon. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the registered securities to which it relates. This prospectus also does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which such offer or solicitation may not be legally made. The delivery of this prospectus at any time does not imply that the information in this prospectus or any document incorporated by reference in this prospectus is correct as of any time after the date hereof or thereof.

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RISK FACTORS

Investing in our securities involves risks. You should carefully consider the risks described in any prospectus supplement that we provide and in our filings with the SEC referred to below under Where You Can Find More Information, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2017, which includes a Risk Factors discussion at Item 1A. Our subsequent filings with the SEC may contain amended and updated discussions of significant risks.

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FORWARD-LOOKING STATEMENTS

In this section, when we use the terms Progressive, the company, we, us or our, we mean The Progressive Corporation and its subsidiaries, on a consolidated basis, unless we state or the context implies otherwise.

Safe harbor statement under the Private Securities Litigation Reform Act of 1995: Investors are cautioned that certain statements in this prospectus and the documents incorporated by reference in this prospectus that are not based upon historical fact are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements often use words such as estimate, expect, intend, plan, believe, and other words and terms of s meaning, or are tied to future periods, in connection with a discussion of future operating or financial performance. Forward-looking statements are based on current expectations and projections about future events, and are subject to certain risks, assumptions and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation:

- uncertainties related to estimates, assumptions, and projections generally;
- inflation and changes in general economic conditions (including changes in interest rates and financial markets);
- the possible failure of one or more governmental, corporate, or other entities to make scheduled debt payments or satisfy other obligations;
- our ability to access capital markets and financing arrangements when needed to support growth or other capital needs, and the favorable evaluations by credit and other rating agencies on which this access depends;
- the potential or actual downgrading by one or more rating agencies of our securities or governmental, corporate, or other securities we hold;
- the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolios and other companies with which we have ongoing business relationships, including reinsurers and other counterparties to certain financial transactions or under certain government programs;
- the accuracy and adequacy of our pricing, loss reserving, and claims methodologies;
- the competitiveness of our pricing and the effectiveness of our initiatives to attract and retain more customers;

initiatives by competitors and the effectiveness of our response;

our ability to obtain regulatory approval for the introduction of products to new jurisdictions, for requested rate changes and the timing thereof and for any proposed acquisitions;

the effectiveness of our brand strategy and advertising campaigns relative to those of competitors;

legislative and regulatory developments at the state and federal levels, including, but not limited to, matters relating to vehicle and homeowners insurance, health care reform and tax law changes;

the outcome of disputes relating to intellectual property rights;

the outcome of litigation or governmental investigations that may be pending or filed against us;

severe weather conditions and other catastrophe events;

the effectiveness of our reinsurance programs;

changes in vehicle usage and driving patterns, which may be influenced by oil and gas prices, changes in residential occupancy patterns and the effects of the emerging sharing economy ;

advancements in vehicle or home technology or safety features, such as accident and loss prevention technologies or the development of autonomous or partially autonomous vehicles;

our ability to accurately recognize and appropriately respond in a timely manner to changes in loss frequency and severity trends;

technological advances;

acts of war and terrorist activities;

our ability to maintain the uninterrupted operation of our facilities, systems (including information technology systems), and business functions, and safeguard personal and sensitive information in our possession, whether from cyber-attacks, other technology events or other means;

our continued access to and functionality of third-party systems that are critical to our business;

our continued ability to access cash accounts and/or convert securities into cash on favorable terms when we desire to do so;

restrictions on our subsidiaries ability to pay dividends to The Progressive Corporation;

possible impairment of our goodwill or intangible assets if future results do not adequately support either, or both, of these items;

court decisions, new theories of insurer liability or interpretations of insurance policy provisions and other trends in litigation;

changes in health care and auto and property repair costs; and

other matters described from time to time in our releases and publications, and in our periodic reports and other documents filed with the SEC.

In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for one or more contingencies. Also, our regular reserve reviews may result in adjustments of varying magnitude as additional information regarding claims activity becomes known. Reported results, therefore, may be volatile in certain accounting periods.

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THE PROGRESSIVE CORPORATION

In this section, when we use the terms Progressive, the company,&#t;font-size:10pt;">—

$
(6,829
)
Total other comprehensive income, net of taxes
1,547

—

1,547

Ending balance
$
(5,282
)
$
—

$
(5,282
)
First Nine Months Fiscal 2015
Foreign
currency
translation
gain (loss)
Net unrealized
gain (loss) on
cash flow
hedges
Accumulated
other
comprehensive
income (loss)
Beginning balance
$
(30,900
)
$
746

$
(30,154
)

Total other comprehensive income (loss), net of taxes
24,699

(746
)
23,953

Ending balance
$
(6,201
)
$
—

$
(6,201
)

Substantially all of the change in accumulated other comprehensive loss during the First Nine Months of Fiscal 2015 resulted from the sale of our discontinued operations as substantially all of the amounts previously classified in accumulated other comprehensive loss related to foreign currency translation were recognized in net loss from discontinued operations in our consolidated statement of operations during the Second Quarter of Fiscal 2015. No amounts of accumulated other comprehensive loss were reclassified from accumulated other comprehensive loss into our consolidated statements of operations during the First Nine Months of Fiscal 2016.

4. Business Combinations: On April 19, 2016, we acquired Southern Tide, LLC, which owns the Southern Tide lifestyle apparel brand. Southern Tide carries an extensive selection of men's shirts, pants, shorts, outerwear, ties, swimwear, footwear and accessories, as well as a women's collection. The brand's products are sold through its wholesale operations to specialty stores and department stores as well as through its direct to consumer operations on the Southern Tide website.

The purchase price for the acquisition of Southern Tide was $85 million in cash, subject to adjustment based on net working capital as of the closing date of the acquisition. After giving effect to the final working capital adjustment paid in the Second Quarter of Fiscal 2016, the purchase price paid was $92.0 million, net of acquired cash of $2.4 million. We used borrowings under our revolving credit facility to finance the transaction. Transaction costs related to this acquisition totaled $0.8 million and are included in SG&A in Corporate and Other in the First Nine Months of Fiscal 2016.

Our allocation of the purchase price to the estimated fair values of the acquired assets and liabilities is preliminary. The allocation will be revised during the one year allocation period, as appropriate, as we obtain new information about the fair values of these assets and liabilities and finalize valuation estimates. Changes in future periods to the amounts allocated to the various assets could be material. The following table summarizes our preliminary allocation of the purchase price for the Southern Tide acquisition (in thousands):

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	Southern Tide acquisition
Cash and cash equivalents	$ 2,423
Receivables	6,672
Inventories (1)	16,607
Prepaid expenses	740
Property and equipment	220
Intangible assets	40,900
Goodwill	33,783
Other non-current assets	344
Accounts payable, accrued expenses and other liabilities	(3,328)
Deferred taxes	(3,978)
Purchase price	$ 94,383

(1) Includes a step-up of acquired inventory from cost to fair value of $3.0 million pursuant to the purchase method of accounting. This step-up amount will be recognized in cost of goods sold as the acquired inventory is sold.

Goodwill represents the amount by which the cost to acquire Southern Tide exceeds the fair value of individual acquired assets less liabilities of the business at acquisition. Intangible assets allocated in connection with our preliminary purchase price allocation consisted of the following (in thousands):

	Useful life	Southern Tide acquisition
Finite lived intangible assets acquired, primarily consisting of customer relationships	0 - 15 years	$ 6,600
Trade names and trademarks	Indefinite	34,300
		$ 40,900

Pro Forma Information

The consolidated pro forma information presented below (in thousands, except per share data) gives effect to the April 19, 2016 acquisition of Southern Tide as if the acquisition had occurred as of the beginning of Fiscal 2015. The information presented below is for illustrative purposes only, is not indicative of results that would have been achieved if the acquisition had occurred as of the beginning of Fiscal 2015 and is not intended to be a projection of future results of operations. The pro forma statements of operations have been prepared from our and Southern Tide's historical statements of operations for the periods presented, including without limitation, purchase accounting adjustments, but excluding any seller specific management/advisory or similar expenses and any synergies or operating cost reductions that may be achieved from the combined operations in the future.

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015
Net sales	$222,308	$209,837	$773,319	$740,756
(Loss) earnings from continuing operations before income taxes	$(49)	$(1,240)	$72,804	$66,758
(Loss) earnings from continuing operations	$(987)	$(1,160)	$45,494	$40,771
(Loss) earnings from continuing operations per share:				
Basic	$(0.06)	$(0.07)	$2.75	$2.48
Diluted	$(0.06)	$(0.07)	$2.73	$2.46

The First Nine Months of Fiscal 2016 pro forma information above includes amortization of acquired intangible assets, but excludes the transaction expenses associated with the transaction and the incremental cost of goods sold associated with the step-up of inventory at acquisition that were recognized by us in our First Nine Months of Fiscal 2016 consolidated statement of operations. The First Nine Months of Fiscal 2015 pro forma information above

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includes amortization of acquired intangible assets, transaction expenses associated with the transaction and incremental cost of goods sold associated with the step-up of inventory at acquisition. Additionally, the pro forma adjustments for each period prior to the date of acquisition reflect an estimate of incremental interest expense associated with additional borrowings and income tax expense that would have been incurred subsequent to the acquisition.

We believe that the acquisition of Southern Tide further advances our strategic goal of owning a diversified portfolio of lifestyle brands. The acquisition provides strategic benefits through growth opportunities and further diversification of our business.

5. Discontinued Operations: On July 17, 2015, we sold 100% of the equity interests of our Ben Sherman business, consisting of Ben Sherman Limited and its subsidiaries and Ben Sherman Clothing LLC, for £40.8 million before any working capital or other purchase price adjustments. The final purchase price received by us was subject to adjustment based on, among other things, the actual debt and net working capital of the Ben Sherman business on the closing date, which was finalized and paid during the First Quarter of Fiscal 2016. We do not anticipate significant operations or earnings related to the discontinued operations in future periods, with cash flow attributable to discontinued operations in the future primarily limited to amounts associated with certain retained lease obligations. The estimated lease liability of $3.3 million as of October 29, 2016 represents our best estimate of the future net loss anticipated with respect to the retained lease obligations; however, the ultimate loss to be recognized remains uncertain as the amount of any sub-lease income is dependent upon negotiated terms of any sub-lease agreements entered into for the spaces in the future.

The following table represents major classes of assets and liabilities related to the discontinued operations included in our consolidated balance sheets as of the following dates (in thousands):

	October 29, 2016	January 30, 2016	October 31, 2015
Accounts payable and other accrued expenses	$ —	$ (2,394)	$ (6,208)
Non-current liabilities	(3,279)	(4,571)	—
Net (liabilities) assets	$ (3,279)	$ (6,965)	$ (6,208)

Operating results of the discontinued operations are shown below (in thousands):

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015
Net sales	$ —	$ —	$ —	$ 28,081
Cost of goods sold	—	—	—	17,414
Gross profit	$ —	$ —	$ —	$ 10,667
SG&A	—	562	—	20,668
Royalties and other operating income	—	—	—	1,919
Operating loss	$ —	$ (562)	$ —	$ (8,082)
Interest expense, net	—	—	—	45
Loss from discontinued operations before income taxes	$ —	$ (562)	$ —	$ (8,127)
Income taxes	—	192	—	(672)
Loss from discontinued operations, net of taxes	$ —	$ (754)	$ —	$ (7,455)
Loss on sale of discontinued operations, net of taxes	—	—	—	(20,437)
Loss from discontinued operations, net of taxes	$ —	$ (754)	$ —	$ (27,892)

During the First Nine Months of Fiscal 2016, we did not incur any depreciation, amortization or capital expenditures related to our discontinued operations, while in the First Nine Months of Fiscal 2015, we recognized $0.7 million of depreciation and amortization and $0.7 million of capital expenditures. Depreciation, amortization and capital expenditures, if any, related to our discontinued operations are included in the respective line items in our consolidated statements of cash flows.

6. Debt: On May 24, 2016, we entered into a Fourth Amended and Restated Credit Agreement (the “Revolving Credit Agreement”). The Revolving Credit Agreement provides for a revolving credit facility of up to $325 million, which may be used to refinance existing debt, to fund working capital, to fund future acquisitions and for general corporate purposes. The Revolving Credit Agreement amended and restated our Third Amended and Restated Credit Agreement, dated June 14, 2012 maturing November 2018 (the “Prior Credit Agreement”). The Revolving Credit Agreement (i) increased the borrowing capacity of the facility, (ii) extended the maturity to May 2021 and (iii) modified certain other provisions and restrictions from the Prior Credit Agreement. This amendment and restatement resulted in a write off of unamortized deferred financing costs of $0.3 million in the Second Quarter of Fiscal 2016.

The Revolving Credit Agreement generally (i) is limited to a borrowing base consisting of specified percentages of eligible categories of assets, (ii) accrues variable-rate interest, unused line fees and letter of credit fees based upon average unused availability or utilization, (iii) requires periodic interest payments with principal due at maturity (May 2021) and (iv) is secured by a first priority security interest in substantially all of the assets of Oxford Industries, Inc. and substantially all of its domestic subsidiaries, including accounts receivable, books and records, chattel paper, deposit accounts, equipment, certain general intangibles, inventory, investment property (including the equity interests of certain subsidiaries), negotiable collateral, life insurance policies, supporting obligations, commercial tort claims, cash and cash equivalents, eligible trademarks, proceeds and other personal property.

The Revolving Credit Agreement is subject to a number of affirmative covenants regarding the delivery of financial information, compliance with law, maintenance of property, insurance requirements and conduct of business. Also, our Revolving Credit Agreement is subject to certain negative covenants or other restrictions, including, among other things, limitations on our ability to (i) incur debt, (ii) guaranty certain obligations, (iii) incur liens, (iv) pay dividends to shareholders, (v) repurchase shares of our common stock, (vi) make investments, (vii) sell assets or stock of subsidiaries, (viii) acquire assets or businesses, (ix) merge or consolidate with other companies or (x) prepay, retire, repurchase or redeem debt.

Further, the Revolving Credit Agreement contains a financial covenant that applies if excess availability under the agreement for three consecutive days is less than the greater of (i) $23.5 million or (ii) 10% of availability. In such case, our fixed charge coverage ratio, as defined in the Revolving Credit Agreement, must not be less than 1.0 to 1.0 for the immediately preceding 12 fiscal months for which financial statements have been delivered. This financial covenant continues to apply until we have maintained excess availability under the Revolving Credit Agreement of more than the greater of (i) $23.5 million or (ii) 10% of availability for 30 consecutive days.

7. Commitments and Contingencies: We are subject to certain claims and assessments in the ordinary course of business. The claims and assessments may relate, among other things, to disputes about intellectual property, real estate and contracts, as well as labor, employment, environmental, customs and tax matters. For those matters where it is probable that we have incurred a loss and the loss, or range of loss, can be reasonably estimated, we have recorded reserves in other accrued expenses and liabilities or other non-current liabilities in our consolidated financial statements for the estimated loss and related expenses, such as legal fees. In other instances, because of the uncertainties related to both the probable outcome or amount or range of loss, we are unable to make a reasonable estimate of a liability, if any, and therefore have not recorded a reserve. As additional information becomes available or as circumstances change, we adjust our assessment and estimates of such liabilities accordingly. Additionally, for any potential gain contingencies, we do not recognize the gain until the period that all contingencies have been resolved and the amounts are realizable.

During the Third Quarter of Fiscal 2016, we recognized a benefit of $1.9 million, or $0.07 per diluted share, after tax, in connection with a settlement of certain outstanding economic loss claims filed pursuant to the Deepwater Horizon

Economic and Property Damages Settlement Program, and we recognized a charge of $1.3 million, or $0.08 per diluted share, related to an assertion of underpaid customs duties. Both of these matters have been recognized in cost of goods sold in Tommy Bahama. As the charge relating to the duties is associated with our international operations in a jurisdiction with taxable losses, there is no income tax benefit currently recognized associated with this charge. In addition, that charge may be adjusted or reversed as the matter progresses and additional information becomes available.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes to the unaudited condensed consolidated financial statements contained in this report and the consolidated financial statements, notes to consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for Fiscal 2015.

OVERVIEW

We are a global apparel company that designs, sources, markets and distributes products bearing the trademarks of our owned Tommy Bahama®, Lilly Pulitzer® and Southern Tide® lifestyle brands, as well as certain licensed and private label apparel products. During Fiscal 2015, 91% of our net sales were from products bearing brands that we own and 66% of our net sales were through our direct to consumer channels of distribution. In Fiscal 2015, more than 95% of our consolidated net sales were to customers located in the United States, with the sales outside the United States primarily being sales of our Tommy Bahama products in Canada and the Asia-Pacific region.

Our business strategy is to develop and market compelling lifestyle brands and products that evoke a strong emotional response from our target consumers. We consider lifestyle brands to be those brands that have a clearly defined and targeted point of view inspired by an appealing lifestyle or attitude. Furthermore, we believe lifestyle brands like Tommy Bahama, Lilly Pulitzer and Southern Tide that create an emotional connection with consumers can command greater loyalty and higher price points at retail and create licensing opportunities, which may drive higher earnings. We believe the attraction of a lifestyle brand depends on creating compelling product, effectively communicating the respective lifestyle brand message and distributing the product to the consumer where and when they want it.

Our ability to compete successfully in styling and marketing is directly related to our proficiency in foreseeing changes and trends in fashion and consumer preference, and presenting appealing products for consumers. Our design-led, commercially informed lifestyle brand operations strive to provide exciting, differentiated products each season.

To further strengthen each lifestyle brand's connections with consumers, we directly communicate with consumers through electronic and print media on a regular basis. We believe our ability to communicate effectively with consumers and create an emotional connection is critical to the success of the brands.

We distribute our owned lifestyle branded products through our direct to consumer channels, consisting of our Tommy Bahama and Lilly Pulitzer retail stores and our e-commerce sites for Tommy Bahama, Lilly Pulitzer and Southern Tide, and through our wholesale distribution channels. Our direct to consumer operations provide us with the opportunity to interact directly with our customers, present to them a broad assortment of our current season products and provide an opportunity for consumers to be immersed in the theme of the lifestyle brand. We believe that presenting our products in a setting specifically designed to showcase the lifestyle on which the brands are based enhances the image of our brands. Our Tommy Bahama and Lilly Pulitzer full-price retail stores provide high visibility for our brands and products, and allow us to stay close to the preferences of our consumers, while also providing a platform for long-term growth for the brands. In Tommy Bahama, we also operate a limited number of restaurants, generally adjacent to a Tommy Bahama full-price retail store location, which we believe further enhance the brand's image with consumers.

Additionally, our e-commerce websites, which represented 17% of our consolidated net sales in Fiscal 2015, provide the opportunity to increase revenues by reaching a larger population of consumers and at the same time allow our brands to provide a broader range of products. Our e-commerce flash clearance sales on our websites and our Tommy Bahama outlet stores play an important role in overall brand and inventory management by allowing us to sell discontinued and out-of-season products in brand appropriate settings and at better prices than are typically available from third parties.

The wholesale operations of our lifestyle brands complement our direct to consumer operations and provide access to a larger group of consumers. As we seek to maintain the integrity of our lifestyle brands by limiting promotional activity in our full-price retail stores and e-commerce websites, we generally target wholesale customers that follow this same approach in their stores. Our wholesale customers for our Tommy Bahama, Lilly Pulitzer and Southern Tide brands include better department stores and specialty stores.

Within our Lanier Apparel operating group, we sell tailored clothing and sportswear products under licensed brands, private labels and owned brands. Lanier Apparel's customers include department stores, national chains, warehouse clubs, discount retailers, specialty retailers and others throughout the United States.

All of our operating groups operate in highly competitive apparel markets in which numerous U.S.-based and foreign apparel firms compete. No single apparel firm or small group of apparel firms dominates the apparel industry, and our direct

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competitors vary by operating group and distribution channel. We believe the principal competitive factors in the apparel industry are reputation, value, and image of brand names; design; consumer preference; price; quality; marketing; and customer service.

The apparel industry is cyclical and very dependent upon the overall level and focus of discretionary consumer spending, which changes as regional, domestic and international economic conditions change. Often, negative economic conditions have a longer and more severe impact on the apparel industry than these conditions may have on other industries. We believe the global economic conditions and resulting economic uncertainty that have prevailed in recent years continue to impact our business, and the apparel industry as a whole. Although general signs of economic improvements exist, the apparel retail environment continues to be impacted adversely by declines in consumer traffic and remains highly promotional.

We believe the retail apparel market is evolving very rapidly and in ways that are having a disruptive impact on traditional fashion retailing. The application of technology, including the internet and mobile devices, to fashion retail provides consumers increasing access to multiple, responsive distribution platforms and an unprecedented ability to communicate directly with brands, retailers and others. As a result, consumers have more information and broader, faster and cheaper access to goods than they have ever had before. This, along with the coming of age of the "millennial" generation, is revolutionizing the way that consumers shop for fashion and other goods. The evidence is increasingly apparent with marked weakness in department stores and mall-based retailers and growth in internet purchases.

While this evolution in the fashion retail industry presents significant risks, especially for traditional retailers who fail or are unable to adapt, we believe it also presents a tremendous opportunity for brands and retailers. We believe our brands have attributes that are true competitive advantages in this new retailing paradigm and we are leveraging technology to serve our consumers when and where they want to be served. We continue to believe that our lifestyle brands are well suited to succeed and thrive in the long term while managing the various challenges facing our industry. Specifically, we believe our lifestyle brands have significant opportunities for long term growth in their direct to consumer businesses. This growth can be achieved through prudent expansion of bricks and mortar retail store operations, by adding additional retail store locations and increasing comparable retail store sales, and higher sales in our e-commerce operations, which are expected to grow at a faster rate than bricks and mortar comparable retail store sales. Our lifestyle brands also have an opportunity for moderate sales increases in their wholesale businesses in the long-term primarily from current customers adding to their existing door count and increasing their on-line business, increased sales to on-line retailers and the selective addition of new wholesale customers who generally follow a full-price retail model. We also believe that there are opportunities for modest sales growth for Lanier Apparel in the future through new product programs for existing and new customers.

We believe we must continue to invest in our lifestyle brands to take advantage of their long-term growth opportunities. Investments include capital expenditures primarily related to the direct to consumer operations such as technology enhancements, e-commerce initiatives, retail store and restaurant build-out for new and relocated locations as well as remodels, and distribution center and administrative office expansion initiatives. Additionally, while we anticipate increased employment, advertising and other costs in key functions to support the ongoing business operations and fuel future sales growth, we remain focused on appropriately managing our operating expenses.

We continue to believe it is important to maintain a strong balance sheet and liquidity. We believe positive cash flow from operations in the future coupled with the strength of our balance sheet and liquidity will provide us with sufficient resources to fund future investments in our owned lifestyle brands. While we believe we have significant opportunities to appropriately deploy our capital and resources in our existing lifestyle brands, we will continue to evaluate opportunities to add additional lifestyle brands to our portfolio if we identify appropriate targets which meet our investment criteria.

The following table sets forth our consolidated operating results from continuing operations (in thousands, except per share amounts) for the First Nine Months of Fiscal 2016 compared to the First Nine Months of Fiscal 2015:

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015
Net sales	$761,539	$709,708
Operating income	$70,368	$69,063
Net earnings from continuing operations	$42,455	$40,983
Net earnings from continuing operations per diluted share	$2.55	$2.48

The primary reason for the higher net earnings from continuing operations per diluted share in the First Nine Months of Fiscal 2016 was improved operating results in Lilly Pulitzer, Corporate and Other and Lanier Apparel and a lower effective

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tax rate partially offset by lower operating income in Tommy Bahama, the Southern Tide operating loss and higher interest expense, each as discussed below in our results of operations discussion.

Southern Tide Acquisition

On April 19, 2016, we acquired Southern Tide, LLC, which owns the Southern Tide lifestyle apparel brand. Southern Tide carries an extensive selection of men's shirts, pants, shorts, outerwear, ties, swimwear, footwear and accessories, as well as a women's collection. The brand's products are sold through its wholesale operations to specialty stores and department stores as well as through its direct to consumer operations on the Southern Tide website. The purchase price for the acquisition was $85 million in cash, subject to adjustment based on net working capital as of the closing date for the acquisition. We used borrowings under our revolving credit facility to finance the transaction. For additional information about the Southern Tide acquisition refer to note 4 to the unaudited condensed consolidated financial statements contained in this report.

COMPARABLE STORE SALES

We often disclose comparable store sales in order to provide additional information regarding changes in our results of operations between periods. Our disclosures of comparable store sales include net sales from full-price stores and our e-commerce sites, excluding sales associated with e-commerce flash clearance sales. We believe that the inclusion of both our full-price stores and e-commerce sites in the comparable store sales disclosures is a more meaningful way of reporting our comparable store sales results, given similar inventory planning, allocation and return policies, as well as our cross-channel marketing and other initiatives for the direct to consumer channel. For our comparable store sales disclosures, we exclude (1) outlet store sales, warehouse sales and e-commerce flash clearance sales, as those sales are used primarily to liquidate end of season inventory, which may vary significantly depending on the level of end of season inventory on hand and generally occur at lower gross margins than our full-price direct to consumer sales, and (2) restaurant sales, as we do not currently believe that the inclusion of restaurant sales is meaningful in assessing our consolidated results of operations. Comparable store sales information reflects net sales, including shipping and handling revenues, if any, associated with product sales.

For purposes of our disclosures, we consider a comparable store to be, in addition to our e-commerce sites, a physical full-price retail store that was owned and open as of the beginning of the prior fiscal year and that did not have during the relevant periods, and is not within the current fiscal year scheduled to have, (1) a remodel resulting in the store being closed for an extended period of time (which we define as a period of two weeks or longer), (2) a greater than 15% change in the size of the retail space due to expansion, reduction or relocation to a new retail space, (3) a relocation to a new space that was significantly different from the prior retail space, or (4) a closing or opening of a Tommy Bahama restaurant adjacent to the retail store. For those stores which are excluded from comparable stores based on the preceding sentence, the stores continue to be excluded from comparable store sales until the criteria for a new store is met subsequent to the remodel, relocation or restaurant closing or opening. A store that is remodeled generally will continue to be included in our comparable store sales metrics as a store is not typically closed for a two week period during a remodel; however, in some cases a store may be closed for more than two weeks during a remodel. A store that is relocated generally will not be included in our comparable store sales metrics until that store has been open in the relocated space for the entirety of the prior fiscal year as the size or other characteristics of the store typically change significantly from the prior location. Additionally, any stores that were closed during the prior fiscal year or current fiscal year, or which we plan to close or vacate in the current fiscal year, are excluded from the definition of comparable store sales.

Definitions and calculations of comparable store sales differ among retail companies, and therefore comparable store sales metrics disclosed by us may not be comparable to the metrics disclosed by other companies.

RESULTS OF OPERATIONS

THIRD QUARTER OF FISCAL 2016 COMPARED TO THIRD QUARTER OF FISCAL 2015

The following table sets forth the specified line items in our unaudited condensed consolidated statements of operations both in dollars (in thousands) and as a percentage of net sales. The table also sets forth the dollar change and the percentage change of the data as compared to the same period of the prior year. We have calculated all percentages based on actual data, but percentage columns may not add due to rounding.

	Third Quarter Fiscal 2016		Third Quarter Fiscal 2015		$ Change	% Change
Net sales	$222,308	100.0 %	$198,624	100.0 %	$23,684	11.9 %
Cost of goods sold	104,029	46.8 %	90,735	45.7 %	13,294	14.7 %
Gross profit	$118,279	53.2 %	$107,889	54.3 %	$10,390	9.6 %
SG&A	121,667	54.7 %	112,694	56.7 %	8,973	8.0 %
Royalties and other operating income	3,061	1.4 %	3,639	1.8 %	(578)	(15.9)%
Operating loss	$(327)	(0.1)%	$(1,166)	(0.6)%	$839	72.0 %
Interest expense, net	716	0.3 %	449	0.2 %	267	59.5 %
Loss from continuing operations before income taxes	$(1,043)	(0.5)%	$(1,615)	(0.8)%	$572	35.4 %
Income taxes	555	0.2 %	(225)	(0.1)%	780	346.7 %
Net loss from continuing operations	$(1,598)	(0.7)%	$(1,390)	(0.7)%	$(208)	(15.0)%
Loss from discontinued operations, net of taxes	—	NM	(754)	NM	754	NM
Net loss	$(1,598)	(0.7)%	$(2,144)	NM	$546	NM

The discussion and tables below compare certain line items included in our statements of operations for the Third Quarter of Fiscal 2016 to the Third Quarter of Fiscal 2015. Each dollar and percentage change provided reflects the change between these periods unless indicated otherwise. Each dollar and share amount included in the tables is in thousands except for per share amounts. Individual line items of our consolidated statements of operations may not be directly comparable to those of our competitors, as classification of certain expenses may vary by company.

Unless otherwise indicated, all references to assets, liabilities, revenues and expenses reflect continuing operations and exclude any amounts related to our former Ben Sherman operating group, which is classified as discontinued operations, as discussed in note 5 in our unaudited condensed consolidated financial statements included in this report.

	Net Sales			
	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Tommy Bahama	$125,966	$124,101	$1,865	1.5 %
Lilly Pulitzer	52,319	44,050	8,269	18.8 %
Lanier Apparel	35,065	29,889	5,176	17.3 %
Southern Tide	8,687	—	8,687	NM
Corporate and Other	271	584	(313)	NM
Total net sales	$222,308	$198,624	$23,684	11.9 %

Consolidated net sales increased $23.7 million, or 11.9%, in the Third Quarter of Fiscal 2016 compared to the Third Quarter of Fiscal 2015. The increase in consolidated net sales was primarily driven by (1) the $8.7 million of net sales of Southern Tide, which was acquired on April 19, 2016, (2) a $6.4 million net increase in direct to consumer clearance sales, (3) an incremental net sales increase of $4.3 million associated with the operation of additional full-price retail stores, (4) a $3.4 million increase in wholesale sales, and (5) a $1.8 million increase in restaurant sales in Tommy Bahama. These sales increases were partially offset by a $0.9 million, or 1%, decrease in comparable store sales to $63.0 million in the Third Quarter of Fiscal 2016 from $63.9 million in the Third Quarter of Fiscal 2015.

We believe that certain macroeconomic factors, including lower traffic and a focus away from fashion apparel by consumers continued to impact the sales of each of our direct to consumer and wholesale businesses unfavorably in the Third Quarter of Fiscal 2016. Additionally, sales of each of our operating groups during the month of October 2016 were unfavorably impacted by Hurricane Matthew to varying degrees, which resulted in certain retail store closures and also negatively impacted wholesale reorders in our business as certain wholesale accounts had lower sales than plan.

The following table presents the proportion of our consolidated net sales by distribution channel for each period presented:

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015
Full-price retail stores and outlets	33 %	37 %
E-commerce	20 %	17 %
Restaurant	7 %	7 %
Wholesale	40 %	39 %
Total	100 %	100 %

Tommy Bahama:

The Tommy Bahama net sales increase of $1.9 million, or 1.5%, was primarily driven by (1) an incremental net sales increase of $2.1 million associated with the operation of additional full-price retail stores, (2) a $1.8 million increase in restaurant sales resulting from the operation of the Waikiki restaurant and modestly higher sales in our other restaurants and (3) a $0.6 million increase in net sales through our direct to consumer clearance channels, including outlet stores and e-commerce flash clearance sales. These sales increases were partially offset by a $2.7 million, or 6%, decrease in comparable store sales to $45.3 million in the Third Quarter of Fiscal 2016 from $48.0 million in the Third Quarter of Fiscal 2015. Wholesale sales were comparable as an increase in off-price wholesale sales generally offset a decrease in full-price wholesale sales.

As of October 29, 2016, we operated 170 Tommy Bahama stores globally, consisting of 113 full-price retail stores, 16 restaurant-retail locations and 41 outlet stores. As of October 31, 2015, we operated 164 Tommy Bahama stores consisting of 107 full-price retail stores, 16 restaurant-retail locations and 41 outlet stores. The following table presents the proportion of net sales by distribution channel for Tommy Bahama for each period presented:

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015
Full-price retail stores and outlets	46 %	48 %
E-commerce	13 %	11 %
Restaurant	12 %	11 %
Wholesale	29 %	30 %
Total	100 %	100 %

Lilly Pulitzer:

The Lilly Pulitzer net sales increase of $8.3 million, or 18.8%, was primarily a result of (1) a $5.8 million increase in e-commerce flash clearance sales, (2) an incremental net sales increase of $2.2 million associated with the operation of additional retail stores and (3) a $1.8 million, or 12%, increase in comparable store sales to $17.7 million in the Third Quarter of Fiscal 2016 compared to $15.9 million in the Third Quarter of Fiscal 2015. These sales increases were partially offset by a $1.5 million decrease in wholesale sales due to lower in-season reorders and the Hanjin shipping bankruptcy, which delayed the arrival of certain product and resulted in certain sales shifting from the Third Quarter of Fiscal 2016 to the Fourth Quarter of Fiscal 2016. The increase in the e-commerce flash clearance sales were primarily due to Lilly Pulitzer not anniversarying its June warehouse sale in Fiscal 2016, resulting in more inventory available for the e-commerce flash clearance sale in the Third Quarter of Fiscal 2016. As of October 29, 2016, we operated 39 Lilly Pulitzer retail stores, compared to 34 retail stores as of October 31, 2015. The following table presents the proportion of net sales by distribution channel for Lilly Pulitzer for each period presented:

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	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015
Full-price retail stores and warehouse sales	32 %	32 %
E-commerce	50 %	43 %
Wholesale	18 %	25 %
Total	100 %	100 %

Lanier Apparel:

The increase in net sales for Lanier Apparel of $5.2 million, or 17.3%, was primarily due to higher volume in both the private label and branded businesses. The higher volume reflects certain favorable shifts in the timing of shipments for certain programs as well as initial and larger shipments for other programs.

Southern Tide:

During the Third Quarter of Fiscal 2016, approximately 84% of Southern Tide's net sales were wholesale sales with the remainder being e-commerce sales. The amount of net sales and the allocation of net sales between wholesale and e-commerce sales for the quarter may not necessarily be indicative of sales for a full year or future periods due to the impact of seasonality on Southern Tide's business.

Corporate and Other:

Corporate and Other net sales primarily consist of the net sales of our Lyons, Georgia distribution center to third party warehouse customers as well as the impact of the elimination of any intercompany sales between our operating groups.

Gross Profit

The table below presents gross profit by operating group and in total for the Third Quarter of Fiscal 2016 and the Third Quarter of Fiscal 2015 as well as the change between those two periods. Our gross profit and gross margin, which is calculated as gross profit divided by net sales, may not be directly comparable to those of our competitors, as the statement of operations classification of certain expenses may vary by company.

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Tommy Bahama	$73,923	$72,557	$1,366	1.9 %
Lilly Pulitzer	30,476	25,939	4,537	17.5 %
Lanier Apparel	9,440	8,492	948	11.2 %
Southern Tide	3,194	—	3,194	NM
Corporate and Other	1,246	901	345	NM
Total gross profit	$118,279	$107,889	$10,390	9.6 %
LIFO credit included in Corporate and Other	$(1,024)	$(414)		
Inventory step-up charge included in Southern Tide	$994	$—		

The increase in consolidated gross profit was primarily due to higher net sales in Lilly Pulitzer and Lanier Apparel as well as the sales associated with Southern Tide and the $0.6 million year over year favorable impact of LIFO accounting. This was partially offset by the $1.0 million inventory step-up charge recognized in cost of goods sold pursuant to the purchase method of accounting included in Southern Tide. Gross profit was also impacted by a $1.9 million benefit related to a settlement of certain outstanding economic loss claims filed pursuant to the Deepwater Horizon Economic and Property Damages Settlement Program and a $1.3 million charge related to an unresolved customs matter.

Changes in gross margin by operating group are discussed below. The table below presents gross margin by operating group and in total for the Third Quarter of Fiscal 2016 and Third Quarter of Fiscal 2015.

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	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015
Tommy Bahama	58.7 %	58.5 %
Lilly Pulitzer	58.3 %	58.9 %
Lanier Apparel	26.9 %	28.4 %
Southern Tide	36.8 %	NA
Corporate and Other	NM	NM
Consolidated gross margin	53.2 %	54.3 %

On a consolidated basis, gross margin decreased in the Third Quarter of Fiscal 2016, primarily as a result of (1) lower gross margins in Lanier Apparel, (2) Lanier Apparel representing a greater proportion of consolidated net sales and (3) the impact of LIFO accounting, purchase accounting, the Deepwater Horizon settlement and the charge for the unresolved customs matter, each as referenced above.

Tommy Bahama:

The gross margin for Tommy Bahama in the Third Quarter of Fiscal 2016 reflects improved gross margin in the full-price direct to consumer, full-price wholesale and outlet store businesses offset by lower gross margin in the off-price wholesale and e-commerce flash clearance businesses. Additionally, the gross margin of Tommy Bahama was impacted by the $1.9 million benefit related to a settlement of certain outstanding economic loss claims filed pursuant to the Deepwater Horizon Economic and Property Damages Settlement Program and the $1.3 million charge related to an assertion of underpaid customs duties.

Lilly Pulitzer:

The decrease in gross margin for Lilly Pulitzer was primarily driven by a change in sales mix with the e-commerce flash clearance sales representing a larger proportion of total sales for Lilly Pulitzer in the Third Quarter of Fiscal 2016.

Lanier Apparel:

The decrease in gross margin for Lanier Apparel for the Third Quarter of Fiscal 2016 was primarily due to a change in sales mix with private label program sales representing a larger proportion of Lanier Apparel sales as well as higher inventory markdowns.

Southern Tide:

The gross profit of Southern Tide for the Third Quarter of Fiscal 2016 includes $1.0 million of incremental cost of goods sold associated with the step-up of inventory recognized pursuant to the purchase method of accounting. Due to the impact of the incremental cost of goods sold associated with the step-up of inventory, we do not consider the gross profit or gross margin for the Third Quarter of Fiscal 2016 to be indicative of expected gross profit, or gross margin, on an annual basis or for future periods.

Corporate and Other:

The gross profit in Corporate and Other in each period primarily reflects (1) the gross profit of our Lyons, Georgia distribution center operations, (2) the impact of LIFO accounting adjustments and (3) the impact of certain consolidating adjustments, including the elimination of intercompany sales between our operating groups. The primary driver for the higher gross profit was that the Third Quarter of Fiscal 2016 was favorably impacted by a LIFO accounting credit of $1.0 million compared to a LIFO accounting credit of $0.4 million in the Third Quarter of Fiscal 2015.

SG&A

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	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
SG&A	$121,667	$112,694	$8,973	8.0 %
SG&A as % of net sales	54.7 %	56.7 %		
Amortization of intangible assets included in Tommy Bahama associated with Tommy Bahama Canada acquisition	$375	$373		
Amortization of intangible assets included in Southern Tide	$156	$—		

The increase in SG&A was primarily due to (1) $3.7 million of SG&A associated with the Southern Tide business, (2) $3.2 million of incremental costs in the Third Quarter of Fiscal 2016 associated with additional Tommy Bahama retail stores and restaurants and Lilly Pulitzer retail stores and (3) an increase in brand advertising and marketing expense and other costs in Lilly Pulitzer. These increases in SG&A were partially offset by a $0.9 million reduction in costs associated with the Tommy Bahama Seattle office as the Third Quarter of Fiscal 2015 included costs associated with duplicate rent and moving expenses.

Royalties and other operating income

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Royalties and other operating income	$3,061	$3,639	$(578)	(15.9)%

Royalties and other operating income in the Third Quarter of Fiscal 2016 primarily reflect income received from third parties from the licensing of our Tommy Bahama, Lilly Pulitzer and Southern Tide brands. The $0.6 million decrease in royalties and other operating income reflects decreased royalty income for Lilly Pulitzer and Tommy Bahama.

Operating income (loss)

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Tommy Bahama	$(7,133)	$(6,289)	$(844)	(13.4)%
Lilly Pulitzer	6,212	5,109	1,103	21.6 %
Lanier Apparel	3,666	2,993	673	22.5 %
Southern Tide	(472)	—	(472)	NM
Corporate and Other	(2,600)	(2,979)	379	12.7 %
Total operating loss	$(327)	$(1,166)	$839	72.0 %
LIFO credit included in Corporate and Other	$(1,024)	$(414)		
Inventory step-up charge included in Southern Tide	$994	$—		
Amortization of intangible assets included in Tommy Bahama associated with Tommy Bahama Canada acquisition	$375	$373		
Amortization of intangible assets included in Southern Tide	$156	$—		

The improved operating results in the Third Quarter of Fiscal 2016 were primarily due to the increased operating results in Lilly Pulitzer and Lanier Apparel partially offset by the lower operating results in Tommy Bahama. Changes in operating income (loss) by operating group are discussed below.

Tommy Bahama:

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Net sales	$125,966	$124,101	$1,865	1.5 %
Gross margin	58.7 %	58.5 %		
Operating loss	$(7,133)	$(6,289)	$(844)	(13.4)%
Operating loss as % of net sales	(5.7)%	(5.1)%		
Amortization of intangible assets included in Tommy Bahama associated with Tommy Bahama Canada acquisition	$375	$373		

The lower operating results for Tommy Bahama were primarily due to the decrease in comparable store sales, higher SG&A and lower royalty income. The higher SG&A for the Third Quarter of Fiscal 2016 includes $2.0 million of incremental SG&A associated with operating additional retail stores and restaurants, including pre-opening rent and set-up costs associated with new stores and restaurants. This SG&A increase was partially offset by $0.9 million of decreased occupancy costs associated with Tommy Bahama's office in Seattle as the Third Quarter of Fiscal 2015 included costs associated with duplicate rent and moving expenses. Additionally, the operating loss of the Waikiki retail-restaurant location, which opened in the Third Quarter of Fiscal 2015, decreased significantly in the Third Quarter of Fiscal 2016.

Lilly Pulitzer:

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Net sales	$52,319	$44,050	$8,269	18.8 %
Gross margin	58.3 %	58.9 %		
Operating income	$6,212	$5,109	$1,103	21.6 %
Operating income as % of net sales	11.9 %	11.6 %		

The increase in operating income in Lilly Pulitzer was primarily due to the higher net sales partially offset by lower gross margin, higher SG&A and lower royalty income. SG&A for the Third Quarter of Fiscal 2016 includes $1.2 million of incremental SG&A associated with the cost of operating additional Lilly Pulitzer retail stores.

Lanier Apparel:

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Net sales	$35,065	$29,889	$5,176	17.3 %
Gross margin	26.9 %	28.4 %		
Operating income	$3,666	$2,993	$673	22.5 %
Operating income as % of net sales	10.5 %	10.0 %		

The increase in operating income for Lanier Apparel was primarily due to higher sales partially offset by lower gross margin and higher SG&A. The higher SG&A was primarily due to higher variable expenses which generally fluctuate with sales, partially offset by lower incentive compensation amounts.

Southern Tide:

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	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Net sales	$ 8,687	$ —	$ 8,687	NM
Gross margin	36.8 %	NA		
Operating loss	$ (472)	$ —	$ (472)	NM
Operating loss as % of net sales	(5.4)%	NA		
Inventory step-up charge included in Southern Tide	$ 994	$ —		
Amortization of intangible assets included in Southern Tide	$ 156	$ —		

We do not consider the gross margin or operating loss for Southern Tide in the Third Quarter of Fiscal 2016 to necessarily be indicative of expected results on an annual basis or for future periods due to the unfavorable impact of the inventory step-up charge.

Corporate and Other:

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Net sales	$ 271	$ 584	$ (313)	NM
Operating loss	$ (2,600)	$ (2,979)	$ 379	12.7 %
LIFO credit included in Corporate and Other	$ (1,024)	$ (414)		

The improved operating results in Corporate and Other were due to the net favorable impact of LIFO accounting.

Interest expense, net

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Interest expense, net	$ 716	$ 449	$ 267	59.5 %

Interest expense for the Third Quarter of Fiscal 2016 increased from the prior year primarily due to higher average debt outstanding during the Third Quarter of Fiscal 2016 compared to the Third Quarter of Fiscal 2015 primarily a result of borrowings used to fund the acquisition of Southern Tide.

Income taxes

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Income taxes	$ 555	$ (225)	$ 780	346.7 %
Effective tax rate	NM	NM		

The effective tax rate from continuing operations for both periods, as compared to a typical statutory rate, reflect the net impact of (1) certain items which do not fluctuate with earnings, (2) the impact of changes in expected earnings projections for the year by jurisdiction and (3) certain discrete items. The net impact of these items often results in a more significant or unusual impact on the effective tax rate in the third quarter given the significantly lower operating results during the third quarter as compared to the other quarters of the fiscal year. Thus, the effective tax rate for the third quarter is generally not indicative of the effective tax rate anticipated for the full year. Our effective tax rate for the full year of Fiscal 2016 is expected to be approximately 36%.

Net earnings from continuing operations

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	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015
Net loss from continuing operations	$(1,598)	$(1,390)
Net loss from continuing operations per diluted share	$(0.10)	$(0.08)
Weighted average shares outstanding - diluted	16,531	16,457

The lower net earnings from continuing operations per diluted share in the Third Quarter of Fiscal 2016 was primarily due to the lower operating results in Tommy Bahama, the operating loss of Southern Tide and an increase in income tax expense partially offset by the increased operating results in Lilly Pulitzer, Lanier Apparel and Corporate and Other.

Discontinued operations

	Third Quarter Fiscal 2016	Third Quarter Fiscal 2015	$ Change	% Change
Loss from discontinued operations, net of taxes	$ —	$(754)	$ 754	NM

The loss from discontinued operations, net of taxes for all periods presented, reflects any remaining operations of our former Ben Sherman operating group, which was sold during the Second Quarter of Fiscal 2015. We do not anticipate significant operations or earnings related to the discontinued operations in future periods, with cash flow attributable to discontinued operations in the future primarily limited to amounts associated with certain retained lease obligations. The estimated lease liability represents our best estimate of the net loss anticipated with respect to the retained lease obligations; however, the ultimate loss to be recognized remains uncertain as the amount of any sub-lease income is dependent upon negotiated terms of any sub-lease agreements entered into for the spaces in the future.

FIRST NINE MONTHS OF FISCAL 2016 COMPARED TO FIRST NINE MONTHS OF FISCAL 2015

The following table sets forth the specified line items in our unaudited condensed consolidated statements of operations both in dollars (in thousands) and as a percentage of net sales. The table also sets forth the dollar change and the percentage change of the data as compared to the same period of the prior year. We have calculated all percentages based on actual data, but percentage columns may not add due to rounding.

	First Nine Months Fiscal 2016		First Nine Months Fiscal 2015		$ Change	% Change
Net sales	$761,539	100.0%	$709,708	100.0%	$51,831	7.3%
Cost of goods sold	325,422	42.7%	296,340	41.8%	29,082	9.8%
Gross profit	$436,117	57.3%	$413,368	58.2%	$22,749	5.5%
SG&A	376,182	49.4%	355,337	50.1%	20,845	5.9%
Royalties and other operating income	10,433	1.4%	11,032	1.6%	(599)	(5.4)%
Operating income	$70,368	9.2%	$69,063	9.7%	$1,305	1.9%
Interest expense, net	2,505	0.3%	1,961	0.3%	544	27.7%
Earnings from continuing operations before income taxes	$67,863	8.9%	$67,102	9.5%	$761	1.1%
Income taxes	25,408	3.3%	26,119	3.7%	(711)	(2.7)%
Net earnings from continuing operations	$42,455	5.6%	$40,983	5.8%	$1,472	3.6%
Loss from discontinued operations, net of taxes	—	NM	(27,892)	NM	27,892	NM
Net earnings	$42,455	5.6%	$13,091	NM	$29,364	NM

The discussion and tables below compare certain line items included in our statements of operations for the First Nine Months of Fiscal 2016 to the First Nine Months of Fiscal 2015. Each dollar and percentage change provided reflects the

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change between these periods unless indicated otherwise. Each dollar and share amount included in the tables is in thousands except for per share amounts. Individual line items of our consolidated statements of operations may not be directly comparable to those of our competitors, as classification of certain expenses may vary by company.

Unless otherwise indicated, all references to assets, liabilities, revenues and expenses in these financial statements reflect continuing operations and exclude any amounts related to our former Ben Sherman operating group, which is classified as discontinued operations, as discussed in note 5 in our unaudited condensed consolidated financial statements included in this report.

Net Sales

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change	
Tommy Bahama	$472,796	$462,612	$10,184	2.2	%
Lilly Pulitzer	186,777	167,704	19,073	11.4	%
Lanier Apparel	81,217	78,627	2,590	3.3	%
Southern Tide	19,267	—	19,267	NM	
Corporate and Other	1,482	765	717	NM	
Total net sales	$761,539	$709,708	$51,831	7.3	%

Consolidated net sales increased $51.8 million, or 7.3%, in the First Nine Months of Fiscal 2016 compared to the First Nine Months of Fiscal 2015. The increase in consolidated net sales was primarily driven by (1) the $19.3 million of net sales of Southern Tide, which was acquired on April 19, 2016, (2) an incremental net sales increase of $19.1 million associated with the operation of additional full-price retail stores, (3) a $9.8 million increase in wholesale sales, (4) a $4.5 million increase in restaurant sales in Tommy Bahama and (5) a $4.0 million net increase in direct to consumer clearance sales reflecting an increase in e-commerce flash clearance sales and decreases in outlet store and warehouse sales. These sales increases were partially offset by a $5.0 million, or 2%, decrease in comparable store sales to $291.3 million in the First Nine Months of Fiscal 2016 from $296.3 million in the First Nine Months of Fiscal 2015. We believe that certain macroeconomic factors, including lower traffic and a focus away from fashion apparel by consumers, impacted the sales of each of our direct to consumer and wholesale businesses unfavorably in the First Nine Months of Fiscal 2016.

The following table presents the proportion of our consolidated net sales by distribution channel for each period presented:

	First Nine Months Fiscal 2016		First Nine Months Fiscal 2015	
Full-price retail stores and outlets	39	%	42	%
E-commerce	17	%	16	%
Restaurant	7	%	7	%
Wholesale	37	%	35	%
Total	100	%	100	%

Tommy Bahama:

The Tommy Bahama net sales increase of $10.2 million, or 2.2%, was primarily driven by (1) an incremental net sales increase of $9.8 million associated with the operation of additional full-price retail stores, (2) a $4.5 million increase in restaurant sales primarily resulting from the operation of the Waikiki restaurant, (3) a $2.2 million increase in net sales through our direct to consumer clearance channels, including e-commerce flash clearance sales and outlet store sales and (4) a $0.4 million increase in wholesale sales as off-price wholesale sales increases offset full-price wholesale sales decreases. These sales increases were partially offset by a $7.0 million, or 3%, decrease in comparable store sales to $205.1 million in the First Nine Months of Fiscal 2016 from $212.1 million in the First Nine Months of Fiscal 2015.

As of October 29, 2016, we operated 170 Tommy Bahama stores globally, consisting of 113 full-price retail stores, 16 restaurant-retail locations and 41 outlet stores. As of October 31, 2015, we operated 164 Tommy Bahama stores consisting of

107 full-price retail stores, 16 restaurant-retail locations and 41 outlet stores. The following table presents the proportion of net sales by distribution channel for Tommy Bahama for each period presented:

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015
Full-price retail stores and outlets	49 %	50 %
E-commerce	15 %	14 %
Restaurant	11 %	11 %
Wholesale	25 %	25 %
Total	100 %	100 %

Lilly Pulitzer:

The Lilly Pulitzer net sales increase of $19.1 million, or 11.4%, was primarily a result of (1) an incremental net sales increase of $9.3 million associated with the operation of additional retail stores, (2) a $6.1 million increase in wholesale sales primarily resulting from increased orders from existing wholesale customers, (3) a $5.8 million increase in e-commerce flash clearance sales and (4) a $2.0 million, or 2%, increase in comparable store sales to $86.2 million in the First Nine Months of Fiscal 2016 compared to $84.2 million in the First Nine Months of Fiscal 2015. These sales increases were partially offset by a net $4.0 million decrease in warehouse sales as Lilly Pulitzer did not anniversary its June warehouse sale in 2016. As of October 29, 2016, we operated 39 Lilly Pulitzer retail stores, after opening six and closing one retail store during the First Nine Months of Fiscal 2016, compared to 34 retail stores as of October 31, 2015. The following table presents the proportion of net sales by distribution channel for Lilly Pulitzer for each period presented:

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015
Full-price retail stores and warehouse sales	37 %	37 %
E-commerce	30 %	29 %
Wholesale	33 %	34 %
Total	100 %	100 %

Lanier Apparel:

The increase in net sales for Lanier Apparel of $2.6 million, or 3.3%, was primarily due to a $2.2 million increase in net sales in the sportswear business and a $0.3 million increase in net sales in the tailored clothing business. The increased sales in the sportswear business were primarily due to increased volume in private label sportswear programs as well as higher off-price sales to move excess inventory. The increased sales in the tailored clothing business was due to higher volume in certain programs, including initial shipments in some programs, which offset volume reductions in certain replenishment programs, which included various program reductions as well as exits.

Southern Tide:

The net sales of Southern Tide reflect the sales of Southern Tide for the period from the date of acquisition on April 19, 2016 through October 29, 2016. We do not consider the net sales for this period to be indicative of expected net sales on an annual basis or for future periods. We estimate that net sales for the period from April 19, 2016 through the end of Fiscal 2016 will be between $25 million and $30 million with about 75% to 80% of the sales being wholesale sales and the remainder being e-commerce sales on the Southern Tide website.

Corporate and Other:

Corporate and Other net sales primarily consist of the net sales of our Lyons, Georgia distribution center to third party warehouse customers as well as the impact of the elimination of intercompany sales between our operating groups. Net sales in the First Nine Months of Fiscal 2015 were unfavorably impacted by the elimination of intercompany sales between our operating groups.

Gross Profit

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The table below presents gross profit by operating group and in total for the First Nine Months of Fiscal 2016 and the First Nine Months of Fiscal 2015 as well as the change between those two periods. Our gross profit and gross margin, which is calculated as gross profit divided by net sales, may not be directly comparable to those of our competitors, as the statement of operations classification of certain expenses may vary by company.

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Tommy Bahama	$280,906	$278,263	$2,643	0.9 %
Lilly Pulitzer	121,193	110,088	11,105	10.1 %
Lanier Apparel	23,129	23,135	(6)	— %
Southern Tide	7,534	—	7,534	NM
Corporate and Other	3,355	1,882	1,473	NM
Total gross profit	$436,117	$413,368	$22,749	5.5 %
LIFO credit included in Corporate and Other	$(2,277)	$(30)		
Inventory step-up charge included in Southern Tide	$2,123	$—		

The increase in consolidated gross profit was primarily due to higher net sales in each operating group and the $2.2 million favorable impact of LIFO accounting. The impact of the higher net sales and LIFO accounting were partially offset by lower gross margins in each operating group, as discussed below, and the impact of the $2.1 million incremental cost of goods sold in Southern Tide associated with inventory step-up pursuant to the acquisition method of accounting. Gross profit was also impacted by the impact of a $1.9 million benefit related to a settlement of certain outstanding economic loss claims filed pursuant to the Deepwater Horizon Economic and Property Damages Settlement Program and a $1.3 million charge related to an unresolved customs matter. The table below presents gross margin by operating group and in total for the First Nine Months of Fiscal 2016 and First Nine Months of Fiscal 2015.

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015
Tommy Bahama	59.4 %	60.2 %
Lilly Pulitzer	64.9 %	65.6 %
Lanier Apparel	28.5 %	29.4 %
Southern Tide	39.1 %	NA
Corporate and Other	NM	NM
Consolidated gross margin	57.3 %	58.2 %

On a consolidated basis, gross margin decreased in the First Nine Months of Fiscal 2016, as a result of lower gross margins in each operating group, each as discussed below.

Tommy Bahama:

The decrease in Tommy Bahama's gross margin in the First Nine Months of Fiscal 2016 reflects lower gross margins in both the direct to consumer and wholesale distribution channels, particularly the off-price businesses. The lower gross margins in the off-price channels were primarily due to our efforts to manage inventory, and dispose of prior season and excess inventory. The liquidation efforts were generally concentrated in women's and footwear, particularly as we transition to a license arrangement for our footwear business. In addition, we had lower gross margins in our full-price direct to consumer business primarily due to a greater proportion of sales in the First Nine

Months of Fiscal 2016 occurring in connection with our loyalty gift card, Flip-Side and Friends & Family marketing events. Additionally, the gross margin of Tommy Bahama was impacted by the $1.9 million benefit related to a settlement of certain outstanding economic loss claims filed pursuant to the Deepwater Horizon Economic and Property Damages Settlement Program and the $1.3 million charge related to an assertion of underpaid customs duties.

Lilly Pulitzer:

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The decrease in gross margin for Lilly Pulitzer in the First Nine Months of Fiscal 2016 was driven by a lower gross margin in the direct to consumer and wholesale channels of distribution. The lower gross margins in the direct to consumer business primarily reflect more in-store markdowns.

Lanier Apparel:

The decrease in gross margin for Lanier Apparel was primarily due to more significant inventory markdowns which offset a change in sales mix towards a greater proportion of branded business sales and a greater proportion of net sales from higher gross margin programs.

Southern Tide:

The gross profit of Southern Tide for the First Nine Months of Fiscal 2016 includes the gross profit of Southern Tide for the period from the date of acquisition on April 19, 2016 through October 29, 2016, which was impacted by $2.1 million of incremental cost of goods sold associated with the step-up of inventory recognized pursuant to the purchase method of accounting. We do not consider the gross profit or gross margin for this period to be indicative of expected gross profit, or gross margin, on an annual basis or for future periods. During the full year of Fiscal 2016, we expect that the gross profit of Southern Tide will be unfavorably impacted by $3.0 million of incremental cost of goods sold related to the step-up of inventory, which will be expensed as the acquired inventory is sold.

Corporate and Other:

The gross profit in Corporate and Other in each period primarily reflects (1) the gross profit of our Lyons, Georgia distribution center operations, (2) the impact of LIFO accounting adjustments and (3) the impact of certain consolidating adjustments, including the elimination of intercompany sales between our operating groups, if any. The primary driver for the higher gross profit was that the First Nine Months of Fiscal 2016 was favorably impacted by a LIFO accounting credit of $2.3 million with no significant impact from LIFO accounting in the First Nine Months of Fiscal 2015. The First Nine Months of Fiscal 2015 was favorably impacted by the recognition of certain intercompany profit with no such favorable benefit in the First Nine Months of Fiscal 2016.

SG&A

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
SG&A	$376,182	$355,337	$20,845	5.9 %
SG&A as % of net sales	49.4 %	50.1 %		
Amortization of intangible assets included in Tommy Bahama associated with Tommy Bahama Canada acquisition	$1,124	$1,159		
Amortization of intangible assets included in Southern Tide	$365	$—		
Transaction expenses associated with the Southern Tide acquisition included in Corporate and Other	$762	$—		
Distribution center integration charges	$454	$—		

The increase in SG&A was primarily due to (1) $12.9 million of incremental costs in the First Nine Months of Fiscal 2016 associated with additional Tommy Bahama retail stores and restaurants and Lilly Pulitzer retail stores, (2) $8.1 million of SG&A associated with the Southern Tide, (3) an increase in brand advertising, marketing and other expenses to support the growing business, particularly in Lilly Pulitzer, and (4) $0.8 million of transaction expenses associated with the Southern Tide acquisition, which are included in Corporate and Other. These SG&A increases were partially offset by $7.1 million of lower incentive compensation.

SG&A included amortization of intangible assets of $1.7 million in the First Nine Months of Fiscal 2016 and $1.5 million in the First Nine Months of Fiscal 2015. We anticipate that amortization of intangible assets for Fiscal 2016 will be approximately $2.4 million, with approximately $0.5 million of the amortization related to the intangible assets acquired as part of the Southern Tide acquisition and $1.5 million of amortization related to Tommy Bahama's Canada acquisition. We expect that amortization in Fiscal 2017 will likely be higher than the anticipated amount for Fiscal 2016, as Fiscal 2017 will include a full year of amortization expense related to the Southern Tide acquisition.

Royalties and other operating income

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Royalties and other operating income	$10,433	$11,032	$(599)	(5.4)%

Royalties and other operating income in the First Nine Months of Fiscal 2016 primarily reflects income received from third parties from the licensing of our Tommy Bahama, Lilly Pulitzer and Southern Tide brands. The decrease in royalty income for the First Nine Months of Fiscal 2016 from the First Nine Months of Fiscal 2015 reflect decreases in both Tommy Bahama and Lilly Pulitzer partially offset by royalty income associated with the Southern Tide business.

Operating income (loss)

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Tommy Bahama	$26,761	$34,627	$(7,866)	(22.7)%
Lilly Pulitzer	49,646	42,367	7,279	17.2 %
Lanier Apparel	6,609	5,905	704	11.9 %
Southern Tide	(425)	—	(425)	NM
Corporate and Other	(12,223)	(13,836)	1,613	11.7 %
Total operating income	$70,368	$69,063	$1,305	1.9 %
LIFO credit included in Corporate and Other	$(2,277)	$(30)		
Inventory step-up charge included in Southern Tide	$2,123	$—		
Amortization of intangible assets included in Tommy Bahama associated with Tommy Bahama Canada acquisition	$1,124	$1,159		
Amortization of intangible assets included in Southern Tide	$365	$—		
Transaction expenses associated with the Southern Tide acquisition included in Corporate and Other	$762	$—		
Distribution center integration charges	$454	$—		

The increase in operating income in the First Nine Months of Fiscal 2016 as compared to the First Nine Months of Fiscal 2015 was primarily due to the improved operating results in Lilly Pulitzer and Corporate and Other partially offset by lower operating income in Tommy Bahama. Changes in operating income (loss) by operating group are discussed below.

Tommy Bahama:

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Net sales	$472,796	$462,612	$10,184	2.2 %
Gross margin	59.4 %	60.2 %		

Operating income	$26,761	$34,627	$(7,866)	(22.7)%
Operating income as % of net sales	5.7 %	7.5 %		
Amortization of intangible assets included in Tommy Bahama associated with Tommy Bahama Canada acquisition	$1,124	$1,159		

The lower operating results for Tommy Bahama were primarily due to the decrease in comparable store sales, lower gross margin and higher SG&A. The higher SG&A for the First Nine Months of Fiscal 2016 includes (1) $9.1 million of incremental SG&A associated with operating additional retail stores and restaurants, including pre-opening rent and set-up costs associated with new stores and restaurants and (2) $0.6 million of increased occupancy costs associated with the higher rent structure related to the 2015 relocation of Tommy Bahama's office in Seattle. These SG&A increases were partially offset

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by $0.9 million of lower incentive compensation. Additionally, the operating loss of the Waikiki retail-restaurant location, which opened in the Third Quarter of Fiscal 2015, decreased significantly in the First Nine Months of Fiscal 2016.

Lilly Pulitzer:

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Net sales	$186,777	$167,704	$19,073	11.4 %
Gross margin	64.9 %	65.6 %		
Operating income	$49,646	$42,367	$7,279	17.2 %
Operating income as % of net sales	26.6 %	25.3 %		

The increase in operating income in Lilly Pulitzer was primarily due to the higher net sales partially offset by the impact of the lower gross margin. SG&A for the First Nine Months of Fiscal 2016 includes $3.8 million of incremental SG&A associated with the cost of operating additional Lilly Pulitzer retail stores as well as increased advertising and other expenses to support the growing business. These increases in SG&A were offset by a $4.6 million reduction in incentive compensation during the First Nine Months of Fiscal 2016.

Lanier Apparel:

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Net sales	$81,217	$78,627	$2,590	3.3 %
Gross margin	28.5 %	29.4 %		
Operating income	$6,609	$5,905	$704	11.9 %
Operating income as % of net sales	8.1 %	7.5 %		

The increase in operating income for Lanier Apparel reflects higher sales and lower SG&A partially offset by lower gross margin. The lower SG&A primarily reflects lower incentive compensation.

Southern Tide:

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Net sales	$19,267	$ —	$19,267	NM
Gross margin	39.1 %	NA		
Operating loss	$(425)	$ —	$(425)	NM
Operating loss as % of net sales	(2.2)%	NA		
Inventory step-up charge included in Southern Tide	$2,123	$ —		
Amortization of intangible assets included in Southern Tide	$365	$ —		
Distribution center integration charges	$454	$ —		

The net sales, gross margin and operating loss of Southern Tide reflect the results of Southern Tide for the period from the date of acquisition on April 19, 2016 through October 29, 2016. We do not consider the results for this period to be indicative of expected results on an annual basis or for future periods. During the full year of Fiscal 2016, the gross profit of Southern Tide will be unfavorably impacted by the incremental cost of goods sold related to the step-up of inventory at acquisition, which will be recognized in cost of goods sold as the acquired inventory is sold, amortization of intangible assets and the distribution center integration charges incurred during the Second Quarter of Fiscal 2016. We do not anticipate any inventory step-up charges or distribution center integration charges subsequent to Fiscal 2016, but we expect that the amortization of intangible assets will be recognized over a period of 15 years.

Corporate and Other:

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	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Net sales	$1,482	$765	$717	NM
Operating loss	$(12,223)	$(13,836)	$1,613	11.7 %
LIFO credit included in Corporate and Other	$(2,277)	$(30)		
Transaction expenses associated with the Southern Tide acquisition included in Corporate and Other	$762	$—		

The improved operating results in Corporate and Other were primarily due to the net favorable impact of LIFO accounting and lower incentive compensation amounts partially offset by $0.8 million of transaction expenses associated with the Southern Tide acquisition in the First Quarter of Fiscal 2016.

Interest expense, net

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Interest expense, net	$ 2,505	$ 1,961	$ 544	27.7 %

Interest expense for the First Nine Months of Fiscal 2016 increased from the prior year primarily due to the write off of approximately $0.3 million of deferred financing costs associated with our amendment and restatement of our revolving credit agreement as well as higher average borrowings outstanding during the period. We anticipate that interest expense for Fiscal 2016 will be approximately $3.4 million.

Income taxes

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Income taxes	$25,408	$26,119	$(711)	(2.7)%
Effective tax rate	37.4 %	38.9 %		

Income tax expense for the First Nine Months of Fiscal 2016 decreased, reflecting a lower effective tax rate on slightly higher earnings. The lower effective tax rate in the First Nine Months of Fiscal 2016 compared to the First Nine Months of Fiscal 2015 was primarily due to (1) improved operating results in our Hong Kong-based sourcing operations and Tommy Bahama Asia-Pacific retail operations resulting in the utilization of certain foreign net operating loss carryforward amounts, (2) lower domestic earnings and (3) certain favorable discrete items, including the tax benefit associated with the vesting of certain restricted stock awards. Our effective tax rate for Fiscal 2016 is expected to be approximately 36%, reflecting the favorable impact of our foreign operations, including the utilization of foreign operating loss carryforward amounts for which the benefit was not recognized in prior years, on our consolidated effective tax rate.

Net earnings from continuing operations

	First Nine Months	First Nine Months

	Fiscal 2016	Fiscal 2015
Net earnings from continuing operations	$42,455	$40,983
Net earnings from continuing operations per diluted share	$2.55	$2.48
Weighted average shares outstanding - diluted	16,635	16,544

The primary reasons for the higher net earnings from continuing operations per diluted share in the First Nine Months of Fiscal 2016 were higher operating results in Lilly Pulitzer, Corporate and Other and Lanier Apparel and a lower effective tax rate partially offset by lower operating income in Tommy Bahama, the Southern Tide operating loss and higher interest expense, each as discussed above.

Discontinued operations

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	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015	$ Change	% Change
Loss from discontinued operations, net of taxes	$ —	$(27,892)	$27,892	NM

The loss from discontinued operations, net of taxes in the First Nine Months of Fiscal 2015 reflects the loss on the sale, and the operations of our former Ben Sherman operating group, which was sold during the Second Quarter of Fiscal 2015. We do not anticipate significant operations or earnings related to the discontinued operations in future periods, with cash flow attributable to discontinued operations in the future primarily limited to amounts associated with certain retained lease obligations. The estimated lease liability represents our best estimate of the net loss anticipated with respect to the retained lease obligations; however, the ultimate loss to be recognized remains uncertain as the amount of any sub-lease income is dependent upon negotiated terms of any sub-lease agreements entered into for the spaces in the future.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Our primary source of revenue and cash flow is through our design, sourcing, marketing and distribution of branded apparel products bearing the trademarks of our Tommy Bahama, Lilly Pulitzer and Southern Tide lifestyle brands, as well as certain licensed and private label products. Our primary uses of cash flow include the purchase of products in the operation of our business, as well as operating expenses including employee compensation and benefits, occupancy-related costs, marketing and advertising costs, other general and administrative expenses and the payment of periodic interest payments related to our financing arrangements. Additionally, we use cash for the funding of capital expenditures and dividends and repayment of indebtedness. In the ordinary course of business, we maintain certain levels of inventory and extend credit to our wholesale customers. Thus, we require a certain amount of working capital to operate our business. If cash inflows are less than cash outflows, we have access to amounts under our Revolving Credit Agreement, subject to its terms, which is described below. We may seek to finance our future cash requirements through various methods, including cash flow from operations, borrowings under our current or additional credit facilities, sales of debt or equity securities and cash on hand.

As of October 29, 2016, we had $5.4 million of cash and cash equivalents on hand, with $142.4 million of borrowings outstanding and $133.4 million of availability under our Revolving Credit Agreement. We believe our balance sheet and anticipated future positive cash flow from operating activities provide us with ample opportunity to continue to invest in our brands and our direct to consumer initiatives.

Key Liquidity Measures

($ in thousands)	October 29, 2016	January 30, 2016	October 31, 2015	January 31, 2015
Total current assets	$239,784	$216,796	$214,031	$258,545
Total current liabilities	$97,683	$128,899	$122,932	$159,942
Working capital	$142,101	$87,897	$91,099	$98,603
Working capital ratio	2.45	1.68	1.74	1.62
Debt to total capital ratio	28 %	12 %	18 %	27 %

Our working capital ratio is calculated by dividing total current assets by total current liabilities. Current assets increased from October 31, 2015 to October 29, 2016 primarily due to the current assets related to the Southern Tide business acquired during the First Quarter of Fiscal 2016. Current liabilities as of October 29, 2016 decreased compared to October 31, 2015 primarily due to (1) a decrease in accrued compensation, (2) a decrease in accounts payable reflecting the timing of payment of inventory and operating expenses and (3) the reduction in current liabilities related to discontinued operations.

For the ratio of debt to total capital, debt is defined as short-term and long-term debt included in continuing operations, and total capital is defined as debt plus shareholders' equity. Debt was $142.4 million at October 29, 2016 and $68.7 million at October 31, 2015, while shareholders’ equity was $369.3 million at October 29, 2016 and $319.9 million at October 31, 2015. The increase in debt since October 31, 2015 was primarily due to the payment of $92.0 million related to the Southern Tide acquisition, $50.0 million of capital expenditures and the payment of $17.8 million of dividends which were partially offset by $90.1 million of cash flow from operations. Shareholders' equity increased from October 31, 2015, primarily as a result of net earnings less dividends paid. Our debt levels and ratio of debt to total capital in future periods may not be comparable to historical amounts as we continue to assess, and possibly make changes to, our capital structure. Changes in our capital structure in the future, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

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Balance Sheet

The following tables set forth certain information included in our consolidated balance sheets (in thousands). As a result of the acquisition of Southern Tide during the Third Quarter of Fiscal 2016, a number of line items in our balance sheet increased as discussed below. Below each table are explanations for any significant changes in the balances from October 31, 2015 to October 29, 2016.

Current Assets:

	October 29, 2016	January 30, 2016	October 31, 2015	January 31, 2015
Cash and cash equivalents	$ 5,351	$ 6,323	$ 6,558	$ 5,281
Receivables, net	68,492	59,065	60,344	64,587
Inventories, net	136,383	129,136	120,559	120,613
Prepaid expenses	29,558	22,272	26,570	19,941
Assets related to discontinued operations, net	—	—	—	48,123
Total current assets	$ 239,784	$ 216,796	$ 214,031	$ 258,545

Cash and cash equivalents as of October 29, 2016 and October 31, 2015 represent typical cash amounts maintained on an ongoing basis in our operations, which generally ranges from $5 million to $10 million at any given time, and any excess cash is generally used to repay amounts outstanding under our Revolving Credit Agreement. The increase in receivables, net as of October 29, 2016 was primarily a result of receivables related to the Southern Tide business and higher receivables in our Lanier Apparel business resulting from higher wholesale sales in the last two months of the Third Quarter of Fiscal 2016 compared to the last two months of the Third Quarter of Fiscal 2015.

Inventories, net as of October 29, 2016 increased from October 31, 2015 primarily as a result of inventories related to the Southern Tide business. Inventories in our other businesses were comparable year over year as lower inventories in Tommy Bahama were offset by higher inventory levels in Lilly Pulitzer. The lower inventories in Tommy Bahama reflect Tommy Bahama's focus on managing inventory buys on a total operating group basis and sale of a greater amount of inventory units through outlet stores, e-commerce flash sales and off-price wholesale channels during Fiscal 2016. The higher inventories in Lilly Pulitzer reflect inventory to support anticipated sales growth and higher levels of end of season inventory in Fiscal 2016. We believe that inventory levels in each operating group are appropriate to support the anticipated sales for the Fourth Quarter of Fiscal 2016. Prepaid expenses increased primarily as a result of the prepaid expenses associated with the Southern Tide business, higher prepaid advertising and other operating expenses and higher prepaid income taxes.

Non-current Assets:

	October 29, 2016	January 30, 2016	October 31, 2015	January 31, 2015
Property and equipment, net	$ 195,799	$ 184,094	$ 183,482	$ 146,039
Intangible assets, net	185,957	143,738	144,491	146,134
Goodwill	51,053	17,223	17,238	17,296
Other non-current assets, net	22,882	20,839	22,400	22,646
Assets related to discontinued operations, net	—	—	—	31,747
Total non-current assets	$ 455,691	$ 365,894	$ 367,611	$ 363,862

Property and equipment, net as of October 29, 2016 increased from October 31, 2015 primarily as a result of capital expenditures in the twelve months ended October 29, 2016 partially offset by depreciation expense subsequent to October 31, 2015. The increases in intangible assets, net and goodwill at October 29, 2016 were primarily due to the acquisition of the Southern Tide business.

Liabilities:

	October 29, 2016	January 30, 2016	October 31, 2015	January 31, 2015
Total current liabilities	$ 97,683	$ 128,899	$ 122,932	$ 159,942
Long-term debt	142,425	43,975	68,744	104,842
Other non-current liabilities	69,176	67,188	66,936	56,286
Deferred taxes	13,643	3,657	3,101	5,161
Non-current liabilities related to discontinued operations	3,279	4,571	—	5,571
Total liabilities	$ 326,206	$ 248,290	$ 261,713	$ 331,802

Current liabilities as of October 29, 2016 decreased compared to October 31, 2015 primarily due to (1) a decrease in accrued compensation of $10.6 million, (2) a decrease in accounts payable reflecting the timing of payment of inventory and operating expenses and (3) the reduction in current liabilities related to discontinued operations of $6.2 million. The increase in debt since October 31, 2015 was primarily due to the payment of $92.0 million related to the Southern Tide acquisition, $50.0 million of capital expenditures and the payment of $17.8 million of dividends, which were partially offset by $90.1 million of cash flow from operations. Other non-current liabilities increased as of October 29, 2016 compared to October 31, 2015 primarily due to increases in deferred rent liabilities, including tenant improvement allowances from landlords. The increase in deferred taxes was primarily due to the impact of purchase accounting on the basis differences for the acquired assets of Southern Tide and timing differences associated with depreciation, amortization and accrued compensation. Non-current liabilities related to discontinued operations as of October 29, 2016 represents our best estimate of the future net loss anticipated with respect to certain retained lease obligations; however, the ultimate loss to be recognized remains uncertain as the amount of any sub-lease income is dependent upon negotiated terms of any sub-lease agreements entered into for the spaces in the future.

Statement of Cash Flows

The following table sets forth the net cash flows, including continuing and discontinued operations, for the First Nine Months of Fiscal 2016 and First Nine Months of Fiscal 2015 (in thousands):

	First Nine Months Fiscal 2016	First Nine Months Fiscal 2015
Net cash provided by operating activities	$53,307	$68,612
Net cash used in investing activities	(137,133)	(4,981)
Net cash provided by (used in) financing activities	82,555	(62,885)
Net change in cash and cash equivalents	$(1,271)	$746

Cash and cash equivalents on hand were $5.4 million and $6.6 million at October 29, 2016 and October 31, 2015, respectively. Changes in cash flows in the First Nine Months of Fiscal 2016 and the First Nine Months of Fiscal 2015 related to operating activities, investing activities and financing activities which are discussed below.

Operating Activities:

In the First Nine Months of Fiscal 2016 and First Nine Months of Fiscal 2015, operating activities provided $53.3 million and $68.6 million of cash, respectively. The cash flow from operating activities was primarily the result of net earnings for the relevant period adjusted, as applicable, for non-cash activities including depreciation, amortization, equity-based compensation expense and loss on sale of discontinued operations as well as the net impact of changes in our working capital accounts. Working capital account changes had an unfavorable impact on cash flow from operations in the First Nine Months of Fiscal 2016 and a favorable impact on cash flow from operations in the First

Nine Months of Fiscal 2015. In the