

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 1997

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-9518

THE PROGRESSIVE CORPORATION

(Exact name of registrant as specified in its charter)

Ohio

34-0963169

(State or other jurisdiction of
incorporation or organization)

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

6300 Wilson Mills Road, Mayfield Village, Ohio

44143

(Address of principal executive offices)

(Zip Code)

(440) 461-5000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, \$1.00 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the

registrant at January 31, 1998: \$6,748,111,562.50

The number of the registrant's Common Shares, \$1.00 par value, outstanding as of February 27, 1998: 72,427,300

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 1997 are incorporated by reference in Parts I, II and IV hereof. Portions of the registrant's Proxy Statement dated March 17, 1998, for the Annual Meeting of Shareholders to be held on April 24, 1998, are incorporated by reference in Part III hereof.

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INTRODUCTION

The Progressive Corporation and subsidiaries' (collectively, the "Company") 1997 Annual Report to Shareholders (the "Annual Report") contains portions of the information required to be included in this Form 10-K, which are incorporated herein by reference. Cross references to relevant sections of the Annual Report are included under the appropriate items of this Form 10-K.

Portions of the information included in The Progressive Corporation's Proxy Statement dated March 17, 1998, for the Annual Meeting of Shareholders to be held on April 24, 1998 (the "Proxy Statement") have also been incorporated by reference herein and are identified under the appropriate items in this Form 10-K.

PART I

ITEM 1. BUSINESS

(a) General Development of Business

The Progressive Corporation, an insurance holding company formed in 1965, has 88 subsidiaries and 1 mutual insurance company affiliate. The Progressive Corporation's insurance subsidiaries and its affiliate (collectively, the "Insurance Group") provide personal automobile insurance and other specialty property-casualty insurance and related services throughout the United States and in Canada. The Company's property-casualty insurance products protect its customers against collision and physical damage to their motor vehicles and liability to others for personal injury or property damage arising out of the use of those vehicles.

Of the approximately 250 United States insurance company groups writing private passenger auto insurance, the Company estimates that it ranks fifth in size for 1997. Except as otherwise noted, all industry data and Progressive's market share or ranking in the industry were derived either directly from data reported by A.M. Best Company Inc. ("A.M. Best") or were estimated using A.M. Best data as the primary source. For 1997, the estimated industry premiums written, which include personal auto insurance in the United States and Ontario, Canada, as well as insurance for commercial vehicles, were \$135.4 billion, and Progressive's share of this market was approximately 3.3%.

(b) Financial Information About Industry Segments

Incorporated by reference from Note 9, SEGMENT INFORMATION, on page 48 of the Company's Annual Report.

(c) Narrative Description of Business

INSURANCE SEGMENT

The Insurance Group offers a number of personal and commercial property-casualty

insurance products primarily related to motor vehicles. Net premiums written were \$4,665.1 million in 1997, compared to \$3,441.7 million in 1996 and \$2,912.8 million in 1995. The underwriting profit margin was 6.6% in 1997, compared to 8.5% in 1996 and 5.7% in 1995.

The Insurance Group's core business writes insurance for private passenger automobiles, recreational vehicles and small fleets of commercial vehicles. This business frequently has more than one program in a single state, with each targeted to a specific market segment. The core business accounted for 96% of the Company's 1997 total net premiums written.

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A portion of the Insurance Group's core business consists of nonstandard automobile insurance products for people cancelled or rejected by other insurers. The size of the nonstandard automobile insurance market changes with the insurance environment. Volume potential is influenced by the actions of direct competitors, writers of standard and preferred automobile insurance and state-mandated involuntary plans. The total direct premiums written in the nonstandard automobile insurance market, including the involuntary market plans, were about \$25 billion in 1997, \$24 billion in 1996 and \$22 billion in 1995. Approximately 340 nonstandard insurance companies, many of which are part of an affiliated group, wrote an estimated \$21 billion of nonstandard auto premiums in 1997, excluding the involuntary market plans. In 1996, the Insurance Group ranked second in direct premiums written with a 14% share of this market and near the top in underwriting performance. Although final data has not been published, the Company estimates that its 1997 ranking and underwriting performance will be consistent with 1996.

The core business also writes standard and preferred automobile risks in many states. These products accounted for between 20% and 25% of the Company's total core business premiums in 1997. The strategy is to build towards becoming a low-cost provider of a full line of auto insurance and related services, distributed through whichever channel the customer prefers. The Insurance Group's goal is to compete successfully in the standard and preferred market, which comprises 78% of the United States' personal automobile insurance market.

The Insurance Group's specialty personal lines products include motorcycle, recreational vehicle, mobile home, boat and snowmobile insurance. The Insurance Group's competitors are specialty companies and large multi-line insurance carriers. Although industry figures are not available, based on the Company's analysis of this market, the Company believes that it is a significant participant in the specialty personal lines market.

Monoline commercial vehicle insurance covers commercial vehicle risks for primary liability, physical damage and other supplementary insurance coverages. Based on the Company's analysis of this market, the Company competes with approximately 150 companies for this business on a nationwide basis. In the target segment of monoline commercial auto writers, the Company estimates its 1997 ranking to be in the top 10.

In 1997, over 90% of the net premiums written by the core business were written through a network of more than 30,000 independent insurance agents located throughout the United States and in Canada. Subject to compliance with certain Company-mandated procedures, these independent insurance agents have the authority to bind the Company to specified insurance coverages within prescribed underwriting guidelines. These guidelines prescribe the kinds and amounts of coverage that may be written and the premium rates that may be charged for specified categories of risk. The agents do not have authority on behalf of the Company to settle or adjust claims, establish underwriting guidelines, develop rates or enter into other transactions or commitments. The Company also markets its products through intermediaries such as employers, other insurance companies and national brokerage agencies, and direct to customers through employed sales people and owned insurance agencies. The core business currently markets personal automobile insurance directly to the public by direct mail, television

and radio advertising in 19 states and the District of Columbia.

To facilitate growth and the execution of its strategies, the Company expanded to 54 the number of local business units to allow the Company to be closer to the customer. The Company subdivides business units as growth produces enough customers to warrant more local focus. Each business unit is headed by a community manager and is headquartered in or near the market served. The individual business units are responsible for reducing claim costs, improving agent service and relationships, direct marketing and deciding price levels for their territory. Processing (customer service calls, direct sales calls and claims processing) is done at six regional sites located in Austin, Cleveland, Colorado Springs, Toronto, Sacramento and Tampa.

In addition, the Company organized process teams made up of people from both staff and line functions to support the business units. The process teams are respectively responsible for product, independent agent marketing, consumer marketing, ownership (customer service), technology, community manager support and claims. The process teams concentrate on improving the processes fast enough for the Company to meet its high standards for customer service, profit and growth.

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The Insurance Group's diversified businesses include the United Financial Casualty Company (UFCC), Professional Liability Group (PLG) and Motor Carrier business units, which are organized by customer group and headquartered in Cleveland, Ohio, and the Midland Financial Group (MFG), which is headquartered in Memphis, Tennessee. These businesses accounted for 4% of total volume in 1997. The choice of distribution channel is driven by each customer group's buying preference and service needs. Distribution channels include financial institutions, vehicle dealers and independent agents. Distribution arrangements are individually negotiated between such intermediaries and the Company and are tailored to the specific needs of the customer group and the nature of the related financial or purchase transactions. The diversified businesses also market their products directly to their customers through company- employed sales forces.

UFCC provides physical damage insurance and related tracking services to protect the commercial or retail lender's interest in collateral which is not otherwise insured against these risks. The principal product is collateral protection for automobile lenders, which is sold to financial institutions and/or their customers. Commercial banks are UFCC's largest customer group for these services. This business also serves savings and loans, finance companies and credit unions. According to the Company's analysis of this market, numerous companies offer these products and none of them has a dominant market share.

PLG's principal customers are community banks. Its principal products are liability insurance for directors and officers and employee dishonesty insurance. Progressive shares the risk and premium on these coverages with a small mutual reinsurer controlled by its bank customers. The program is sponsored by the American Bankers Association. This program represented less than one-half percent of the Company's total 1997 net premiums written.

On March 7, 1997, the Company acquired MFG for about \$50 million. MFG underwrites and markets nonstandard private passenger automobile insurance through approximately 3,700 independent agents across 11 states, primarily in the southern and western United States. During 1997, Midland wrote \$66.1 million of net premiums written.

The Motor Carrier business unit primarily manages involuntary Commercial Auto Insurance Procedures. See SERVICE OPERATIONS on page 7 for further discussion.

COMPETITIVE FACTORS

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The automobile insurance and other property-casualty markets in which the Company operates are highly competitive. Property-casualty insurers generally compete on the basis of price, consumer recognition, coverages offered, claim handling, financial stability, customer service and geographic coverage. Vigorous competition is provided by large, well-capitalized national companies, some of which have broad distribution networks of employed or captive agents, and by smaller regional insurers. While the Company relies heavily on technology and extensive data gathering and analysis to segment and price markets according to risk potential, some competitors merely price their coverage at rates set lower than the Company's published rates. By avoiding extensive data gathering and analysis, these competitors incur lower underwriting costs. The Company has remained competitive by closely managing expenses and achieving operating efficiencies, and by refining its risk measurement and price segmentation skills. In addition, the Company offers prices for a wide spectrum of risks and seeks to offer a wider array of payment plans, limits of liability and deductibles than its competitors. Superior customer service and claim adjustment are also important factors in the Company's competitive strategy.

LICENSES

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The Insurance Group operates under licenses issued by various state or provincial insurance authorities. Such licenses may be of perpetual duration or renewable periodically, provided the holder continues to meet applicable regulatory requirements. The licenses govern the kind of insurance coverages which may be written in the issuing state. Such licenses are normally issued only after the filing of an appropriate application and the satisfaction of prescribed criteria. All licenses which are material to the Company's business are in good standing.

INSURANCE REGULATION

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The insurance subsidiaries are generally subject to regulation and supervision by insurance departments of the jurisdictions in which they are domiciled or licensed to transact business. At least one of the subsidiaries is licensed and subject to regulation in each of the 50 states and certain U.S. possessions, in one Canadian province and by Canadian federal authorities. The nature and extent of such regulation and supervision varies from jurisdiction to jurisdiction. Generally, an insurance company is subject to a higher degree of regulation and supervision in its state of domicile. The Company's principal insurance subsidiaries are domiciled in the states of California, Colorado, Florida, Louisiana, Michigan, Mississippi, Missouri, New York, Ohio, Pennsylvania, Tennessee, Texas, Washington and Wisconsin. State insurance departments have broad administrative power relating to licensing insurers and agents, regulating premium rates and policy forms, establishing reserve requirements, prescribing accounting methods and the form and content of statutory financial reports, and regulating the type and amount of investments permitted. Rate regulation varies from "file and use" to prior approval to mandated rates. Most jurisdictions prohibit rates that are "excessive, inadequate or unfairly discriminatory."

Insurance departments are charged with the responsibility of ensuring that insurance companies maintain adequate capital and surplus and comply with a variety of operational standards. Insurance companies are generally required to file detailed annual and other reports with the insurance department of each jurisdiction in which they conduct business. Insurance departments are authorized to make periodic and other examinations of regulated insurers' financial condition, adherence to statutory accounting principles and compliance with state insurance laws and regulations.

Insurance holding company laws enacted in many jurisdictions grant to insurance

authorities the power to regulate acquisitions of insurers and certain other transactions involving insurers and to require periodic disclosure of certain information. These laws impose prior approval requirements for certain transactions between regulated insurers and their affiliates and generally regulate dividend and other distributions, including loans and cash advances, between regulated insurers and their affiliates. See the "Dividends" discussion in Item 5(c) for further information on such dividend limitations.

Under state insolvency and guaranty laws, regulated insurers can be assessed or required to contribute to state guaranty funds to cover policyholder losses resulting from insurer insolvencies. Insurers are also required by many states, as a condition of doing business in the state, to provide coverage to certain risks. These so-called "assigned risk" plans generally specify the types of insurance and the level of coverage which must be offered to such involuntary risks, as well as the allowable premium. Many states also have involuntary market plans which hire a limited number of servicing carriers to provide insurance to involuntary risks. These plans, through assessments, pass underwriting and administrative expenses on to insurers that write voluntary coverages.

Insurance companies are generally required by insurance regulators to maintain sufficient surplus to support their writings. Although the ratio of writings to surplus that the regulators will allow is a function of a number of factors, including the type of business being written, the adequacy of the insurer's reserves, the quality of the insurer's assets, and the identity of the regulator, as a general rule, the regulators prefer that annual net written premium be not more than three times the insurer's total policyholders' surplus. Thus, the amount of an insurer's surplus may, in certain cases, limit its ability to grow its business.

Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an automobile insurer's ability to cancel and non-renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict an insurer's ability to exit unprofitable markets.

Regulation of insurance constantly changes as real or perceived issues and developments arise. Some changes may be due to technical factors, such as changes in investment laws made to recognize new investment vehicles; other changes result from such general pressures as consumer resistance to price increases and concerns relating to insurer solvency. In recent years, legislation and voter initiatives have been introduced which deal with insurance rate development, rate

determination and the ability of insurers to cancel or renew insurance policies, reflecting concerns about availability, prices and alleged discriminatory pricing.

In some states, the automobile insurance industry has been under pressure in recent years from regulators, legislators or special interest groups to reduce, freeze or set rates to or at levels that are not necessarily related to underlying costs, including initiatives to roll back automobile and other personal lines rates. This kind of activity has adversely affected, and may in the future adversely affect, the profitability and growth of the subsidiaries' automobile insurance business in those jurisdictions, and may limit the subsidiaries' ability to increase rates to compensate for increases in costs. Adverse legislative and regulatory activity limiting the subsidiaries' ability to adequately price automobile insurance may occur in the future. The impact of these regulatory changes on the subsidiaries' businesses cannot be predicted.

The state insurance regulatory framework has come under increased federal scrutiny, and certain state legislatures have considered or enacted laws that alter and, in many cases, expand state authority to regulate insurance companies and insurance holding company systems. Further, the National Association of Insurance Commissioners (NAIC) and state insurance regulators are re-examining existing laws and regulations, specifically focusing on insurance company investments, issues relating to the solvency of insurance companies and further limitations on the ability of regulated insurers to pay dividends. The NAIC also developed a risk-based capital (RBC) program to enable regulators to take appropriate and timely regulatory actions relating to insurers that show signs of weak or deteriorating financial conditions. RBC is a series of dynamic surplus-related formulas which contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks. In addition, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary.

STATUTORY ACCOUNTING PRINCIPLES

The Insurance Group's results are reported in accordance with generally accepted accounting principles (GAAP), which differ from amounts reported under statutory accounting principles (SAP) prescribed by insurance regulatory authorities. Specifically, under GAAP:

1. Commissions, premium taxes and other costs incurred in connection with writing new and renewal business are capitalized and amortized on a pro rata basis over the period in which the related premiums are earned, rather than expensed as incurred, as required by SAP.
2. Certain assets are included in the consolidated balance sheets, which for SAP are charged directly against statutory surplus. These assets consist primarily of premium receivables over 90 days, furniture and equipment and prepaid expenses.
3. Amounts related to ceded reinsurance are shown gross as prepaid reinsurance premiums and reinsurance recoverables, rather than netted against unearned premium reserves and loss and loss adjustment expense reserves, respectively, as required by SAP.
4. Fixed maturities securities, which are classified as available-for-sale, are reported at market values, rather than at amortized cost, or the lower of amortized cost or market depending on the specific type of security as required by SAP. Equity securities are reported at quoted market values which may differ from the NAIC market values as required by SAP.

The differing treatment of income and expense items results in a corresponding difference in federal income tax expense.

SERVICE OPERATIONS

The service operations of the diversified business units consist primarily of processing business for involuntary plans and providing claim services to fleet owners and other insurance companies. Service revenues were \$45.3 million in 1997, compared to \$46.2 million in 1996 and \$38.9 million in 1995. Pretax operating profits were \$1.4 million in 1997, compared to \$4.3 million and \$8.7 million in 1996 and 1995, respectively.

The Motor Carrier business unit currently processes business for the Commercial Auto Insurance Procedures (CAIP) in 27 states and the New York Public Automobile

Pool (NYPAP), which are both part of the involuntary residual market. As a CAIP servicing carrier, the business unit processes over 40% of the premiums in the CAIP market without assuming the indemnity risk. It competes with approximately 7 other providers nationwide. During 1997, the unit increased their share of the NYPAP to 40% of the new business.

INVESTMENTS
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The Company employs a conservative approach to investment and capital management intended to ensure that there is sufficient capital to support all the insurance premium that can be profitably written. The Company's portfolio is invested primarily in short-term and intermediate-term, investment-grade fixed-income securities. The Company's investment portfolio, at market value, was \$5,270.4 million at December 31, 1997, compared to \$4,450.6 million at December 31, 1996. Investment income is affected by shifts in the types of investments in the portfolio, changes in interest rates and other factors. Investment income, including net realized gains on security sales, before expenses and taxes, was \$373.4 million in 1997, compared to \$232.9 million in 1996 and \$245.8 million in 1995. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, beginning on page 14 herein for additional discussion.

EMPLOYEES
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The number of employees, excluding temporary employees, at December 31, 1997, was 14,126.

LIABILITY FOR PROPERTY-CASUALTY LOSSES AND LOSS ADJUSTMENT EXPENSES
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The consolidated financial statements include the estimated liability for unpaid losses and loss adjustment expenses (LAE) of the Company's insurance subsidiaries. Total loss reserves are established at a level that is intended to represent the midpoint of the reasonable range of loss reserve estimates. The liabilities for losses and LAE are determined using actuarial and statistical procedures and represent undiscounted estimates of the ultimate net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effect of future trends on claim settlement. These estimates are continually reviewed and adjusted as experience develops and new information becomes known. Such adjustments, if any, are reflected in the current results of operations.

The accompanying tables present an analysis of property-casualty losses and LAE. The following table provides a reconciliation of beginning and ending estimated liability balances for 1997, 1996 and 1995 on a GAAP basis.

RECONCILIATION OF NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

(millions)	1997	1996	1995
Balance at January 1	\$1,800.6	\$1,610.5	\$1,434.4
Less reinsurance recoverables on unpaid losses	267.7	296.1	334.2
Net balance at January 1	1,532.9	1,314.4	1,100.2
Net reserves of subsidiary purchased	82.2	--	--
Incurred related to:			
Current year	3,070.8	2,341.9	2,000.4
Prior years	(103.3)	(105.8)	(56.6)
Total incurred	2,967.5	2,236.1	1,943.8
Paid related to:			
Current year	1,971.5	1,424.7	1,204.3
Prior years	743.6	592.9	525.3

Total paid	2,715.1	2,017.6	1,729.6
Net balance at December 31	1,867.5	1,532.9	1,314.4
Plus reinsurance recoverable on unpaid losses	279.1	267.7	296.1
Balance at December 31	\$2,146.6	\$1,800.6	\$1,610.5

The reconciliation above shows a \$103.3 million redundancy, which emerged during 1997, in the 1997 liability and a \$105.8 million redundancy in the 1996 liability, based on information known as of December 31, 1997 and December 31, 1996, respectively.

The anticipated effect of inflation is explicitly considered when estimating liabilities for losses and LAE. While anticipated increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for anticipated changes in underwriting standards, inflation, policy provisions and general economic trends. These anticipated trends are monitored based on actual development and are modified if necessary.

The Company has not entered into any loss reserve transfers or similar transactions having a material effect on earnings or reserves.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSES DEVELOPMENT

(millions) YEAR ENDED	1987	1988	1989	1990	1991	1992	1993	1994 (3)	1995	1996	1997
LIABILITY FOR UNPAID LOSSES AND LAE (1)	\$471.0	\$651.0	\$748.6	\$791.6	\$861.5	\$956.4	\$1,012.4	\$1,098.7	\$1,314.4	\$1,532.9	\$1,867.5
PAID (CUMULATIVE) AS OF:											
One year later	195.0	283.1	293.1	322.4	353.4	366.8	417.0	525.3	593.0	743.6	
Two years later	294.9	393.7	446.8	490.8	518.8	520.0	589.8	706.4	838.9	--	
Three years later	339.5	465.0	539.8	570.4	583.2	598.2	664.1	810.6	--	--	
Four years later	369.9	514.0	588.2	600.0	617.6	632.8	709.9	--	--	--	
Five years later	383.5	540.7	603.1	613.6	635.8	658.6	--	--	--	--	
Six years later	389.1	545.1	608.1	624.7	651.2	--	--	--	--	--	
Seven years later	381.9	545.5	614.7	631.1	--	--	--	--	--	--	
Eight years later	384.2	549.0	619.2	--	--	--	--	--	--	--	
Nine years later	386.1	551.7	--	--	--	--	--	--	--	--	
Ten years later	388.4	--	--	--	--	--	--	--	--	--	
LIABILITY RE-ESTIMATED AS OF:											
One year later	446.6	610.3	685.4	748.8	810.0	857.9	869.9	1,042.1	1,208.6	1,429.6	
Two years later	422.2	573.4	677.9	726.5	771.9	765.5	837.8	991.7	1,149.5	--	
Three years later	402.4	581.3	668.6	712.7	718.7	737.4	811.3	961.2	--	--	
Four years later	403.9	575.1	667.1	683.7	700.1	725.2	794.6	--	--	--	
Five years later	399.6	578.4	654.7	666.3	695.1	717.3	--	--	--	--	
Six years later	400.2	582.2	647.1	664.8	692.6	--	--	--	--	--	
Seven years later	408.5	574.3	645.7	664.5	--	--	--	--	--	--	
Eight years later	408.1	574.4	645.4	--	--	--	--	--	--	--	
Nine years later	407.8	575.0	--	--	--	--	--	--	--	--	
Ten years later	408.5	--	--	--	--	--	--	--	--	--	
CUMULATIVE REDUNDANCY	\$62.5	\$76.0	\$103.2	\$127.1	\$168.9	\$239.1	\$217.8	\$137.5	\$164.9	\$103.3	
PERCENTAGE (2)	13.3	11.7	13.8	16.1	19.6	25.0	21.5	12.5	12.6	6.7	

<FN>

(1) Represents loss and LAE reserves net of reinsurance recoverables on unpaid losses at the balance sheet date.

(2) Cumulative redundancy / liability for unpaid losses and LAE.

(3) In 1994, based on a review of its total loss reserves, the Company eliminated its \$71.0 million "supplemental reserve."

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The above table presents the development of balance sheet liabilities for 1987 through 1996. The top line of the table shows the estimated liability for unpaid losses and LAE recorded at the balance sheet date for each of the indicated years for the property-casualty insurance subsidiaries only. Similar reserves for the life insurance subsidiary, which are immaterial, are excluded. This liability represents the estimated amount of losses and LAE for claims arising in all prior years that are unpaid at the balance sheet date, including losses that had been incurred but not reported.

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The upper section of the table shows the cumulative amount paid with respect to the previously recorded liability as of the end of each succeeding year. The lower portion of the table shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information about the claims becomes known for individual years. For example, as of December 31, 1997 the companies had paid \$551.7 million of the currently estimated \$575.0 million of losses and LAE that had been incurred through the end of 1988; thus an estimated \$23.3 million of losses incurred through 1988 remain unpaid as of the current financial statement date.

The "Cumulative Redundancy" represents the aggregate change in the estimates over all prior years. For example, the 1987 liability has developed redundant by \$62.5 million over ten years. That amount has been reflected in income over the ten years and did not have a significant effect on the income of any one year. The effects on income during the past three years due to changes in estimates of the liabilities for losses and LAE is shown in the reconciliation table on page 8 as the "prior years" contribution to incurred losses and LAE.

In evaluating this information, note that each cumulative redundancy amount includes the effects of all changes in amounts during the current year for prior periods. For example, the amount of the redundancy related to losses settled in 1990, but incurred in 1987, will be included in the cumulative deficiency or redundancy amount for years 1987, 1988 and 1989. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future redundancies or deficiencies based on this table.

The Analysis of Loss and Loss Adjustment Expenses Development table on page 9 is constructed from Schedule P, Part-1, from the 1991 through 1997 Consolidated Annual Statements, as filed with the state insurance departments, and Schedules O and P filed for years prior to 1991. This development table differs from the development displayed in Schedule P, Part-2 due to the fact Schedule P, Part-2 excludes unallocated loss adjustment expenses and reflects the change in the method of accounting for salvage and subrogation for 1994 and prior.

(d) Financial Information about Foreign and Domestic Operations

The Company operates throughout the United States and in Canada. The amount of Canadian revenues and assets are approximately 2% of the Company's consolidated revenues and assets. The amount of operating income (loss) generated by its Canadian operations is immaterial with respect to the Company's consolidated operating income.

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ITEM 2. PROPERTIES

The Company's 517,800 square foot corporate office complex is located on a 42-acre parcel in Mayfield Village, Ohio, owned by a subsidiary. The Company's central data processing facility occupies a building containing approximately 107,000 square feet of office space, on this same parcel.

The Company also owns six other buildings in suburbs adjoining the corporate office complex, two buildings in Tampa, Florida, a building in Tempe, Arizona and a building in Tigard, Oregon. In total, these buildings contained approximately 782,900 square feet of office, warehouse and training facility space and are owned by subsidiaries of the Company. These locations are occupied by the Company's business units or other operations.

In December 1997, the Company purchased approximately 72 acres in Tampa, Florida to construct a three-building regional call center. It is estimated that, when completed, this facility will consist of approximately 307,000 square feet of space. The cost of the project is currently estimated at \$42.0 million and \$8.3 million has been paid as of December 31, 1997. The project is scheduled to be completed by the end of 1998. In addition, in November 1997, the Company purchased 91 acres in Mayfield Village, Ohio to construct an office complex, near the site of its current corporate headquarters. This office complex is part of a five-year cooperative effort with Mayfield Village to develop over 300 acres -- Progressive would serve as the anchor corporate user with additional business users and recreational facilities on the site. The Company plans to construct three buildings containing a total of approximately 485,000 square feet in 1998 and could build up to three additional buildings, containing about 500,000 additional square feet in total, in the future. The first phase of this project is estimated to cost \$63.5 million. As of December 31, 1997, \$5.3 million has been paid. The construction projects will be funded through operating cash flows or the issuance of new debt securities.

The Company leases approximately 283,000 square feet of office and warehouse space at various locations throughout the United States for its other business units and staff functions. In addition, the Company leases approximately 400 claim offices, or 1,665,000 square feet, at various locations throughout the United States. Two offices are leased in Canada. These leases are generally short-term to medium-term leases of standard commercial office space.

As the Company continues to grow, it expects the need for additional space and is actively engaged in seeking out additional locations to meet its current and anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

Incorporated by reference from Note 11, LITIGATION, on page 48 of the Company's Annual Report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference from information with respect to executive officers of The Progressive Corporation and its subsidiaries set forth in Item 10 of this Annual Report on Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY
AND RELATED STOCKHOLDER MATTERS

(a) Market Information

The Company's Common Shares are traded on the New York Stock Exchange under the symbol PGR. The high and low prices set forth below are as reported on the consolidated transaction reporting system.

Year	Quarter	High	Low	Close	Dividends Per Share
1997	1	\$ 73 5/8	\$ 63 7/8	\$ 63 7/8	\$.060
	2	87 3/8	61 1/2	87	.060
	3	111 7/8	86 1/2	107 1/8	.060
	4	120 7/8	99	119 7/8	.060
		-----	-----	-----	-----
		\$120 7/8	\$ 61 1/2	\$119 7/8	\$.240
=====					
1996	1	\$51 1/4	\$43 1/2	\$44 5/8	\$.055
	2	48 7/8	40 3/8	46 1/4	.055
	3	58 1/2	43 1/8	57 1/4	.060
	4	72 1/4	55 3/8	67 3/8	.060
		-----	-----	-----	-----
		\$72 1/4	\$40 3/8	\$67 3/8	\$.230
=====					

The closing price of the Company's Common Shares on February 27, 1998 was \$115 7/8.

(b) Holders

There were 4,074 shareholders of record on February 27, 1998.

(c) Dividends

Statutory policyholders' surplus was \$1,725.3 million and \$1,292.4 million at December 31, 1997 and 1996, respectively. Generally, under state insurance laws, the net admitted assets of insurance subsidiaries available for transfer to a corporate parent are limited to those net admitted assets, as determined in accordance with SAP, which exceed minimum statutory capital requirements. At December 31, 1997, \$234.3 million of consolidated statutory policyholders' surplus represents net admitted assets of the insurance subsidiaries that are required to meet minimum statutory surplus requirements in the subsidiaries' states of domicile. Furthermore, state insurance laws limit the amount that can be paid as a dividend or other distribution in any given year without prior regulatory approval and adequate policyholders' surplus must be maintained to support premiums written. Based on the dividend laws currently in effect, the insurance subsidiaries may pay aggregate dividends of \$191.9 million in 1998 out of statutory policyholders' surplus, without prior approval by regulatory authorities.

ITEM 6. SELECTED FINANCIAL DATA

(millions - except per share amounts)

	1997	1996	For the years ended December 31,		1993
			1995	1994	
Total revenues	\$4,608.2	\$3,478.4	\$3,011.9	\$2,415.3	\$1,954.8
Operating income	336.0	309.1	220.1	212.7	197.3
Net income(1)	400.0	313.7	250.5	274.3	267.3
Per share:					
Operating income(2)	4.46	4.12	2.85	2.76	2.62
Net income(1,2)	5.31	4.14	3.26	3.59	3.59
Dividends	.240	.230	.220	.210	.200
Total assets	7,559.6	6,183.9	5,352.5	4,675.1	4,011.3
Debt outstanding	775.9	775.7	675.9	675.6	477.1

<FN>

(1) During 1994, based on a review of the adequacy of its total loss reserves, the Company eliminated its \$71.0 million "supplemental reserve" (\$46.2 million after tax), resulting in a one-time increase in earnings of \$.62 per share.

(2) Presented on a diluted basis. In 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) 128 "Earnings Per Share," and, as a result, restated prior periods per share amounts, if applicable.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION The Progressive Corporation is a holding company and does not have any revenue producing operations of its own. It receives cash through borrowings, equity sales, subsidiary dividends and other transactions, and may use the proceeds to contribute to the capital of its insurance subsidiaries in order to support premium growth, to repurchase its Common Shares and other outstanding securities, to retire its outstanding indebtedness, and for other business purposes. During 1997, the Company repurchased 30,193 of its Common Shares at a total cost of \$2.9 million in connection with obligations under various employee benefit plans.

During the three-year period ended December 31, 1997, the Company repurchased 1.0 million of its Common Shares at a total cost of \$44.8 million (average \$43.37 per share), .3 million of its 9 3/8% Serial Preferred Shares, Series A, at a total cost of \$8.3 million (average \$25.62 per share) and redeemed its remaining Preferred Shares at a total cost of \$82.1 million (\$25.00 per share). The Company also sold \$100.0 million of Notes. During the same period, The Progressive Corporation received \$50.8 million from its subsidiaries, net of capital contributions made to these subsidiaries. The regulatory restrictions on subsidiary dividends are described in Item 5(c) on page 12 herein.

The Company has substantial capital resources and is unaware of any trends, events or circumstances that are reasonably likely to affect its capital resources in a material way. The Company also has available a \$10.0 million revolving credit agreement. With its 27% debt to capital ratio, management believes the Company has sufficient borrowing capacity and other capital resources to support current and anticipated growth.

The Company's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. For the three years ended December 31, 1997, operations generated a positive cash flow of \$1,917.5 million, and cash flow is expected to be positive in both the short-term and reasonably foreseeable future. The Company's substantial investment portfolio is highly liquid, consisting almost entirely of readily marketable securities.

In March 1997, the Company acquired Midland Financial Group, Inc. by purchasing all of Midland's outstanding stock for about \$50 million in cash. Midland underwrites and markets nonstandard private passenger automobile insurance through approximately 3,700 independent agents across 11 states, primarily in the southern and western United States. During 1997, Midland wrote \$66.1 million of net premiums written.

Total capital expenditures for the three years ended December 31, 1997,

aggregated \$196.0 million. During 1997, the Company made substantial investments in property and equipment to support its infrastructure. In December 1997, the Company purchased approximately 72 acres in Tampa, Florida to construct a three-building regional call center. It is estimated that, when completed, this facility will consist of approximately 307,000 square feet of space. The cost of the project is currently estimated at \$42.0 million and \$8.3 million has been paid as of December 31, 1997. The project is scheduled to be completed by the end of 1998. In addition, in November 1997, the Company purchased 91 acres in Mayfield Village, Ohio to construct an office complex, near the site of its current corporate headquarters. This office complex is part of a five-year cooperative effort with Mayfield Village to develop over 300 acres -- Progressive would serve as the anchor corporate user with additional business users and recreational facilities on the site. The Company plans to construct three buildings containing a total of approximately 485,000 square feet, in 1998, and could build up to three additional buildings, containing about 500,000 additional square feet in total, in the future. The first phase of this project is estimated to cost \$63.5 million. As of December 31, 1997, \$5.3 million has been paid. The construction projects will be funded through operating cash flows or the issuance of new debt securities.

In July 1995, the Company began converting its computer systems to be year 2000 compliant (e.g. to recognize the difference between '99 and '00 as one year instead of negative 99 years). The Company has evaluated internal production systems, hardware and software products, facilities implications, and interactions with business partners in relation to year 2000 issues. As of December 31, 1997, the Company has completed approximately 70% of its efforts to bring the production systems in compliance, with substantially all production systems expected to be compliant by the end of 1998. The total cost to modify these existing production systems, which include both internal and external costs of programming, coding and testing, is estimated to be \$6.4 million, of which \$3.1 million has been expensed as of December 31,

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1997. The Company is also in the process of replacing some of its systems during 1998 with new systems which, in addition to being year 2000 compliant, will add increased functionality to the Company. The total cost of these systems, which include both internal and external costs, is estimated to be \$4.8 million, and the projects are expected to be substantially complete by the end of 1998. As of December 31, 1997, \$2.4 million has been expensed for these systems. All costs are being funded through operating cash flow. The Company continually evaluates computer hardware and software upgrades and, therefore, many of the costs to replace existing items with year 2000 compliant upgrades are not likely to be incremental costs to the Company. It is estimated that the majority of these upgrades will be completed in 1998. During 1998, the Company will continue to contact its business partners (e.g. agents, banks, credit bureaus, motor vehicle departments, rating agencies, etc.) to determine their status of compliance and to assess the impact of noncompliance to the Company. The Company believes that it is taking the necessary measures to mitigate issues that may arise relating to the year 2000. During 1998, the Company will develop contingency plans relating to year 2000 compliance issues, either internal or external, that cannot be guaranteed to be timely completed. To the extent any additional issues arise, the Company will evaluate the impact on its financial condition, cash flows and results of operations and, if material, make the necessary disclosures.

INVESTMENTS The Company invests in fixed-maturity, equity and short-term securities. The Company's investment strategy recognizes its need to maintain capital adequate to support its insurance operations. The Company evaluates the risk/reward trade-offs of investment opportunities, measuring their effects on stability, diversity, overall quality and liquidity of the investment portfolio.

The majority of the portfolio is invested in high-grade, fixed-maturity securities, of which short- and intermediate-term securities represented \$4,024.9 million, or 76.4%, at the end of 1997, compared to \$3,275.6 million, or

73.6%, at the end of 1996. Long-term investment-grade securities, including greater than 10-year expected principal paydowns, were \$143.4 million, or 2.7%, at the end of 1997, compared to \$187.5 million, or 4.2%, at the end of 1996. Non-investment-grade fixed-maturity securities were \$132.5 million, or 2.5%, at the end of 1997, compared to \$105.8 million, or 2.4%, at the end of 1996, and offer the Company higher returns and added diversification without a significant adverse effect on the stability and quality of the investment portfolio as a whole. Non-investment-grade securities may involve greater risks often related to creditworthiness, solvency and relative liquidity of the secondary trading market. The duration of the fixed-income portfolio was 3.3 years at December 31, 1997, compared to 3.2 years at December 31, 1996.

A portion of the investment portfolio was invested in marketable equity securities. Common stocks represented \$620.8 million, or 11.8% of the portfolio, at the end of 1997, compared to \$540.1 million, or 12.1%, a year earlier. Foreign equities, which may include stock index futures and foreign currency forwards, comprised \$106.0 million of the common stock portfolio at the end of 1997, and \$149.5 million at the end of 1996. As of December 31, 1997, the Company's Japanese equity holdings represented 1.5% of the common stock portfolio. The remainder of the equity portfolio of \$348.8 million, or 6.6%, at the end of 1997, compared to \$341.6 million, or 7.7%, at the end of 1996, was comprised of over 80% of fixed-rate preferred stocks with mechanisms that are expected to provide an opportunity to liquidate at par.

As of December 31, 1997, the Company's portfolio had \$188.4 million in unrealized gains, compared to \$114.1 million a year earlier. This increase in value was the result of increased stock prices as the S&P 500 index rose from 740.7 to 970.4 and decreased interest rate levels as evidenced by the .3% decrease in the 3-year treasury note.

The weighted average fully taxable equivalent book yield of the portfolio was 6.6%, 6.7% and 6.9% for the years ended December 31, 1997, 1996 and 1995, respectively.

The quality distribution of the fixed-income portfolio is as follows:

Rating	Percentage at December 31, 1997	Percentage at December 31, 1996
AAA	67.5%	62.8%
AA	13.0	16.2
A	12.9	14.0
BBB	3.4	4.2
Non Rated/Other	3.2	2.8
	-----	-----
	100.0%	100.0%
	=====	=====

As of December 31, 1997, the Company held \$1,520.0 million of asset-backed securities, which represented 28.8% of the total investment portfolio. The portfolio included collateralized mortgage obligations (CMO) and commercial mortgage-backed obligations (CMB) totaling \$283.2 million and \$776.7 million, respectively. The remainder of the asset-backed portfolio was invested primarily in auto loan and other asset-backed securities. As of December 31, 1997, the CMO portfolio included busted planned amortization class bonds and sequential bonds representing 94.1% of the CMO portfolio (\$266.4 million) with an average life of 3.0 years, and planned amortization class bonds representing 5.9% of the CMO portfolio (\$16.8 million) with an average life of .5 years.

At December 31, 1997, the CMO portfolio had a weighted average Moody's or Standard & Poor's rating of AAA and the CMB portfolio had an average life of 7.4 years and a weighted average Moody's or Standard & Poor's rating of AA. At December 31, 1997, the CMO and CMB portfolios had unrealized gains of \$1.6 million and \$14.0 million, respectively. The single largest unrealized loss in any individual CMO security was \$.2 million and in any CMB security was \$1.1 million, at December 31, 1997. The CMB portfolio includes \$149.6 million of CMB interest-only certificates, which had an average life of 6.9 years and a weighted average Moody's or Standard & Poor's rating of AAA at December 31, 1997. Both the CMO and CMB portfolios are highly liquid with readily available quotes and contain no residual interests. During 1997, the Company sold \$178.4 million (proceeds of \$200.8 million) of non-investment-grade CMB securities to a third-party purchaser. The purchaser subsequently transferred the securities to a trust as collateral in a resecuritized debt offering. The transaction was accounted for as a sale under SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," resulting in a net gain of \$22.4 million. A bankruptcy remote subsidiary of the Company acquired \$22.8 million (market value of \$25.9 million) of the resecuritized debt. This portion of the transaction was not accounted for as a sale in accordance with SFAS 125.

Investments in the Company's portfolio have varying degrees of risk. The primary market risk exposure to the fixed-income portfolio is interest rate risk, which is limited by managing duration to a defined range of 1.8 to 5 years. The distribution of maturities and convexity are monitored on a regular basis. Common stocks and similar investments, which generally have greater risk and volatility of market value, are limited to a target of 15%, with a range of 0 to 25%. Market values, along with industry and sector concentrations of common stocks and similar investments, are monitored daily. Exposure to foreign currency exchange risk is limited by Company restrictions and is monitored regularly. Exposures are evaluated individually and as a whole, considering the effects of cross correlation. For the quantitative market risk disclosures, see page 54 of the Company's 1997 Annual Report. The Company regularly examines its portfolio for evidence of impairment. In such cases, changes in market value are evaluated to determine the extent to which such changes are attributable to: (i) interest rates, (ii) market-related factors other than interest rates and (iii) financial conditions, business prospects and other fundamental factors specific to the issuer. Declines attributable to issuer fundamentals are reviewed in further detail. Available evidence is considered to estimate the realizable value of the investment. When a security in the Company's investment portfolio has a decline in market value which is other than temporary, the Company is required by generally accepted accounting principles (GAAP) to reduce the carrying value of such security to its net realizable value.

Derivative instruments are primarily used to manage the risks and enhance the returns of the available-for-sale portfolio. This is accomplished by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio or

hedged securities. Derivative instruments may also be used for trading purposes. During 1997, net activity in the trading portfolio was not material to the Company's financial position, cash flows and results of operations. Net cash requirements of derivative instruments are limited to changes in market values which may vary based upon changes in interest rates and other factors. Exposure to credit risk is limited to the carrying value; collateral is not required to support the credit risk. The Company has stringent restrictions on the amount of open positions in the trading portfolios, limiting exposure to levels management deems acceptable. At December 31, 1997, trading positions had a net market value of \$1.1 million; at December 31, 1996, there were no trading positions.

RESULTS OF OPERATIONS Operating income, which excludes net realized gains and losses from security sales and one-time items, was \$336.0 million, or \$4.46 per share, in 1997, \$309.1 million, or \$4.12 per share, in 1996 and \$220.1 million,

or \$2.85 per share, in 1995. The GAAP combined ratio was 93.4 in 1997, 91.5 in 1996 and 94.3 in 1995.

Direct premiums written increased 33% to \$4,825.2 million in 1997, compared to \$3,638.4 million in 1996 and \$3,068.9 million in 1995. Net premiums written increased 36% to \$4,665.1 million in 1997, compared to \$3,441.7 million in 1996 and \$2,912.8 million in 1995. The difference between direct and net premiums written is largely attributable to premiums written under state-mandated involuntary Commercial Auto Insurance Procedures (CAIP), for which the Company retains no indemnity risk, of \$78.4 million in 1997, \$99.5 million in 1996 and \$105.4 million in 1995. The Company provided policy and claim processing services to 27 state CAIPs in 1997 and 1996, compared to 28 in 1995. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 31% in 1997, compared to 17% in 1996 and 24% in 1995.

In the Company's core business units, which write insurance for private passenger automobiles, recreational vehicles and small fleets of commercial vehicles, net premiums written grew 33%, 19% and 21% in 1997, 1996 and 1995, respectively, reflecting an increase in unit sales driven by the Company's competitive rates. The Company decreased rates an average of .9% in 1997, compared to rate increases of 2.5% and 6.5% in 1996 and 1995, respectively. The Company continues to write, through multiple distribution methods, standard and preferred risks, which represented between 20% and 25% of total 1997 core business volume. In 1997, the Company used rating criteria based partially upon consumer financial responsibility. This approach has been approved by numerous regulators and is in use in the 31 states that represent 80% of the core business units' volume; the Company expects to complete rollout of this approach into the remaining states where it can be offered in 1998. The Company believes that its use of financial responsibility in auto insurance rating produces a more accurate distribution of losses among consumers and, therefore, produces more accurate pricing resulting in lower rates for most consumers. In addition, in order to encourage writing more standard and preferred risks and to improve customer retention, the Company in 1996 adjusted its contingent cash incentive compensation program for employees to reflect the increase in value created by adding new customers. The Company believes that growing the numbers of policyholders, particularly standard and preferred risks with their higher retention rates, builds intrinsic value because renewals are more profitable than first year business. The drive to add customers faster resulted in more spending to promote the Progressive brand and to hire and develop more claim adjusters and customer service representatives, and the Company expects this to continue at least in the near term. These costs, along with lower margins on first year business, are likely to bring profit margins more in line with the Company's objective of achieving a 4% underwriting profit margin over the entire retention period of an insured. In 1997, the core business units generated an underwriting profit margin of 7%, compared to 8% in 1996 and 5% in 1995.

Claim costs, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. These costs include a loss estimate for future assignments and assessments, based on current business, under state-mandated involuntary automobile programs. Claims costs are influenced by inflation and loss severity and frequency, the impact of which is mitigated by adequate pricing. Increases in the rate of inflation increase loss payments, which are made after premiums are established. Accordingly, anticipated rates of inflation are taken into account when the Company establishes premium rates and loss reserves. Claim costs, expressed as a percentage of premiums earned, were 71% in 1997, compared to 70% in 1996 and 71% in 1995.

The Company writes directors and officers and other professional liability coverage for community banks and credit unions and, therefore, could potentially be exposed to liability for errors made by these institutions relating to the year 2000 conversion. To minimize its risk, in October 1997, the Company began including year

2000 exclusions in all new and renewal policies for commercial banks (representing approximately 70% of all policies written since that date) which have multi-year terms that extend beyond December 31, 1999. The Company is not currently aware of any other company in the industry that is including such exclusion provisions or increasing their premiums to cover potential exposure on year 2000 compliance issues. As a regulated industry, financial institutions are under pressure from government regulatory agencies and other interested parties to ensure they achieve readiness for the year 2000. The Company is monitoring its customers' compliance efforts and believes that substantially all such customers are pursuing plans to achieve year 2000 compliance. It is currently unknown whether the financial institutions will be able to completely avoid errors relating to year 2000 compliance and the Company is unable to predict to what extent such financial institutions will incur losses as a result of noncompliance and whether their directors and officers will be subject to individual liability for such noncompliance. At December 31, 1997, approximately 200 professional liability policies, or about 17% of all policies, do not contain year 2000 exclusion provisions and extend into the year 2000. In the event of a claim, applicable factual and coverage issues would have to be resolved. Based on information currently available and management's best estimate, the Company does not believe that it will incur any costs that will have a material impact on the Company's financial condition, cash flows or results of operations.

Because the Company is primarily an insurer of motor vehicles, it has limited exposure for environmental, product and general liability claims. The Company has established reserves for these exposures, in amounts which it believes to be adequate based on information currently known by it. Management does not believe that these claims will have a material impact on the Company's liquidity, financial condition, cash flows or results of operations.

Policy acquisition and other underwriting expenses as a percentage of premiums earned were 23% in 1997, compared to 22% in 1996 and 23% in 1995. In 1997, the Company incurred additional expenses to support its infrastructure and to hire and train people in anticipation of growth. The Company also introduced its advertising campaign to 13 states during 1997, bringing the total number of states where the Company advertises to 19 (40 markets).

Recurring investment income (interest and dividends) increased 22% to \$274.9 million in 1997, compared to \$225.8 million in 1996 and \$199.1 million in 1995, primarily due to an increase in the size of the investment portfolio. Net realized gains on security sales were \$98.5 million in 1997, \$7.1 million in 1996 and \$46.7 million in 1995. Investment expenses were \$9.9 million in 1997, compared to \$6.1 million in 1996 and \$8.1 million in 1995; in 1997, the Company purchased a new portfolio management system and incurred expenses related to the sale of the commercial mortgage-backed securities.

Safe Harbor statement under the Private Securities Litigation Reform Act of 1995: Except for historical information, the matters discussed in this annual report on Form 10-K are forward-looking statements that are subject to certain risks and uncertainties that could cause the actual results to differ materially from those projected, including acceptance of the products, pricing competition, market conditions and other risks detailed from time to time in the Company's SEC reports. The Company assumes no obligation to update the information in this annual report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of the Company, along with the related notes, supplementary data and report of independent accountants, are

incorporated by reference from the Company's 1997 Annual Report, pages 35 through 48 and pages 53 through 59.

The following note is hereby added to Item 8 of the Company's 1997 Annual Report on Form 10-K, supplementing the Notes to the Consolidated Financial Statements which are incorporated by reference therein:

Note 1. Reporting and Accounting Policies

NEW ACCOUNTING STANDARDS - In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which is effective for fiscal years beginning after December 15, 1998, with early adoption permitted. SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use, identifying when such costs should be capitalized rather than expensed as incurred. The Company currently expenses all computer software costs. The Company is planning to early adopt SOP 98-1 in the first quarter 1998 and is currently quantifying the impact to its financial condition and results of operations.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

A description of all of the directors, three of whom have been nominated for election as directors at the 1998 Annual Meeting of Shareholders of the Registrant, is incorporated herein by reference from the section entitled "Election of Directors" in the Proxy Statement, pages 2 through 4.

A description of the executive officers of the Registrant and its subsidiaries follows. These descriptions reflect the Company's termination of its officership program and consequent elimination of many officer positions, effective December 31, 1993. Unless otherwise indicated, the executive officer has held the position(s) indicated for at least the last five years.

Name	Age	Offices Held and Last Five Years' Business Experience
----	---	-----
Peter B. Lewis	64	Chairman since April 1993; President, Chief Executive Officer and a director of the Registrant and Progressive Casualty Insurance Company ("Progressive Casualty"), the principal subsidiary of the Registrant.
Alan R. Bauer	45	International/Internet Officer since December 1996; Independent Agent Marketing Process Leader from March 1996 to December 1996; West Division President prior to March 1996.
Charles B. Chokel	44	Treasurer and Chief Financial Officer

of the Registrant since December 1994; Chief Financial Officer prior to December 1994; Senior Vice President - Finance of Progressive Casualty prior to December 1993.

Allan W. Ditchfield	60	Chief Information Officer of the Registrant; Senior Vice President - Information Services of Progressive Casualty prior to December 1993.
W. Thomas Forrester II	49	Ownership Process Leader of the Registrant since March 1996; Central States Division President from January 1995 to March 1996; Diversified Division President in 1994; CAIP/Transportation Division President in 1993.
William H. Graves	41	Claims Process Leader of the Registrant since March 1996; South Central Division President prior to March 1996.
Moira A. Lardakis	46	Community Manager Support Process Leader since January 1998; General Manager of Ohio Business Unit from March 1996 to December 1997; Ohio Division President prior to March 1996.
Daniel R. Lewis	51	Independent Agent Marketing Process Leader of the Registrant since December 1996; General Manager of South Florida Community from November 1994 to December 1996; Treasurer of the Registrant and Central Division President prior to December 1994.
Robert J. McMillan	46	Consumer Marketing Process Leader of the Registrant since January 1998; Product Process Leader from March 1996 to December 1997; Florida Division President prior to March 1996.
Glenn M. Renwick	42	Technology Process Leader of the Registrant since January 1998; Consumer Marketing Process Leader from March 1996 to December 1997; Director of Consumer Marketing prior to March 1996.

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David M. Schneider	60	Chief Legal Officer and Secretary of the Registrant; Senior Vice President of Progressive Casualty prior to December 1993.
Tiona M. Thompson	47	Chief Human Resources Officer of the Registrant since December 1993; Vice President - Human Resources of Progressive Casualty prior to

December 1993.

Robert T. Williams 41 Product Process Leader of the Registrant since January 1998; General Manager of New York Business Unit from March 1996 to December 1997; New York Division President from December 1994 to March 1996; Manager of Special Lines prior to March 1997.

Section 16(a) Beneficial Ownership Reporting Compliance. Due to a typographical error in Milton N. Allen's April 1997 Form 4, a sale of 155 shares by Mr. Allen, as trustee of a charitable remainder trust, was incorrectly reported as being the sale of 115 shares. An amended Form 4 was filed as soon as this error was discovered. The November 1, 1996 sale of 200 shares by a trust of which Daniel R. Lewis' wife is the beneficiary was reported in a Form 4 filed in February 1998. A Form 4 reporting the January 31, 1997 sale of 10,000 shares by Peter B. Lewis, as trustee of the D. R. Lewis Flint Trust, was filed 17 days late.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the section of the Proxy Statement entitled "Executive Compensation," pages 9 through 21.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the section of the Proxy Statement entitled "Security Ownership of Certain Beneficial Owners and Management," pages 6 through 8.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the section of the Proxy statement entitled "Election of Directors - Certain Relationships and Related Transactions," pages 4 and 5.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) (1) Listing of Financial Statements

The following consolidated financial statements of the Registrant and its subsidiaries, included in the Registrant's Annual Report, are incorporated by reference in Item 8:

Report of Independent Accountants

Consolidated Statements of Income -
December 31, 1997, 1996 and 1995

Consolidated Balance Sheets - December 31, 1997
and 1996

Consolidated Statements of Changes in Shareholders'

Equity - December 31, 1997, 1996 and 1995

Consolidated Statements of Cash Flows -
December 31, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

Supplemental Information*

*Not covered by Report of Independent Accountants.

(a) (2) Listing of Financial Statement Schedules

The following financial statement schedules of the Registrant and its subsidiaries, Report of Independent Accountants and Consent of Independent Accountants are included in Item 14(d):

Schedules

Report of Independent Accountants

Consent of Independent Accountants

Schedule I - Summary of Investments -
Other than Investments in Related Parties

Schedule II - Condensed Financial
Information of Registrant

Schedule III - Supplementary Insurance
Information

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Schedule IV - Reinsurance

Schedule VI - Supplemental Information Concerning
Property-Casualty Insurance Operations

No other schedules are required to be filed herewith
pursuant to Article 7 of Regulation S-X.

(a) (3) Listing of Exhibits

See exhibit index contained herein at pages 38 through 42. Management contracts and compensatory plans and arrangements are identified in the Exhibit Index as Exhibit Nos. (10) (B) through (10) (O).

(b) Reports on Form 8-K

None.

(c) Exhibits

The exhibits in response to this portion of Item 14 are submitted concurrently with this report.

(d) Financial Statement Schedules

The response to this portion of Item 14 is located at pages 29 through 37.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE PROGRESSIVE CORPORATION

March 27, 1998

BY: /s/ Peter B. Lewis

 Peter B. Lewis
 Chairman, President and Chief
 Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

/s/ Peter B. Lewis	Chairman, President, Chief Executive	March 27, 1998

Peter B. Lewis	Officer and a Director	

/s/ Charles B. Chokel	Treasurer and Chief Financial Officer	March 27, 1998

Charles B. Chokel		

/s/ Jeffrey W. Basch	Chief Accounting Officer	March 27, 1998

Jeffrey W. Basch		

*	Director	March 27, 1998

Milton N. Allen		

*	Director	March 27, 1998

B. Charles Ames		

*	Director	March 27, 1998

Charles A. Davis		

*	Director	March 27, 1998

Stephen R. Hardis		

*	Director	March 27, 1998

Janet Hill		

*	Director	March 27, 1998
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Norman S. Matthews

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* Director March 27, 1998

Donald B. Shackelford

* Director March 27, 1998

Paul B. Sigler

* DAVID M. SCHNEIDER, by signing his name hereto, does sign this document on behalf of the persons indicated above pursuant to a power of attorney duly executed by such persons.

By /s/ David M. Schneider March 27, 1998

David M. Schneider
Attorney-in-fact

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ANNUAL REPORT ON FORM 10-K
ITEM 14(d)
FINANCIAL STATEMENT SCHEDULES
YEAR ENDED DECEMBER 31, 1997
THE PROGRESSIVE CORPORATION
MAYFIELD VILLAGE, OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders,
The Progressive Corporation:

Our report on the consolidated financial statements of The Progressive Corporation and subsidiaries has been incorporated by reference in this Form 10-K from page 35 of the 1997 Annual Report to Shareholders of The Progressive Corporation. In connection with our audits of such financial statements, we have also audited the related financial statement schedules listed in the index on pages 22 and 23 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Cleveland, Ohio
January 27, 1998

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CONSENT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders,
The Progressive Corporation:

We consent to the incorporation by reference in the Registration Statement of The Progressive Corporation on Form S-8 (File No. 333-25197) filed April 15, 1997, the Registration Statement on Form S-8 (File No. 33-57121) filed December 29, 1994, the Registration Statement on Form S-8 (File No. 33-64210) filed June 10, 1993, the Registration Statement on Form S-8 (File No. 33-51034) filed August 20, 1992, the Registration Statement on Form S-8 (File No. 33-46944) filed April 3, 1992, the Registration Statement on Form S-8 (File No. 33-38793) filed February 4, 1991, the Registration Statement on Form S-8 (File No. 33-38107) filed December 6, 1990, the Registration Statement on Form S-8 (File No. 33-37707) filed November 9, 1990, the Registration Statement on Form S-8 (File No. 33-33240) filed January 31, 1990, and the Registration Statement on Form S-8 (File No. 33-16509) filed August 14, 1987, of our reports dated January 27, 1998, on our audits of the consolidated financial statements and financial statement schedules of The Progressive Corporation and subsidiaries as of December 31, 1997 and 1996, and for each of the three years in the period ended December 31, 1997, which reports are included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Cleveland, Ohio
 March 27, 1998

SCHEDULE I -- SUMMARY OF INVESTMENTS -- OTHER
 THAN INVESTMENTS IN RELATED PARTIES

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Type of Investment	December 31, 1997		
	Cost	Market Value	Amount At Which Shown In The Balance Sheet
Fixed Maturities:			
Available-for-sale:			
United States Government and government agencies and authorities	\$ 918.1	\$ 919.6	\$ 919.6
States, municipalities and political subdivisions	1,231.8	1,264.2	1,264.2
Asset-backed securities	1,501.4	1,520.0	1,520.0
Foreign government obligations	57.6	58.5	58.5
Corporate and other debt securities	94.7	95.2	95.2
Redeemable preferred stock	33.2	33.9	33.9
Total fixed maturities	3,836.8	3,891.4	3,891.4
Equity securities:			
Common stocks	501.9	620.8	620.8
Preferred stocks	333.9	348.8	348.8
Total equity securities	835.8	969.6	969.6
Short-term investments	409.4	409.4	409.4
Total investments	\$5,082.0	\$5,270.4	\$5,270.4

The Company did not have any securities of one issuer with an aggregate cost or market value exceeding 10% of total shareholders' equity at December 31, 1997.

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF INCOME

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	Years Ended December 31,		
	1997	1996	1995
Revenues			
Dividends from subsidiaries*	\$108.1	\$125.0	\$120.8

Intercompany investment income*	35.3	36.5	37.2
	-----	-----	-----
	143.4	161.5	158.0
	-----	-----	-----
Expenses			
Interest expense	64.5	61.4	57.1
Other operating costs and expenses	6.2	4.1	3.6
	-----	-----	-----
	70.7	65.5	60.7
	-----	-----	-----
Operating income and income before income taxes and other items below	72.7	96.0	97.3
Income tax benefit	(12.7)	(10.2)	(7.3)
	-----	-----	-----
Income before equity in undistributed earnings of subsidiaries	85.4	106.2	104.6
Equity in undistributed net income of consolidated subsidiaries*	314.6	207.5	145.9
	-----	-----	-----
Net income	\$400.0	\$313.7	\$250.5
	=====	=====	=====

<FN>

*Eliminated in consolidation.

</FN>

See notes to condensed financial statements.

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SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

CONDENSED BALANCE SHEETS

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	December 31,	
	1997	1996
	-----	-----
ASSETS		
Investment in non-consolidated affiliates	\$.4	\$.4
Investment in subsidiaries*	2,437.8	1,755.7
Receivable from subsidiary*	489.4	695.8
Intercompany receivable*	--	6.6
Income taxes	28.9	13.0
Other assets	6.7	2.8
	-----	-----
TOTAL ASSETS	\$2,963.2	\$2,474.3
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued expenses	\$ 23.5	\$ 22.1
Intercompany payable*	27.9	--
Debt	775.9	775.3
	-----	-----
Total liabilities	827.3	797.4
	-----	-----
Shareholders' equity:		
Common Shares, \$1.00 par value, authorized 200.0 shares, issued 83.1, including treasury shares of 10.8 and 11.6	72.3	71.5
Paid-in capital	412.8	381.8
Net unrealized appreciation of investment in equity securities of consolidated subsidiaries	122.3	74.0
Retained earnings	1,528.5	1,149.6
	-----	-----
Total shareholders' equity	2,135.9	1,676.9
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,963.2	\$2,474.3
	=====	=====

<FN>

*Eliminated in consolidation.

</FN>

See notes to condensed financial statements.

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SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	Years Ended December 31,		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$400.0	\$313.7	\$250.5
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in income of consolidated subsidiaries	(422.7)	(332.5)	(266.7)
Changes in:			
Intercompany receivable or payable	34.5	19.0	1.6
Accounts payable and accrued expenses	1.4	1.8	1.3
Income taxes	(15.9)	13.1	3.9
Other, net	(3.5)	(.9)	(.1)
Net cash provided by (used in) operating activities	(6.2)	14.2	(9.5)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additional investments in equity securities of consolidated subsidiaries	(219.3)	(42.2)	(42.1)
Return of capital from consolidated subsidiary	--	.5	--
Purchase of consolidated subsidiaries	(100.5)	(26.6)	--
Dividends received from consolidated subsidiaries	108.1	125.0	120.8
Net cash provided by (used in) investing activities	(211.7)	56.7	78.7
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	14.1	6.9	10.1
Tax benefits from exercise of stock options	17.6	5.9	8.5
Redemption of Preferred Shares	--	(80.8)	--
Proceeds from Debt	--	99.6	--
Receivable from subsidiary	206.4	(35.0)	(61.4)
Dividends paid to shareholders	(17.3)	(19.6)	(24.1)
Acquisition of treasury shares	(2.9)	(47.9)	(2.3)
Net cash provided by (used in) financing activities	217.9	(70.9)	(69.2)
Change in cash	--	--	--
Cash, beginning of year	--	--	--
Cash, end of year	\$ --	\$ --	\$ --

See notes to condensed financial statements.

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

NOTES TO CONDENSED FINANCIAL STATEMENTS

The accompanying condensed financial statements of The Progressive Corporation (the "Registrant") should be read in conjunction with the consolidated financial statements and notes thereto of The Progressive Corporation and subsidiaries included in the Registrant's 1997 Annual Report.

STATEMENTS OF CASH FLOWS -- For the purpose of the Statements of Cash Flows, cash includes only bank demand deposits. The Registrant paid income taxes of \$166.9 million in 1997, and \$120.4 million, and \$75.5 million million in 1996 and 1995, respectively. Total interest paid was \$63.8 million for 1997, \$60.2 million for 1996 and \$56.5 million for 1995.

DEBT -- Debt at December 31 consisted of:

(millions)	1997		1996	
	Cost	Market Value	Cost	Market Value
7.30% Notes, due 2006 (issued: \$100.0, May 1996)	\$ 99.7	\$105.3	\$ 99.6	\$101.7
6.60% Notes, due 2004 (issued: \$200.0, January 1994)	198.9	200.7	198.8	197.1
7% Notes, due 2013 (issued: \$150.0, October 1993)	148.4	154.4	148.3	144.3
8 3/4% Notes, due 1999 (issued: \$30.0, May 1989)	29.7	30.9	29.5	31.6
10% Notes, due 2000 (issued: \$150.0, December 1988)	149.6	164.6	149.6	167.8
10 1/8% Subordinated Notes, due 2000 (issued: \$150.0, December 1988)	149.6	164.6	149.5	168.4
	\$775.9	\$820.5	\$775.3	\$810.9

Debt includes amounts the Registrant has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes.

All debt is noncallable with interest payable semiannually.

In May 1990, the Registrant entered into a revolving credit arrangement with National City Bank, which is reviewed by the bank annually. Under this agreement, the Registrant had the right to borrow up to \$50.0 million. In February 1994, the Registrant reduced this revolving credit arrangement to \$20.0 million and in May 1997, further reduced it to \$10.0 million. By selecting from available credit options, the Registrant may elect to pay interest at rates related to the London interbank offered rate, the bank's base rate or at a money market rate. A commitment fee is payable on any unused portion of the committed amount at the rate of .125% per annum. At December 31, 1997 and 1996, the Registrant had no borrowings under this arrangement.

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

NOTES TO CONDENSED FINANCIAL STATEMENTS

As of December 31, 1997, the Registrant was in compliance with its debt covenants.

Aggregate principal payments on debt outstanding at December 31, 1997 are \$0 for 1998, \$30.0 million for 1999, \$300.0 million for 2000, \$0 for 2001 and 2002 and \$450.0 million thereafter.

INCOME TAXES -- The Registrant files a consolidated Federal income tax return with all eligible subsidiaries. The Federal income taxes in the accompanying Condensed Balance Sheets represent amounts recoverable from the Internal Revenue Service by the Registrant as agent for the consolidated tax group. The Registrant and its subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated Federal income taxes. Amounts allocated to the subsidiaries under the written agreement are included in Intercompany Receivable from Subsidiaries in the accompanying Condensed Balance Sheets.

INVESTMENTS IN CONSOLIDATED SUBSIDIARIES -- The Registrant, through its investment in consolidated subsidiaries, recognizes the changes in unrealized gains (losses) on equity securities of the subsidiaries. These amounts were:

Unrealized gains (losses):			
Available-for-sale: fixed maturities	\$29.5	\$(18.3)	\$ 86.1
equity securities	44.8	53.7	40.0
Deferred income taxes	(26.0)	(12.5)	(44.3)
	-----	-----	-----
	\$48.3	\$ 22.9	\$ 81.8
	=====	=====	=====

OTHER MATTERS -- The information relating to incentive compensation plans is incorporated by reference from Note 7, EMPLOYEE BENEFIT PLANS, "Incentive Compensation Plans" on pages 46 and 47 of the Registrant's 1997 Annual Report.

SCHEDULE III -- SUPPLEMENTARY INSURANCE INFORMATION

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Segment	Deferred policy acquisition costs	Future policy benefits, losses, claims and expenses	Unearned premiums	Other policy claims and benefits payable	Premium revenue	Investment income(1)	Benefits, claims, losses and settlement expenses	Amortization of deferred policy acquisition costs
Year ended December 31, 1997:								
Insurance Lines	\$259.6	\$2,146.6	\$1,980.1	\$ --	\$4,189.5	\$274.9	\$2,967.5	\$607.8
Year ended December 31, 1996:								
Insurance Lines	\$200.1	\$1,800.6	\$1,467.3	\$ --	\$3,199.3	\$225.8	\$2,236.1	\$482.6
Year ended December 31, 1995:								
Insurance Lines	\$181.9	\$1,610.5	\$1,209.6	\$ --	\$2,727.2	\$199.1	\$1,943.8	\$459.6

Segment	Other operating expenses	Net premiums written
Year ended December 31, 1997:		
Insurance Lines	\$336.0	\$4,665.1
Year ended December 31, 1996:		
Insurance Lines	\$208.5	\$3,441.7
Year ended December 31, 1995:		
Insurance Lines	\$167.2	\$2,912.8

<FN>
(1) Excluding investment expenses of \$9.9 million in 1997, \$6.1 million in 1996 and \$8.1 million in 1995.
</FN>

SCHEDULE IV -- REINSURANCE

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
(millions)

Year Ended -----	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
DECEMBER 31, 1997					
Life Insurance in force	\$ --	\$ --	\$ --	\$ --	--
Premiums earned:					
Accident and health	\$ --	\$ --	\$ --	\$ --	--
Property and liability	4,382.9	193.4	--	4,189.5	--
Life	--	--	--	--	--
Total premiums earned	\$ 4,382.9	\$ 193.4	\$ --	\$ 4,189.5	--
DECEMBER 31, 1996					
Life Insurance in force	\$.1	\$.1	\$ --	\$ --	--
Premiums earned:					
Accident and health	\$ --	\$ --	\$ --	\$ --	--
Property and liability	3,380.7	185.2	3.8	3,199.3	.1 %
Life	--	--	--	--	--
Total premiums earned	\$ 3,380.7	\$ 185.2	\$ 3.8	\$ 3,199.3	--
DECEMBER 31, 1995					
Life Insurance in force	\$.4	\$.1	\$ --	\$.3	--
Premiums earned:					
Accident and health	\$ --	\$ --	\$ --	\$ --	--
Property and liability	2,895.9	168.8	.1	2,727.2	--
Life	--	--	--	--	--
Total premiums earned	\$ 2,895.9	\$ 168.8	\$.1	\$ 2,727.2	--

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SCHEDULE VI - SUPPLEMENTAL INFORMATION CONCERNING PROPERTY - CASUALTY INSURANCE
OPERATIONS

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
(millions)

Year Ended -----	Losses and Loss Adjustment Expenses Incurred Related to		Paid Losses and Loss Adjustment Expenses
	Current Year	Prior Years	
December 31, 1997	\$ 3,070.8	\$ (103.3)	\$ 2,715.1
December 31, 1996	\$ 2,341.9	\$ (105.8)	\$ 2,017.6
December 31, 1995	\$ 2,000.4	\$ (56.6)	\$ 1,729.6

Pursuant to Rule 12-18 of Regulation S-X. See Schedule III, page 35, for the additional information required in Schedule VI.

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Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(3) (i)	3(A)	Amended Articles of Incorporation of The Progressive Corporation ("Progressive"), as amended	Quarterly Report on Form 10-Q (Filed with SEC on April 23, 1993; see Exhibit 3 therein)
(3) (ii)	3(B)	Code of Regulations of Progressive	Quarterly Report on Form 10-Q (filed with SEC on May 15, 1997; see Exhibit 3 therein)
(4)	4(A)	Indenture dated as of November 15, 1988 between Progressive and State Street Bank and Trust Company (successor in interest to Rhode Island Hospital Trust National Bank), as Trustee ("Subordinated Indenture") (including Table of Contents and cross-reference sheet)	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(B) therein)
(4)	4(B)	Form of 10 1/8% Subordinated Notes due 2000 issued in the aggregate principal amount of \$150,000,000 under the Subordinated Indenture	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(C) therein)
(4)	4(C)	Indenture dated as of November 15, 1988 between Progressive and State Street Bank and Trust Company (successor in interest to The First National Bank of Boston), as Trustee ("1988 Senior Indenture") (including Table of Contents and cross-reference sheet)	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(D) therein)
(4)	4(D)	Form of 10% Notes due 2000 issued in the aggregate principal amount of \$150,000,000 under the 1988 Senior Indenture	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(E) therein)
(4)	4(E)	Form of 8 3/4% Notes due 1999 issued in the aggregate principal amount of \$30,000,000 under the 1988 Senior Indenture	Annual Report on Form 10-K (Filed with SEC on March 28, 1995; see Exhibit 4(F) therein)

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EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(4)	4(F)	\$10,000,000 Unsecured Line of Credit with National City Bank (dated May 23, 1990; renewed May 20, 1992; amended February 1, 1994 and May 1, 1997)	Contained in Exhibit Binder
(4)	4(G)	Indenture dated as of September 15, 1993 between Progressive and State Street Bank and Trust Company (successor in interest to The First National Bank of Boston), as Trustee ("1993 Senior Indenture") (including Table of Contents and cross-reference sheet)	Quarterly Report on Form 10-Q (Filed with SEC on November 5, 1993; see Exhibit 4(A) therein)
(4)	4(H)	Form of 7% Notes due 2013 issued in the aggregate principal amount of \$150,000,000 under the 1993 Senior Indenture	Quarterly Report on Form 10-Q (Filed with SEC on November 5, 1993; see Exhibit 4(B) therein)
(4)	4(I)	Form of 6.60% Notes due 2004 issued in the aggregate principal amount of \$200,000,000 under the 1993 Senior Indenture	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(L) therein)
(4)	4(J)	First Supplemental Indenture dated March 15, 1996 between the Registrant and State Street Bank and Trust Company, evidencing the designation of State Street Bank and Trust Company, as successor Trustee under the 1993 Senior Indenture	Registration Statement No. 333-0175 (Filed with SEC on March 15, 1996; see Exhibit 4.2 therein)
(4)	4(K)	Form of 7.30% Notes due 2006, issued in the aggregate principal amount of \$100,000,000 under the Senior Indenture dated September 15, 1993, between the Company and State Street Bank and Trust, as amended and supplemented	Quarterly Report on Form 10-Q (Filed with SEC on July 31, 1996; see Exhibit 4 therein)
(10) (i)	10(A)	Construction Agreements dated November	Contained in Exhibit Binder

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(10) (iii)	10(B)	The Progressive Corporation 1997 Gainsharing Plan	Annual Report on Form 10-K (Filed with SEC on March 31, 1997; see Exhibit 10(B) therein)
(10) (iii)	10(C)	The Progressive Corporation 1997 Executive Bonus Plan	Annual Report on Form 10-K (Filed with SEC on March 31, 1997; see Exhibit 10(D) therein)
(10) (iii)	10(D)	The Progressive Corporation 1996 Process Management Bonus Plan	Quarterly Report on Form 10-Q (Filed with SEC on May 1, 1996; see Exhibit 10(A) therein)
(10) (iii)	10(E)	The Progressive Corporation Directors Deferral Plan (Amendment and Restatement), as further amended on October 25, 1996	Quarterly Report on Form 10-Q (Filed with SEC on November 13, 1996; see Exhibit 10 therein)
(10) (iii)	10(F)	The Progressive Corporation 1989 Incentive Plan (amended and restated as of April 24, 1992, as further amended on July 1, 1992 and February 5, 1993)	Annual Report on Form 10-K (Filed with SEC on March 30, 1993; see Exhibit 10(G) therein)
(10) (iii)	10(G)	Share Option Agreement dated March 17, 1989, between Progressive and David M. Schneider	Annual Report on Form 10-K (Filed with SEC on March 28, 1995; see Exhibit 10(H) therein)
(10) (iii)	10(H)	The Progressive Corporation 1998 Directors' Stock Option Plan	Contained in Exhibit Binder
(10) (iii)	10(I)	The Progressive Corporation 1990 Directors' Stock Option Plan (Amended and Restated as of April 24, 1992 and as further amended on July 1, 1992)	Contained in Exhibit Binder
(10) (iii)	10(J)	Agreement dated March 11, 1996 with Bruce W. Marlow	Annual Report on Form 10-K (Filed with SEC on March 15, 1996; see Exhibit 10(H) therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(10) (iii)	10(K)	Amending Agreement dated April 1, 1996 between the Company and Bruce W. Marlow relating to certain outstanding stock options previously granted to Mr. Marlow	Quarterly Report on Form 10-Q (Filed with SEC on July 31, 1996; see Exhibit 10 therein)
(10) (iii)	10(L)	The Progressive Corporation 1995 Incentive Plan	Annual Report on Form 10-K (Filed with SEC on March 28, 1995; see Exhibit 10(L) therein)
(10) (iii)	10(M)	The Progressive Corporation Executive Deferred Compensation Plan (Amended and Restated as of January 1, 1997), as further amended December 1, 1997	Contained in Exhibit Binder
(10) (iii)	10(N)	Form of Non-Qualified Stock Option Agreement under The Progressive Corporation 1989 Incentive Plan (single award)	Quarterly Report on Form 10-Q (Filed with SEC on May 1, 1996; see Exhibit 10(B) therein)
(10) (iii)	10(O)	Form of Non-Qualified Stock Option Agreement under The Progressive Corporation 1989 Incentive Plan (multiple awards)	Quarterly Report on Form 10-Q (Filed with SEC on May 1, 1996; see Exhibit 10(C) therein)
(11)	11	Computation of Earnings Per Share	Contained in Exhibit Binder
(12)	12	Computation of Ratio of Earnings to Fixed Charges	Contained in Exhibit Binder
(13)	13	The Progressive Corporation 1997 Annual Report	Contained in Exhibit Binder
(21)	21	Subsidiaries of The Progressive Corporation	Contained in Exhibit Binder
(23)	23	Consent of Independent Accountants	Incorporated herein by reference to page

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EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(24)	24	Powers of Attorney	Contained in Exhibit Binder
(27)	27	Financial Data Schedule for current period and Restated Financial Data Schedules for other periods	These exhibits are contained in the EDGAR filing of the Annual Report on Form 10-K for the year ended December 31, 1997 only

No other exhibits are required to be filed herewith pursuant to Item
601 of Regulation S-K.

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Exhibit 4(F)

PROGRESSIVE (R)
6300 Wilson Mills Road
Mayfield Village, OH 44143

May 7, 1997

Mr. Robert E. Little
National City Bank
1900 East 9th Street
Cleveland, OH 44114

Dear Mr. Little:

Per our discussion, the Progressive Corporation hereby accepts the terms for the unsecured line of credit for ten million dollars (\$10,000,000.00) as of May 1, 1997.

Terms of the line are as follows:

- 1/8 of 1% Commitment Fee
- Borrowings options include Base rate, Libor + 3/8% (reserve adjusted or money market rate).
- The line is subject to annual review.
- Progressive will furnish interim and annual audited statements as well as Security and Exchange Commission reports and annual convention statements.

THE PROGRESSIVE CORPORATION

/s/ Marilyn A. Muzic

Marilyn A. Muzic
Director of Financial Operations

MAM:mvb

cc: Charles B. Chokel
Liz Kramer
David M. Schneider

[LOGO]

STANDARD FORM OF AGREEMENT BETWEEN OWNER AND
CONSTRUCTION MANAGER WHERE THE CONSTRUCTION MANAGER
IS NOT A CONSTRUCTOR

AIA Document B801/CMA - Electronic Format

THIS DOCUMENT HAS IMPORTANT LEGAL CONSEQUENCES; CONSULTATION WITH AN ATTORNEY IS
ENCOURAGED WITH RESPECT TO ITS COMPLETION OR MODIFICATION. AUTHENTICATION OF
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subject the violator to legal prosecution.

AGREEMENT

made as of the 3rd day of November in the year of 1997.
(In words, indicate day, month and year)

BETWEEN the Owner:
(Name and address)

PROGRESSIVE CASUALTY INSURANCE CO., 6300 WILSON MILLS ROAD, MAYFIELD VILLAGE.
OHIO 44143

and the Construction Manager:
(Name and address)

HCB CONTRACTORS, 5100 WEST KENNEDY BLVD., SUITE 150, TAMPA, FLORIDA 33609

for the following Project:

(Include detailed description of Project, location, address and scope.)
THE PROJECT IS KNOWN AS THE "TAMPA CALL CENTER" - IT CONSISTS OF TWO (2) THREE
STORY BUILDINGS OF APPROXIMATELY 118,500 SF AND 120,600 SF RESPECTIVELY, ONE TWO
(2) STORY BUILDING CONSISTING OF APPROXIMATELY 60,000SF AND RELATED SURFACE
PARKING AND SITE IMPROVEMENTS.

The Architect is:
(Name and address)

HERMAN, GIBANS, FODOR, INC., 1304 WEST 6TH STREET, CLEVELAND, OHIO 44113

The Owner and Construction Manager agree as set forth below.

AIA DOCUMENT B801/CMA - OWNER-CONSTRUCTION MANAGER AGREEMENT - 1992 EDITION -
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Terms and Conditions of Agreement Between Owner and Construction Manager

ARTICLE I
CONSTRUCTION MANAGER'S
RESPONSIBILITIES

1.1 CONSTRUCTION MANAGER'S SERVICES

1.1.1 The Construction Manager's services consist of those services performed by the Construction Manager, Construction Manager's employees and Construction Manager's consultants as enumerated in Articles 2 and 3 of this Agreement and any other services included in Article 14.

1.1.2 The Construction Manager's services shall be provided in conjunction with the services of an Architect as described in the edition of AIA Document B141/CMA, Standard Form of Agreement Between Owner and Architect, Construction Manager-Adviser Edition, current as of the date of this Agreement.

1.1.3 The Construction Manager shall provide sufficient organization, personnel and management to carry out the requirements of this Agreement in an expeditious and economical manner consistent with the interests of the Owner.

1.1.4 The services covered by this Agreement are subject to the time limitations contained in Subparagraph 13.5.1.

ARTICLE 2
SCOPE OF CONSTRUCTION MANAGER'S
BASIC SERVICES

2.1 DEFINITION

2.1.1 The Construction Manager's Basic Services consist of those described in Paragraphs 2.2 and 2.3 and any other services identified in Article 14 as part of Basic Services.

2.2 PRE-CONSTRUCTION PHASE

2.2.1 The Construction Manager shall review the program furnished by the Owner to ascertain the requirements of the Project and shall arrive at a mutual understanding of such requirements with the Owner.

2.2.2 The Construction Manager shall provide a preliminary evaluation of the Owner's program, schedule and construction budget requirements, each in terms of the other.

2.2.3 Based on early schematic designs and other design criteria prepared by the Architect, the Construction Manager shall prepare preliminary estimates of Construction Cost for program requirements using area, volume or similar conceptual estimating techniques. The Construction Manager shall provide cost evaluations of alternative materials and systems.

2.2.4 The Construction Manager shall expeditiously review design documents during their development and advise on proposed site use and improvements, selection of materials, building systems and equipment, and methods of Project delivery. The Construction Manager shall provide recommendations on relative feasibility of construction methods, availability of materials and labor, time requirements for procurement, installation and construction, and factors related to construction cost including, but not limited to, costs of alternative designs or materials, preliminary budgets, and possible economies.

2.2.5 The Construction Manager shall prepare and periodically update a Project Schedule for the Architect's review and the Owner's acceptance. The Construction Manager shall obtain the Architect's approval for the portion of the preliminary project schedule relating to the performance of the Architect's services. In the Project Schedule, the Construction Manager shall coordinate and integrate the Construction Manager's services, the Architect's services and the Owner's responsibilities with anticipated construction schedules, highlighting critical and long-lead-time items.

2.2.6 As the Architect progress with the preparation of the Schematic, Design Development and Construction Documents, the Construction Manager shall prepare and update, at appropriate intervals agreed to by the Owner, Construction Manager and Architect, estimates of Construction Cost of increasing detail and refinement. The estimated cost of each Contract shall be indicated with supporting detail. Such estimates shall be provided for the Architect's review and the Owner's approval. The Construction Manager shall advise the Owner and Architect if it appears that the Construction Cost may exceed the latest approved Project budget and rake recommendations for corrective action.

2.2.7 The Construction Manager shall consult with the Owner and Architect regarding the Construction Documents

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and make recommendations whenever design details adversely affect constructibility, cost or schedules.

2.2.8 The Construction Manager shall provide recommendations and information to the Owner and Architect regarding the assignment of responsibilities for temporary Project facilities and equipment, materials and services for common use of the Contractors. The Construction Manager shall verify that such requirements and assignment of responsibilities are included in the proposed Contract Documents.

2.2.9 The Construction Manager shall provide recommendations and information to the Owner regarding the allocation of responsibilities for safety programs among the Contractors.

2.2.10 The Construction Manager shall advise on the division of the Project into individual Contracts for various categories of Work, including the method to be used for selecting Contractors and awarding Contracts. If multiple Contracts are to be awarded, the Construction Manager shall review the Construction Documents and make recommendations as required to provide that (1) the Work of the Contractors is coordinated, (2) all requirements for the Project have been assigned to the appropriate Contract, (3) the likelihood of jurisdictional disputes has been minimized, and (4) proper coordination has been provided for phased construction.

2.2.11 The Construction Manager shall prepare a Project construction schedule providing for the components of the Work, including phasing of construction, times of commencement and completion required of each Contractor, ordering and delivery of products requiring long lead time, and the occupancy requirements of the Owner. The Construction Manager shall provide the current Project construction schedule for each set of bidding documents.

2.2.12 The Construction Manager shall expedite and coordinate the ordering and delivery of materials requiring long lead time.

2.2.13 The Construction Manager shall assist the Owner in selecting, retaining and coordinating the professional services of surveyors, special consultants and testing laboratories required for the Project.

2.2.14 The Construction Manager shall provide an analysis of the types and quantities of labor required for the Project and review the availability of appropriate categories of labor required for critical phases. The Construction Manager shall make recommendations for actions designed to minimize adverse effects of labor shortages.

2.2.15 The Construction Manager shall assist the Owner in obtaining information regarding applicable requirements for equal employment opportunity programs for inclusion in the Contract Documents.

2.2.16 Following the Owner's approval of the Construction Documents, the Construction Manager shall update and submit the latest estimate of Construction Cost and the Project construction schedule for the Architect's review and the Owner's approval.

2.2.17 The Construction Manager shall submit the list of prospective bidders for the Architect's review and the Owner's approval.

2.2.18 The Construction Manager shall develop bidders' interest in the Project and establish bidding schedules. The Construction Manager, with the assistance of the Architect, shall issue bidding documents to bidders and conduct prebid conferences with prospective bidders. The Construction Manager shall assist the Architect with regard to questions from bidders and with the issuance of addenda.

2.2.19 The Construction Manager shall receive bids, prepare bid analyses and make recommendations to the Owner for the Owner's award of Contracts or rejection of bids.

2.2.20 The Construction Manager shall assist the Owner in preparing Construction Contracts and advise the Owner on the acceptability of Subcontractors and material suppliers proposed by Contractors.

2.2.21 The Construction Manager shall assist the Owner in obtaining building permits and special permits for permanent improvements, except for permits required to be obtained directly by the various Contractors. The Construction Manager shall verify that the Owner has paid applicable fees and assessments. The Construction Manager shall assist the Owner and Architect in connection with the Owner's responsibility for filing documents required for the approvals of governmental authorities having jurisdiction over the Project.

2.3 CONSTRUCTION PHASE - ADMINISTRATION OF THE CONSTRUCTION CONTRACT

2.3.1 The Construction Phase will commence with the award of the initial Construction Contract or purchase order and, together with the Construction Manager's obligation to provide Basic Services under this Agreement, will end 30 days after final payment to all Contractors is due.

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2.3.2 The Construction Manager shall provide administration of the Contracts for Construction in cooperation with the Architect as set forth below and in the edition of AIA Document A201/CMa, General Conditions of the Contract for

Construction, Construction Manager-Adviser Edition, current as of the date of this Agreement.

2.3.3 The Construction Manager shall provide administrative, management and related services to coordinate scheduled activities and responsibilities of the Contractors with each other and with those of the Construction Manager, the Owner and the Architect to endeavor to manage the Project in accordance with the latest approved estimate of Construction Cost, the Project Schedule and the Contract Documents.

2.3.4 The Construction Manager shall schedule and conduct meetings to discuss such matters as procedures, progress and scheduling. The Construction Manager shall prepare and promptly distribute minutes to the Owner, Architect and Contractors.

2.3.5 Utilizing the Construction Schedules provided by the Contractors, the Construction Manager shall update the Project construction schedule incorporating the activities of the Contractors on the Project, including activity sequences and durations, allocation of labor and materials, processing of Shop Drawings, Product Data and Samples, and delivery of products requiring long lead time and procurement. The Project construction schedule shall include the Owner's occupancy requirements showing portions of the Project having occupancy priority. The Construction Manager shall update and reissue the Project construction schedule as required to show current conditions. If an update indicates that the previously approved Project construction schedule may not be met, the Construction Manager shall recommend corrective action to the Owner and Architect.

2.3.6 Consistent with the various bidding documents, and utilizing information from the Contractors, the Construction Manager shall coordinate the sequence of construction and assignment of space in areas where the Contractors are performing Work.

2.3.7 The Construction Manager shall endeavor to obtain satisfactory performance from each of the Contractors. The Construction Manager shall recommend courses of action to the Owner when requirements of a Contract are not being fulfilled.

2.3.8 The Construction Manager shall monitor the approved estimate of Construction Cost. The Construction Manager shall show actual costs for activities in progress and estimates for uncompleted tasks by way of comparison with such approved estimate.

2.3.9 The Construction Manager shall develop cash flow reports and forecasts for the Project and advise the Owner and Architect as to variances between actual and budgeted or estimated costs.

2.3.10 The Construction Manager shall maintain accounting records on authorized Work performed under unit costs, additional Work performed on the basis of actual costs of labor and materials, and other Work requiring accounting records.

2.3.11 The Construction Manager shall develop and implement procedures for the review and processing of applications by Contractors for progress and final payments.

2.3.11.1 Based on the Construction Manager's observations and evaluations of each Contractor's Application for Payment, the Construction Manager shall review and certify the amounts due the respective Contractors.

2.3.11.2 The Construction Manager shall prepare a Project Application for Payment based on the Contractors' Certificates for Payment.

2.3.11.3 The Construction Manager's certification for payment shall constitute a representation to the Owner, based on the Construction Manager's determinations at the site as provided in Subparagraph 2.3.13 and on the data comprising the Contractors' Applications for Payment, that, to the best of the Construction Manager's knowledge, information and belief, the Work has progressed to the point indicated and the quality of the Work is in accordance with the Contract

Documents. The foregoing representations are subject to an evaluation of the Work for conformance with the Contract Documents upon Substantial Completion, to results of subsequent tests and inspections, to minor deviations from the Contract Documents correctable prior to completion and to specific qualifications expressed by the Construction Manager. The issuance of a Certificate for Payment shall further constitute a representation that the Contractor is entitled to payment in the amount certified.

2.3.11.4 The issuance of a Certificate for Payment shall be a representation that the Construction Manager has made it's best efforts (1) to perform on-site inspections to check the quality or quantity of the Work, (2) to review construction means, methods, techniques, sequences for the Contractor's own Work, or procedures, (3) to review copies of requisitions received from Subcontractors and material suppliers and other data requested by the Owner to substantiate the

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Contractor's right to payment and (4) to ascertain how or for what purpose the Contractor has used money previously paid on account of the Contract Sum. In taking these actions it shall not be interpreted that the Construction Manager has made an audit to verify the documentation submitted by Contractors, Subcontractors, and/or Material Vendors with respect to the Certificate for Payment. Such audits, if required by the Owner, will be performed by the Owner's accountants acting in the sole interest of the Owner.

2.3.12 The Construction Manager shall review the safety programs developed by each of the Contractors for purposes of coordinating the safety programs with those of the other Contractors.

2.3.13 The Construction Manager shall determine in general that the Work of each Contractor is being performed in accordance with the requirements of the Contract Documents, endeavoring to guard the Owner against defects and deficiencies in the Work. As appropriate, the Construction Manager shall have authority, upon written authorization from the Owner, to require additional inspection or testing of the Work in accordance with the provisions of the Contract Documents, whether or not such Work is fabricated, installed or completed. The Construction Manager, in consultation with the Architect, may reject Work which does not conform to the requirements of the Contract Documents.

2.3.14 The Construction Manager shall schedule and coordinate the sequence of construction in accordance with the Contract Documents and the latest approved Project construction schedule.

2.3.15 With respect to each Contractor's own Work, the Construction Manager shall have made it's best effort to ensure that reasonable construction means, methods, techniques, sequences, procedures, and safety precautions and programs have been undertaken by each of the Contractors in connection with the Work under the Contract for Construction. The Construction Manager shall not be monetarily responsible for a Contractor's failure to carry out the Work in accordance with the respective Contract Documents. The Construction Manager shall, however, use it's best efforts to ensure that each Contractor does carry out the Work in accordance with the respective Contract Documents.

2.3.16 The Construction Manager shall transmit to the Architect requests for interpretations of the meaning and intent of the Drawings and Specifications, and assist in the resolution of questions that may arise.

2.3.17 The Construction Manager shall review requests for changes, assist in negotiating Contractors' proposals, submit recommendations to the Architect and

Owner, and, if they are accepted, prepare Change Orders and Construction Change Directives which incorporate the Architect's modifications to the Documents.

2.3.18 The Construction Manager shall assist the Architect in the review, evaluation and documentation of Claims.

2.3.19 The Construction Manager shall receive certificates of insurance from the Contractors and forward them to the Owner with a copy to the Architect.

2.3.20 In collaboration with the Architect, the Construction Manager shall establish and implement procedures for expediting the processing and approval of Shop Drawings, Product Data, Samples and other submittals. The Construction Manager shall review all Shop Drawings, Product Data, Samples and other submittals from the Contractors. The Construction Manager shall coordinate submittals with information contained in related documents and transmit to the Architect those which have been approved by the Construction Manager. The Construction Manager's actions shall be taken with such reasonable promptness as to cause no delay in the Work or in the activities of the Owner or Contractors.

2.3.21 The Construction Manager shall record the progress of the Project. The Construction Manager shall submit written progress reports to the Owner and Architect including information on each Contractor and each Contractor's Work, as well as the entire Project, showing percentages of completion. The Construction Manager shall keep a daily log containing a record of weather, each Contractor's Work on the site, number of workers, identification of equipment, Work accomplished, problems encountered, and other similar relevant data as the Owner may require.

2.3.22 The Construction Manager shall maintain at the Project site for the Owner one record copy of all Contracts,

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Drawings, Specifications, addenda, Change Orders and other Modifications, in good order and marked currently to record changes and selections made during construction, and in addition, approved Shop Drawings, Product Data, Samples and similar required submittals. The Construction Manager shall maintain records, in duplicate, of principal building layout lines, elevations of the bottom of footings, floor levels and key site elevations certified by a qualified surveyor or professional engineer. The Construction Manager shall make all such records available to the Architect and upon completion of the Project shall deliver them to the Owner.

2.3.23 The Construction Manager shall arrange for the delivery, storage, protection and security of Owner-purchased materials, systems and equipment that are a part of the Project until such items are incorporated into the Project.

2.3.24 With the Architect and the Owner's maintenance personnel, the Construction Manager shall observe the Contractors' final testing and start-up of utilities, operational systems and equipment.

2.3.25 When the Construction Manager considers each Contractor's Work or a designated portion thereof substantially complete, the Construction Manager shall, jointly with the Contractor, prepare for the Architect a list of incomplete or unsatisfactory items and a schedule for their completion. The Construction Manager shall assist the Architect in conducting inspections to determine whether the Work or designated portion thereof is substantially complete.

2.3.26 The Construction Manager shall coordinate the correction and completion of the Work. Following issuance of a Certificate of Substantial Completion of the Work or a designated portion thereof, the Construction Manager shall evaluate the completion of the Work of the Contractors and make recommendations to the Architect when Work is ready for final inspection. The Construction Manager shall assist the Architect in conducting final inspections.

2.3.27 The Construction Manager shall secure and transmit to the Architect warranties and similar submittals required by the Contract Documents for delivery to the Owner and deliver all keys, manuals, record drawings and maintenance stocks to the Owner. The Construction Manager shall forward to the Architect a final Project Application for Payment upon compliance with the requirements of the Contract Documents.

2.3.28 Duties, responsibilities and limitations of authority of the Construction Manager as set forth in the Contract Documents shall not be restricted, modified or extended without written consent of the Owner, Construction Manager, Architect and Contractors. Consent shall not be unreasonably withheld.

ARTICLE 3

ADDITIONAL SERVICES

3.1 GENERAL

3.1.1 The services described in this Article 3 are not included in Basic Services unless so identified in Article 14, and they shall be paid for by the Owner as provided in this Agreement, in addition to the compensation for Basic Services. The Optional Additional Services described under Paragraph 3.3 shall only be provided if authorized or confirmed in writing by the Owner. If services described under Contingent Additional Services in Paragraph 3.2 are required due to circumstances beyond the Construction Manager's control, the Construction Manager shall notify the Owner prior to commencing such services. If the Owner deems that such services described under Paragraph 3.2 are not required, the Owner shall give prompt written notice to the Construction Manager. If the Owner indicates in writing that all or part of such Contingent Additional Services are not required, the Construction Manager shall have no obligation to provide those services.

3.2 CONTINGENT ADDITIONAL SERVICES

3.2.1 Providing services required because of significant changes in the Project including, but not limited to, changes in size, quality, complexity or the Owner's schedule.

3.2.2 Providing consultation concerning replacement of Work damaged by fire or other cause during construction, and furnishing services required in connection with the replacement of such Work.

3.2.3 Providing services made necessary by the termination or default of the Architect or a Contractor, or by failure of performance of the Owner.

3.2.4 Providing services in evaluating an extensive number of claims submitted by a Contractor or others in connection with the Work.

3.2.5 Providing services in connection with a public hearing, arbitration proceeding or legal proceeding except where the Construction Manager is party thereto.

3.3 OPTIONAL ADDITIONAL SERVICES

3.3.1 Providing services relative to future facilities,

systems and equipment.

3.3.2 Providing services to investigate existing conditions or facilities or to
provide measured drawings thereof.

3.3.3 Providing services to verify the accuracy of drawings or other information
furnished by the Owner.

3.3.4 Providing services required for or in connection with the Owner's
selection, procurement or installation of furniture, furnishings and related
equipment.

3.3.5

3.3.6 Providing any other services not otherwise included in this Agreement.

ARTICLE 4
OWNER'S RESPONSIBILITIES

4.1 The Owner shall provide full information regarding requirements for the
Project, including a program which shall set forth the Owner's objectives,
schedule, constraints and criteria, including space requirements and
relationships, flexibility, expandability, special equipment, systems, and site
requirements.

4.2 The Owner shall establish and update an overall budget for the Project based
on consultation with the Construction Manager and Architect, which shall include
the Construction Cost, the Owner's other costs and reasonable contingencies
related to all of these costs.

4.3 If requested by the Construction Manager, the Owner shall furnish evidence
that financial arrangements have been made to fulfill the Owner's obligations
under this Agreement.

4.4 The Owner shall designate a representative authorized to act on the Owner's
behalf with respect to the Project. The Owner, or such authorized
representative, shall render decisions in a timely manner pertaining to
documents submitted by the Construction Manager in order to avoid unreasonable
delay in the orderly and sequential progress the Construction Manager's
services.

4.5 The Owner shall retain an architect whose services, duties and
responsibilities are described in the edition of AIA Document B141/Cma, Standard
Form of Agreement Between Owner and Architect, Construction Manager-Adviser
Edition, current as of the date of this Agreement. The Terms and Conditions of
the Agreement Between the Owner and Architect shall be furnished to the
Construction Manager and shall not be modified without written consent of the
Construction Manager, which consent shall not be unreasonably withheld. The
Construction Manager shall not be responsible for actions taken by the
Architect.

4.6 The Owner shall furnish structural, mechanical, chemical, air and water
pollution tests, tests for hazardous materials, and other laboratory and
environmental tests, inspections and reports required by law or the Contract
Documents.

4.7 The Owner shall furnish all legal, accounting and insurance counseling services as may be necessary at any time for the Project, including auditing services the Owner may require to verify the Contractors' Applications for Payment or to ascertain how or for what purposes the Contractors have used the money paid by or on behalf of the Owner.

4.8 The Owner shall furnish the Construction Manager with a sufficient quantity of Construction Documents.

4.9 The services, information and reports required by Paragraphs 4.5 through 4.8 shall be furnished at the Owner's expense, and the Construction Manager shall be entitled to rely upon the accuracy and completeness thereof.

4.10 Prompt written notice shall be given by the Owner to the Construction Manager and Architect if the Owner becomes aware of any fault or defect in the Project or nonconformance with the Contract Documents.

4.11 The Owner reserves the right to perform construction and operations related to the Project with the Owner's own forces, and to award contracts in connection with the Project which are not part of the Construction Manager's responsibilities under this Agreement. The Construction Manager shall notify the Owner if any such independent action will interfere with the Construction Manager's ability to perform the Construction Manager's responsibilities under this Agreement. When performing construction or operations related to the Project, the Owner agrees to be subject to the same obligations and to have the same rights as the Contractors.

4.12 Information or services under the Owner's control shall be furnished by the Owner with reasonable promptness to avoid delay in the orderly progress of the Construction Manager's services and the progress of the Work.

ARTICLE 5
CONSTRUCTION COST

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5.1 DEFINITION

5.1.1 The Construction Cost shall be the total cost to the Owner of all elements of the Project designed or specified by the Architect.

5.1.2 The Construction Cost shall include the cost of labor and materials furnished by the Owner and equipment designed, specified, selected or specially provided for by the Architect. Except as provided in Subparagraph 5.1.3, Construction Cost shall also include the compensation of the Construction Manager and Construction Manager's consultants.

5.1.3 Construction Cost does not include the compensation of the Architect and Architect's consultants, costs of the land, rights-of-way, financing or other costs which are the responsibility of the Owner as provided in Article 4. If any portion of the Construction Manager's compensation is based upon a percentage of Construction Cost, then Construction Cost, for the purpose of determining such portion, shall not include the compensation of the Construction Manager or Construction Manager's consultants.

5.2 RESPONSIBILITY FOR CONSTRUCTION COST

5.2.1 Evaluations of the Owner's Project budget, preliminary estimates of Construction Cost and detailed estimates of Construction Cost prepared by the Construction Manager represent the Construction Manager's best judgment as a person or entity familiar with the construction industry. It is recognized, however, that neither the Construction Manager nor the Owner has control over the cost of labor, materials or equipment, over Contractors' methods of determining bid prices, or over competitive bidding, market or negotiating conditions. Accordingly, the Construction Manager cannot and does not warrant or represent that bids or negotiated prices will not vary from the Project budget proposed, established or approved by the Owner, or from any cost estimate or evaluation prepared by the Construction Manager.

5.2.2 No fixed limit of Construction Cost shall be established as a condition of this Agreement by the furnishing, proposal or establishment of a Project budget unless such fixed limit has been agreed upon in writing and signed by the parties hereto. If such a fixed limit has been established, the Construction Manager shall be permitted to include contingencies for design, bidding and price escalation, and shall consult with the Architect to determine what materials, equipment, component systems and types of construction are to be included in the Contract Documents, to suggest reasonable adjustments in the scope of the Project, and to suggest inclusion of alternate bids in the Construction Documents to adjust the Construction Cost to the fixed limit. Fixed limits, if any, shall be increased in the amount of any increase in the Contract Sums occurring after execution of the Contracts for Construction.

5.2.3 If the Bidding or Negotiation Phase has not commenced within 90 days after submittal of the Construction Documents to the Owner, any Project budget or fixed limit of Construction Cost shall be adjusted to reflect changes in the general level of prices in the construction industry between the date of submission of the Construction Documents to the Owner and the date on which proposals are sought.

5.2.4 If a fixed limit of Construction Cost (adjusted as provided in Subparagraph 5.2.3) is exceeded by the sum of the lowest bona fide bids or negotiated proposals plus the Construction Manager's estimate of other elements of Construction Cost for the Project, the Owner shall:

- .1 give written approval of an increase in such fixed limit;
- .2 authorize rebidding or renegotiating of the Project within a reasonable time;
- .3 if the Project is abandoned, terminate in accordance with Paragraph 9.3; or
- .4 cooperate in revising the Project scope and quality as required to reduce the Construction Cost.

5.2.5 If the Owner chooses to proceed under Clause 5.2.4.4, the Construction Manager, without additional charge, shall cooperate with the Owner and Architect as necessary to bring the Construction Cost within the fixed limit, if established as a condition of this Agreement.

ARTICLE 6
CONSTRUCTION SUPPORT ACTIVITIES

6.1 Construction support activities, if provided by the Construction Manager, shall be governed by separate contractual agreements unless otherwise provided in Article 14.

6.2 Reimbursable expenses listed in Article 14 for construction support activities may be subject to trade

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discounts, rebates, refunds and amounts received from sales of surplus materials and equipment which shall accrue to the Owner, and the Construction Manager shall make provisions so that they can be secured.

ARTICLE 7
OWNERSHIP AND USE OF
ARCHITECT'S DRAWINGS, SPECIFICATIONS
AND OTHER DOCUMENTS

7.1 The Drawings, Specifications and other documents prepared by the Architect are instruments of the Architect's service through which the Work to be executed by the Contractors is described. The Construction Manager may retain one record set. The Construction Manager shall not own or claim a copyright in the Drawings, Specifications and other documents prepared by the Architect, and unless otherwise indicated the Architect shall be deemed the author of them and will retain all common law, statutory and other reserved rights, in addition to the copyright. All copies of them, except the Construction Manager's record set, shall be returned or suitably accounted for to the Architect, on request, upon completion of the Project. The Drawings, Specifications and other documents prepared by the Architect, and copies thereof furnished to the Construction Manager, are for use solely with respect to this Project. They are not to be used by the Construction Manager on other projects or for additions to this Project outside the scope of the Work without the specific written consent of the Owner and Architect. The Construction Manager is granted a limited license to use and reproduce applicable portions of the Drawings, Specifications and other documents prepared by the Architect appropriate to and for use in the performance of the Construction Manager's services under this Agreement.

All copies made under this license shall bear the statutory copyright notice, if any, shown on the Drawings, Specifications and other documents prepared by the Architect. Submittal or distribution to meet official regulatory requirements or for other purposes in connection with this Project is not to be construed as publication in derogation of the Architect's copyright or other reserved rights.

ARTICLE 8
ARBITRATION

8.1 See Exhibit "A," dated August 20, 1997, to the Contract attached hereto. Arbitration is replaced by Mediation for 'Dispute Resolution'.

8.2

8.3

8.4

ARTICLE 9
TERMINATION, SUSPENSION OR
ABANDONMENT

9.1 This Agreement may be terminated by either party upon not less than thirty days' written notice should the other party fail substantially to perform in accordance with the terms of this Agreement through no fault of the party initiating the termination.

9.2 If the Project is suspended by the Owner for more than 30 consecutive days, the Construction Manager shall be compensated for services performed prior to notice of such suspension. When the Project is resumed, the Construction

Manager's compensation shall be equitably adjusted to

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provide for expenses incurred in the interruption and resumption of the
Construction Manager's services.

9.3 This Agreement may be terminated by the Owner upon not less than thirty
days' written notice to the Construction Manager in the event that the Project
is permanently abandoned. If the Project is abandoned by the Owner for more than
90 consecutive days, the Construction Manager may terminate this Agreement by
giving written notice.

9.4 Failure of the Owner to make payments to the Construction Manager in
accordance with this Agreement shall be considered substantial nonperformance
and cause for termination.

9.5 If the Owner fails to make payment when due the Construction Manager for
services and expenses, the Construction Manager may, upon seven days' written
notice to the Owner, suspend performance of services under this Agreement.
Unless payment in full is received by the Construction Manager within seven days
of the date of the notice, the suspension shall take effect without further
notice. In the event of a suspension of services, the Construction Manager shall
have no liability to the Owner for delay or damage caused to the Owner because
of such suspension of services.

9.6 In the event of termination not the fault of the Construction Manager, the
Construction Manager shall be compensated for services performed prior to
termination, together with Reimbursable Expenses then due and all Termination
Expenses as defined in Paragraph 9.7.

9.7 Termination Expenses are those costs directly attributable to termination
for which the Construction Manager is not otherwise compensated.

ARTICLE 10
MISCELLANEOUS PROVISIONS

10.1 Unless otherwise provided, this Agreement shall be governed by the law of
the place where the Project is located.

10.2 Terms in this Agreement shall have the same meaning as those in the edition
of AIA Document A201/CMA, General Conditions of the Contract for Construction,
Construction Manager-Adviser Edition, current
as of the date of this Agreement.

10.3 Causes of action between the parties to this Agreement pertaining to acts
or failures to act shall be deemed to have accrued and the applicable statutes
of limitations shall commence to run not later than either the date of
Substantial Completion for acts or failures to act occurring prior to
Substantial Completion, or the date of issuance of the final Project Certificate
for Payment for acts or failures to act occurring after Substantial Completion.

10.4 Waivers of Subrogation. The Owner and Construction Manager waive all rights

against each other and against the Contractors, Architect, consultants, agents and employees of any of them, for damages, but only to the extent covered by property insurance during construction, except such rights as they may have to the proceeds of such insurance as set forth in the edition of AIA Document A201/CMA, General Conditions of the Contract for Construction, Construction Manager-Adviser Edition, current as of the date of this Agreement. The Owner and Construction Manager each shall require similar waivers from their Contractors, Architect, consultants, agents, and persons or entities awarded separate contracts administered under the Owner's own forces.

10.5 The Owner and Construction Manager, respectively, bind themselves, their partners, successors, assigns and legal representatives to the other party to this Agreement and to the partners, successors, assigns and legal representatives of such other party with respect to all covenants of this Agreement. Neither Owner nor Construction Manager shall assign this Agreement without the written consent of the other.

10.6 This Agreement represents the entire and integrated agreement between the Owner and Construction Manager and supersedes all prior negotiations, representations or agreements, either written or oral. This Agreement may be amended only by written instrument signed by both Owner and Construction Manager.

10.7 Nothing contained in this Agreement shall create a contractual relationship with or a cause of action in favor of a third party against either the Owner or Construction Manager.

10.8 Unless otherwise provided in this Agreement, the Construction Manager and the Construction Manager's consultants shall have no responsibility for the discovery, presence, handling, removal or disposal of or exposure of persons to hazardous materials in any form at the Project site, including but not limited to asbestos, asbestos products, polychlorinated biphenyl (PCB) or other toxic substances.

Insert A: For the purpose of this Contract Agreement the following shall apply:

Insert B: "Construction Manager" shall mean HCB Contractors.

- - - - -

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Insert C: "Contractor" or "Contractors" shall mean the persons or entities who perform the Work under the Construction Contract Agreements and shall include all trade Contractors, Subcontractors, Sub-Subcontractors material vendors, and equipment suppliers.

Insert D: "Owner" shall mean Progressive Casualty Insurance Company.

Insert E: "Architect" shall mean Herman Gibans Fodor, Inc.

Insert F: As Construction Manager, HCB Contractors will hold all the contracts with the Contractors.

ARTICLE 11
INSURANCE

11.1 CONSTRUCTION MANAGER'S LIABILITY
INSURANCE

11.1.1 The Construction Manager shall purchase from and maintain in a company or companies lawfully authorized to do business in the jurisdiction in which the Project is located such insurance as will protect the Construction Manager from claims set forth below which may arise out of or result from the Construction Manager's operations under this Agreement and for which the Construction Manager may be legally liable.

- .1 claims under workers compensation, disability benefit and other similar employee benefit acts which are applicable to the operations to be performed;
- .2 claims for damages because of bodily injury, occupational sickness or disease, or death of the Construction Manager's employees;
- .3 claims for damages because of bodily injury, sickness or disease, or death of any person other than the Construction Manager's employees;
- .4 claims for damages insured by usual personal injury liability coverage which are sustained (1) by a person as a result of an offense directly or indirectly related to employment of such person by the Construction Manager, or (2) by another person;
- .5 claims for damages, other than to the Work itself, because of injury to or destruction of tangible property, including loss of use resulting therefrom;
- .6 claims for damages because of bodily injury, death of a person or property damage arising out of ownership, maintenance or use of a motor vehicle.

11.1.2 The insurance required by Subparagraph 11.1.1 shall be written for not less than limits of liability specified in Article 14 or required by law, whichever coverage is greater. Coverages, whether written on an occurrence or claims-made basis, shall be maintained without interruption from date of commencement of operations under this Agreement until date of final payment and termination of any coverage required to be maintained after final payment.

Insert G: See Attachment A for modifications to Article 11 Insurance.

ARTICLE 12
PAYMENTS TO THE CONSTRUCTION MANAGER

12.1 DIRECT PERSONNEL EXPENSE

12.1.1 Direct Personnel Expense is defined as the direct salaries of the Construction Manager's personnel engaged on the Project and the portion of the cost of their mandatory and customary contributions and benefits related thereto, such as employment taxes and other statutory employee benefits, insurance, sick leave, holidays, vacations, pensions and similar contributions and benefits.

12.2 REIMBURSABLE EXPENSES

12.2.1 Reimbursable Expense are in addition to compensation for Basic and Additional Services and include expenses incurred by the Construction Manager and Construction Manager's employees and consultants in the interest of the Project, as identified in the following Clauses.

12.2.1.1 Expense of transportation in connection with the Project, expenses in connection with authorized out-of-town travel; long-distance communications; and fees paid for securing approval of authorities having jurisdiction over the Project.

12.2.1.2 Expense of reproductions, postage, express deliveries, electronic facsimile transmissions and handling of Drawings, Specifications and other documents.

12.2.1.3 If authorized in advance by the Owner, expense of overtime work requiring higher than regular rates.

12.2.1.4 Expense of additional insurance coverage or limits requested by the Owner in excess of that normally carried by the Construction Manager.

12.3 PAYMENTS ON ACCOUNT OF BASIC SERVICES

12.3.1

12.3.2 Payments for Basic Services

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shall be made monthly and, where applicable, shall be in proportion to services performed within each phase of service, on the basis set forth in Subparagraph 13.2.1.

12.3.3 If and to the extent that the time initially established in Subparagraph 13.5.1 of this Agreement is exceeded or extended through no fault of the Construction Manager, compensation for any services rendered during the additional period of time shall be computed in the manner set forth in Subparagraph 13.3.1.

12.3.4 When compensation is based on a percentage of Construction Cost and any portions of the Project are deleted or otherwise not constructed, compensation for those portions of the Project shall be payable to the extent services are performed on those portions, in accordance with Subparagraph 13.2.1, based on (1) the lowest bona fide bids or negotiated proposals, or (2) if no such bids or proposals are received, the latest approved estimate of such portions of the Project.

12.4 PAYMENTS ON ACCOUNT OF ADDITIONAL SERVICES AND REIMBURSABLE EXPENSES

12.4.1 Payments on account of the Construction Manager's Additional Services and for Reimbursable Expenses shall be made monthly upon presentation of the Construction Manager's statement of services rendered or expenses incurred.

12.5 PAYMENTS WITHHELD

12.5.1 No deductions shall be made from the Construction Manager's compensation on account of penalty, liquidated damages or other sums withheld from payments to Contractors, or on account of the cost of changes in Work other than those for which the Construction Manager has been found to be liable.

12.6 CONSTRUCTION MANAGER'S
ACCOUNTING RECORDS

12.6.1 Records of Reimbursable Expenses and expenses pertaining to Additional Services and services performed on the basis of a multiple of Direct Personnel Expense shall be available to the Owner or the Owner's authorized representative at mutually convenient times.

ARTICLE 13
BASIS OF COMPENSATION

The Owner shall compensate the Construction Manager as follows:

13.1 AN INITIAL PAYMENT of ZERO Dollars (\$ 0.00) shall be made upon execution of this Agreement and credited to the Owner's account at final payment.

13.2 BASIC COMPENSATION

13.2.1 FOR BASIC SERVICES, as described in Article 2, and any other services included in Article 14 as part of Basic Services, Basic Compensation shall be computed as follows:

For Pre-Construction Phase Services:

(Insert basis of compensation, including stipulated sums, multiples or percentages.)

The Construction Manager shall be reimbursed for the actual cost of services he performs during the pre-construction phase. Actual cost shall mean to include salaries and burdens for all personnel while working on the project during pre-construction, reproduction costs, expenses for traveling in conjunction with this project, etc. The Construction Manager shall not bill for a fee for the pre-construction phase.

For Construction Phase Services:

(Insert basis of compensation, including stipulated sums, multiples or percentages.)

The Construction Manager's General Conditions Cost is considered a Cost of the Work and is therefore reimbursable during this phase of Work. The Construction Manager's Fee for the Construction Phase is Three hundred fifty one thousand one hundred seventy seven and 00/100 Dollars (\$351,177.00), which is a Lump Sum Amount and is payable to the Construction Manager in equal installments over this Phase. No retainage shall be held from any Sums due the Construction Manager.

13.3 COMPENSATION FOR ADDITIONAL SERVICES

13.3.1 FOR ADDITIONAL SERVICES OF THE CONSTRUCTION MANAGER, as described in Article 3, and any other services included in Article 14 as Additional Services, compensation shall be computed as follows: The reimbursable costs associated with

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this paragraph, 13.3.1. shall be negotiated with the Owner prior to any expenditures of same.

(Insert basis of compensation, including rates and/or multiples of Direct Personnel Expense for Principals and employees, and identify Principals and classify employees, if required. Identify specific services to which particular methods of compensation apply, if necessary.)

13A REIMBURSABLE EXPENSES

13A.1 FOR REIMBURSABLE EXPENSES, as described in Paragraph 12.2, and any other items included in Article 14 as Reimbursable Expenses, a multiple of one (1.00) times the expenses incurred by the Construction Manager and the Construction Manager's employees and consultants in the interest of the Project. The multiplier enumerated in this paragraph pertains to pre-construction services only.

13.5 ADDITIONAL PROVISIONS

13.5.1 IF THE BASIC SERVICES covered by this Agreement have not been completed within eighteen (18) months of the date hereof, through no fault of the Construction Manager, extension of the Construction Manager's services beyond that time shall be compensated as provided in Subparagraphs 12.3.3 and 13.3.1.

13.5.2 Payments are due and payable Fifteen (15) days from the date of the Construction Manager's invoice. Amounts unpaid Thirty (30) days after the invoice date shall bear interest at the rate entered below, or in the absence thereof at the legal rate prevailing from time to time at the principal place of business of the Construction Manager.

(Insert rate of interest agreed upon.)
Eight Percent (8%)

(Usury laws and requirements under the Federal Truth in Lending Act, similar state and local consumer credit laws and other regulations at the Owner's and Construction Manager's principal places of business, the location of the Project and elsewhere may affect the validity of this provision. Specific legal advice should be obtained with respect to deletions or modifications, and also regarding requirements such as written disclosures or waivers.)

13.5.3 The rates and multiples set forth for Additional Services shall be annually adjusted in accordance with normal salary review practices of the Construction Manager.

ARTICLE 14 OTHER CONDITIONS OR SERVICES

(Insert descriptions of other services, identify Additional Services included within Basic Compensation and modifications to the payment and compensation terms included in this Agreement.)

14.1 LIMITS ON INSURANCE

The insurance required by Article 11 shall be written for not less than the following limits, or greater if required by law:

(Insert the specific dollar amounts for the appropriate insurance limits of liability.)

General Liability - \$2,000,000.00; Automobile Liability - \$1,000,000.00;
Umbrella Coverage - \$15,000,000.00; Workman's Compensation Insurance -
Statutory; Employer's Liability - \$1,000,000.00.

This Agreement entered into as of the day and year first written above.

OWNER

CONSTRUCTION MANAGER

/s/ Charles B. Chokel

/s/ C. Samuel Ellison

(Signature)

(Signature)

Charles B. Chokel, Treasurer
(Printed name and title)

C. Samuel Ellison, Vice-President
(Printed name and title)

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Exhibit "A" To The Contract between
Progressive Casualty Insurance Co. (the Owner)
and
HCB Contractors (the Construction Manager)

August 20, 1997

This Exhibit shall replace Article 8, Arbitration, of the Standard form of
Agreement Between Owner and Construction Manager where the Construction Manager
is NOT a Constructor, AIA Document B801/Cma, 1992 Edition.

Article 8 - DISPUTE RESOLUTION. Any dispute arising out of or relating to
this Agreement shall be resolved in accordance with the procedures
specified in this Article 8, which shall be the sole and exclusive
procedure for the resolution of any such dispute.

- 8.1 - NEGOTIATION BETWEEN EXECUTIVES. The parties shall attempt in good
faith to resolve any dispute arising out of or relating to this
Agreement promptly by direct negotiation between executives who have
authority to settle the controversy and who are at a higher level of
management than the persons with direct responsibility for
administration of this Agreement. Any party may give the other party
written notice of any dispute not resolved in the normal course of
business. Within fifteen (15) days after delivery of the notice, the
receiving party shall submit to the other a written response. The
notice and the response shall include (a) a statement of each party's
position and a summary of arguments supporting that position, and (b)
the name and title of the executive who will represent that party and
of any other person who will accompany the executive. Within thirty
(30) days after the delivery of the disputing party's notice, the
executives of both parties shall meet at a mutually acceptable time
and place, and thereafter as often as they reasonably deem necessary,
to attempt to resolve the dispute. All reasonable requests for
information made by one party to the other will be honored. All
negotiations pursuant to this clause are confidential and shall be
treated as compromise and settlement negotiations for purposes of
applicable rules of evidence.
- 8.2 - MEDIATION WITH DESIGNATED NEUTRAL. If the dispute has not been
resolved by negotiation within forty-five (45) days of the disputing
party's notice, or if the parties fail to meet within twenty (20)
days, the parties shall endeavor to settle the dispute by mediation
using a mediator and mediation mutually agreeable to the parties. In
the event that the parties are unable or unwilling to agree on a
mediator or the mediation procedure to employ, then the parties shall
endeavor to settle the dispute by mediation under the then current
American Arbitration Association Commercial Mediation Rules. The cost
of the mediators's services incurred in conjunction with any mediation

conducted under this Article 8 shall be shared equally by the parties.

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Exhibit 'A' continued
August 20, 1997

- 8.3 - If the dispute has not been resolved by non-binding means as provided herein within ninety (90) days of the initiation of such procedure, either party may initiate litigation upon ten (10) days written notice to the other party; provided, however, that if one party has requested the other to participate in a non-binding procedure and the other has failed to participate, the requesting party may initiate litigation before the expiration of the above period.
- 8.4 - All applicable statutes of limitation and defenses upon the passage of time shall be tolled while the procedures specified in this Article 8 are pending. The parties will take such action, if any, required to effectuate such tolling.
- 8.5 - Each party is required to continue to perform its obligations under this contract pending final resolution of any dispute arising out of or related to this Agreements unless to do so would be impossible or impracticable under the circumstances.

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ATTACHMENT A

The Insurance section of the Contract and/or General Conditions is herewith modified by the following:

INSURANCE

11.1 HCB CONTRACTOR'S LIABILITY INSURANCE

11.1.1 The Construction Manager shall purchase from and maintain in a company or companies lawfully authorized to do business in the jurisdiction in which the Project is located such insurance as will protect him from claims set forth below which may arise out of or result from the Construction Manager's operations under the contract, whether such operations be by himself or by any Subcontractor or by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable to cover:

- A. Workers Compensation Insurance insuring the Construction Manager's full liability under the Workers Compensation and Occupational Disease Laws of the State where the Work is performed and Employer's Liability with limits of liability of:
 - 1. \$500,000. Each accident for bodily injury by accident.

2. \$500,000. Each employee for bodily injury by disease, subject to a policy limit of \$500,000 for bodily injury by disease.
- B. Commercial liability insurance. Coverage shall be on an "occurrence" basis and shall insure Contractor for Work performed under the contract against:
1. Claims for damages because of bodily injury, sickness or disease, or death of any person other than his employees;
 2. Claims for damages insured by usual personal injury liability coverage which are sustained (1) by any person as a result of any offense directly or indirectly related to the employment of such person by the Contractor or (2) by any other person;
 3. Claims for damages, other than to the Work itself, because of injury to or destruction of tangible property, including loss of use resulting therefrom; and
 4. The Commercial Liability policy shall contain the Personal Injury and Broad Form Property Damage Endorsements modified as set forth below, and the policy shall not contain any Property Damage Liability exclusions pertaining to loss by explosion, collapse or underground damage. The policy shall include coverage for:

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ATTACHMENT A

- a. Completed Operations Liability. With respect to Completed Operations Liability, when the entire Work has been determined complete by the Architect and Construction Manager and accepted by the Owner, Construction Manager agrees to furnish evidence of such insurance coverage for twenty-four (24) months following date of acceptance by the Owner.
- b. Construction Manager's Protective Liability to cover Construction Manager's Liability arising out of Work performed by its Subcontractors.
- c. Blanket Contractual Liability, including insurance for the Indemnification Agreement as set forth in the applicable Article.
- d. Personal Injury Liability with Exclusions (a) 4 contractual deleted.
- e. Broad Form Property Damage extended to apply to Completed Operations.
- f. Limits of Liability shall not be less than: Bodily Injury, Personal Injury and Property Damage combined.

\$1,000,000. Each occurrence

\$1,000,000. Aggregate

- C. Claims for damages because of bodily injury or death of any person or property damage arising out of the ownership, maintenance or use of any motor vehicle.
 - 1. Coverage shall be for all owned, hired and non-owned vehicles.
 - 2. Limits of liability shall not be less than: Bodily injury and property damage combined, \$1,000,000. Each occurrence.
- D. "Umbrella" Excess Liability Policy shall insure the Construction Manager for an amount of not less than \$20,000,000 combined single limit Bodily Injury/Property Damage excess of Primary Employers' Liability and Commercial General Liability and Automobile insurance as set forth in paragraphs 11.1.1A, 11.1.1B and 11.1.1C.

11.1.2 The Insurance required by Subparagraph 11.1.1 shall be written for not less than limits of liability required by law.

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11.1.3 Certificates of Insurance acceptable to the Owner shall be filed with the Owner prior to commencement of the Work and during the term of the Project. These Certificates shall contain a provision that coverage afforded under the policies will not be canceled until at least 30 days prior written notice has been given to the Owner.

11.2 OWNER'S LIABILITY INSURANCE

11.2.1 The Owner shall be responsible for purchasing and maintaining the Owner's usual liability insurance. Optionally, the Owner may purchase and maintain other insurance for self protection against claims which may arise from operations under the-Contract. The Construction Manager shall not be responsible for purchasing and maintaining this optional Owner's liability insurance unless specifically required by the Contract Documents.

11.2.2 Subject to the Construction Manager providing insurance as described in Subparagraphs 11.1.1.B and 11.1.1.D, the Owner shall be included as an additional insured.

11.3 PROPERTY INSURANCE

11.3.1 Prior to commencement of the Work, the Owner shall purchase from and maintain in a company or companies lawfully authorized to do business in the jurisdiction in which the Project is located Property Insurance upon the entire Work, (1) at the site, (2) portions of the Work stored off the site, or (3) in transit, to the full insurable value thereof.

This insurance shall include the interests of the Owner, the Construction Manager and its Subcontractors and Sub-subcontractors in the Work and shall insure against the perils of Fire and Extended

Coverage and shall include "All Risk" insurance for physical loss or damage including without duplication of coverage, Collapse, Theft, Vandalism, Malicious Mischief, Debris Removal, Flood, Earthquake, Land Movement.

Such insurance shall be in force until substantial completion and acceptance of the Work by Owner, and the insurable interests of the Construction Manager and Subcontractors has ceased, unless alternate and equivalent coverage, as described in paragraph 11.6, is provided by Owner, for the benefit of Owner, Construction Manager and all tiers of Subcontractors. Coverage will include all materials that are intended for specific installation in the Project while such materials are located at the project site and while in transit or temporarily located away from the Project Site for the purpose of repair, adjustment or storage at the risk of one of the insured parties.

This insurance will not include any tools or clothing of workmen or any tools, equipment, protective fencing, scaffolding, temporary structures, temporary forms

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and equipment owned, rented or used by the Construction Manager or any Subcontractor and used in the performance of the Work, unless the value of such items is included in the cost of the Work.

If it is the Owners responsibility to purchase the insurance required by paragraph 11.3 and the Owner does not intend to purchase such insurance for the full insurable value of the entire Work, he shall inform the Construction Manager in writing prior to commencement of the Work. The Construction Manager may then effect insurance which will protect the interest of himself and his Subcontractors in the Work, and by appropriate Change Order the cost thereof shall be charged to the Owner. If the Construction Manager is damaged by failure of the Owner to purchase or maintain such insurance and to so notify the Construction Manager, then the Owner shall bear all reasonable costs properly attributable thereto.

11.3.1.1 Should Owner elect to provide any materials, furniture, fixtures and/or equipment, to be installed by Construction Manager, its Subcontractors or Sub-subcontractors, the cost of which is not included in the Contract Price, the value of such materials, furniture, fixtures and/or equipment will be included in the amount of Builder's Risk limit of liability if the Policy is to be purchased and maintained by the Owner. If the Policy is to be purchased by the Construction Manager, Owner shall notify Construction Manager in writing prior to their delivery at the job site, the value of such materials, furniture, fixtures and/or equipment, and same will be included in the amount of Builder's Risk limit of liability as shown on the policy to be purchased and maintained by the Construction Manager. Premiums for such insurance provided under this subparagraph shall be borne by the Owner.

11.3.1.2 Should Owner elect to have separate Contractor or Contractors install Owner furnished materials, furniture, fixtures and/or equipment, the value of same plus installation will be covered under a policy written for this project, and such insurance policy shall contain an endorsement waiving the carrier's right of subrogation against all parties to this contract, including but not limited to, Owner, Construction Manager, its Subcontractors and Sub-subcontractors, in accordance with Subparagraph 11.3.5 herein. (This Insurance is to cover the insurable value of all separate contracts not included in the

property insurance policy(s) purchased in accordance with Article 11.3.1 herein.) The Owner shall file a copy of the Waiver of Subrogation Endorsement, as set forth in this Subparagraph 11.3.1.2, with the Construction Manager before an exposure to loss may occur. Owner, their separate contractor, and all sub-tier subcontractors and suppliers will be required to provide appropriate indemnification, insurance, and waivers of subrogation as may be required by Construction Manager.

11.3.2 The Owner shall purchase and maintain such Boiler and Machinery (Heating, Ventilation, Air Conditioning Equipment and other Machinery) insurance as may be required by the Contract Documents or by law. This insurance shall include the interests of the Owner, the Construction Manager, Subcontractors and Sub- subcontractors in the Work, and the Owner and Construction Manager shall be named insureds.

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11.3.3 Any loss insured under Subparagraph 11.3.1 is to be adjusted by the Owner and or Construction Manager and made payable to the Owner or Construction Manager, as trustee for the insureds, subject to the requirements of any applicable mortgage clause. The Construction Manager shall pay each Subcontractor a just share of any insurance monies received by the Construction Manager, and by appropriate agreement, written where legally required for validity, shall require each Subcontractor to make payments to his Subcontractors in similar manner.

11.3.4 Notwithstanding any other contract provisions, any deductibles shall be the responsibility of the Owner.

11.3.4.1 Before an exposure to loss may occur, the Owner or Construction Manager as appropriate shall file with the other party a copy of each policy that includes insurance coverage required by this Paragraph 11.3. Each policy shall contain all generally applicable conditions, definitions, exclusions and endorsements related to this Project. Each policy shall contain a provision that the policy will not be canceled or allowed to expire until at least 30 days' prior written notice has been given to the Construction Manager.

11.3.5 The Owner and Construction Manager waive all rights against (1) each other and the Subcontractors, Sub-subcontractors, agents and employees each of the other, and separate contractors, if any, and their Subcontractors, Sub-subcontractors, agents and employees, for damages caused by fire or other perils to the extent covered by insurance obtained pursuant to Paragraph 11.3 or any other property insurance applicable to the site where the Work is performed, except such rights as they may have to the proceeds of such insurance held by the Owner as the trustee. The Owner or the Construction Manager as appropriate, shall require of the separate Contractors, Subcontractors and Sub-subcontractors by appropriate agreements, written where legally required for validity, similar waivers each in favor of all other parties enumerated in this Subparagraph 11.3.5. The policies shall provide such waivers of subrogation by endorsement or otherwise. A waiver of subrogation shall be effective as to a person or entity even though that person or entity would otherwise have a duty of indemnification, contractual or otherwise, did not pay the insurance premium directly or indirectly, and whether or not the person or entity had an insurable interest in the property damaged.

11.3.6 The Owner as trustee shall provide information or otherwise comply with

reasonable requests in writing by any party in interest regarding an accounting of the payment and distribution of insurance proceeds.

- 11.3.7 If after such loss no other special agreement is made, replacement of damaged Work shall be covered by an appropriate Change Order.
- 11.3.8 If the Owner finds it necessary to occupy or use a portion or portions of the Work prior to Substantial Completion thereof, such occupancy shall not commence prior to the time mutually agreed to by the Owner and Construction Manager and to which the insurance company or companies providing the property insurance have

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consented by endorsement to the policy or policies. This insurance shall not be canceled or lapsed on account of such partial occupancy. Consent of the Construction Manager and of the insurance company or companies to such occupancy or use shall not be unreasonably withheld.

- 11.3.8.1 Upon occupation of a portion of the Work by Owner or any tenant of Owner, Owner shall indemnify and hold harmless the Construction Manager, its Subcontractors and Sub-subcontractors for any claims for bodily injury and/or property damage resulting from such occupancy, and not due to the negligence of the Construction Manager, its Subcontractors or Sub-subcontractors.
- 11.3.9 Owner and Construction Manager shall define any Risks other than those described in Subparagraph 11.3.1, 11.3.1.1, 11.3.1.2 and 11.3.2 or other special hazards, and shall, if possible, include such coverage in the Property Insurance Policy provided per Subparagraph 11.3.1, or purchase and maintain available insurance. Such insurance shall include, but not be limited to Ocean Open Cargo coverage. All such policies shall insure the interests of the Owner, Construction Manager and its Subcontractors in the Work, and shall insure for physical loss or damage.

11.4 LOSS OF USE INSURANCE

- 11.4.1 The Owner, at his option, may purchase and maintain, such insurance as will insure Owner against loss of use of his property including, but not limited to, loss of income, additional interim interest expense, insurance premiums, or expenses pursuant to any agreement with tenants.

The Owner waives all rights of action against the Construction Manager for loss of use of his property including consequential losses due to fire or other hazards however caused, to the extent covered by insurance under this Paragraph 11.4.

11.5 SUBCONTRACTORS INSURANCE

- 11.5.1 The following forms of insurance are required to be furnished by all Subcontractors:

- A. WORKERS COMPENSATION INSURANCE - to cover full liability under Workers Compensation Laws of the State where the Work is performed and Employer's Liability coverage with limits of liability of:

\$500,000. Each accident for bodily injury by accident

\$500,000. Each employee for bodily injury by disease, subject to a policy limit of \$500,000 for bodily injury by disease.

- B. COMMERCIAL GENERAL LIABILITY INSURANCE. Coverage shall be on an "Occurrence" basis and shall insure Subcontractor for Work performed under the Contract against claims for Bodily Injury, including death of any

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person other than Subcontractor's employees, and Property Damage for injury to or destruction of tangible property, other than the Work itself. The policy shall contain the Personal Injury and Broad Form Property Damage Endorsements modified as set forth below, and the policy shall not contain any Property Damage Liability exclusions pertaining to loss by Explosion, Collapse or Underground Damage. The policy shall include coverage for:

1. Completed Operations Liability
2. Construction Manager's Protective Liability to cover Subcontractor's liability arising out of Work performed by its Subcontractors.
3. Blanket Contractual Liability insuring the Indemnification Agreement contained in the Subcontract.
4. Personal Injury Liability with exclusion (a) 4 contractual deleted.
5. Broad Form Property Damage Extended to apply to Completed Operations.
6. Automobile Liability insuring Subcontractor for operations of all owned, hired and non-owned vehicles.
7. LIMITS OF LIABILITY shall not be less than:
 - a. Bodily Injury, Personal Injury and Property Damage combined, except Automobile
\$1,000,000. Each Occurrence
\$1,000,000. Aggregate
 - b. Bodily Injury and Property Damage combined, Automobile
\$1,000,000. Each Occurrence

However, Construction Manager has the option to require modified Limits of Liability from designated Subcontractors.

- C. Certificates of Insurance shall be filed with the Construction Manager prior to commencement of Subcontractor's work.

11.6 TRANSITION INSURANCE

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11.6.1 When Owner, Construction Manager and Architect have certified that the Work is substantially complete, Owner, shall purchase and maintain such insurance as will insure him against loss of the Work due to fire or other hazards, however caused.

11.6.2 Until such time as Construction Manager has received final payment from Owner, said insurance purchased and maintained by Owner under subparagraph 11.6.1, shall insure the interests of the Construction Manager, its Subcontractors and Sub-subcontractors. The carrier providing this insurance shall endorse the policy waiving the carrier's right of recovery from the Owner, the Construction Manager, its Subcontractors and Sub-subcontractors until such time as the Construction Manager and all Subcontractors have been paid in full.

11.7 EXPANSION/RENOVATION WORK ON EXISTING STRUCTURES

11.7.1 In recognition of any Work to be performed by Construction Manager, its Subcontractors and Sub-subcontractors within or adjacent to existing structure(s) for the purpose of renovation and/or expansion, Owner shall waive any right of subrogation and cause all existing permanent property insurance policies covering said structure(s) to be endorsed as follows:

"It is understood and agreed that the policy is hereby amended to include as additional insureds Construction Manager, its Subcontractors and Sub-subcontractors, during the term of construction with respect to renovation and/or expansion of any property insured under this policy. It is further understood and agreed that this Company waives all rights it may have acquired by payment of loss hereunder against Construction Manager, and all tiers of Subcontractors, their agents and employees."

11.7.2 This paragraph 11.7.1 shall continue in full force and effect until all Work to be performed by the Construction Manager and all tiers of Subcontractors is determined to be one hundred (100%) complete, accepted by the property owner, and the Construction Manager has been paid in full for Work performed under The Construction Agreement.

-8A-

[LOGO]

GENERAL CONDITIONS OF THE CONTRACT FOR CONSTRUCTION
CONSTRUCTION MANAGER-ADVISER EDITION

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ARTICLE I

GENERAL PROVISIONS

1.1 BASIC DEFINITIONS

1.1.1 THE CONTRACT DOCUMENTS

The Contract Documents consist of the Agreement between Owner and Construction Manager (hereinafter the Agreement), Conditions of the Contract (General, Supplementary and other Conditions), Drawings, Specifications, addenda issued prior to execution of the Contract, other documents listed in the Agreement and Modifications issued after execution of the Contract. A Modification is (1) a written amendment to the Contract signed by both parties, (2) a Change Order, (3) a Construction Change Directive or (4) a written order for a minor change in the Work issued by the Architect Unless specifically enumerated in the Agreement, the Contract Documents do not include other documents such as bidding requirements (advertisement or invitation to bid, Instructions to Bidders, sample forms, the Contractor's bid or portions of addenda relating to bidding requirements).

1.1.2 THE CONTRACT

The Contract Documents form the Contract for Construction. The Contract represents the entire and integrated agreement between the parties hereto and supersedes prior negotiations, representations or agreements, either written or oral. The Contract may be amended or modified only by a Modification. The Documents shall not be construed to create a contractual relationship of any kind (1) between the Architect and a Subcontractor or Sub-subcontractor, (2) (3) between the Architect and Construction Manager, (4) between the Owner and a Subcontractor or Sub-subcontractor or (5) between any persons or entities other than the Owner and Construction Manager. The Construction Manager and Architect shall, however, be entitled to performance and enforcement of obligations under the Contract intended to facilitate performance of their duties.

1.1.3 THE WORK

The term "Work" means the construction and services required by the Contract Documents, whether completed or partially completed, and includes all other labor, materials, equipment and services provided or to be provided by the - - Subcontractors to fulfill the Subcontractors' obligations. The Work may constitute the whole or a part of the Project.

1.1.4 THE PROJECT

The Project is the total construction of which the Work performed under the Contract Documents may be the whole or a part and which may include construction by other Contractors and by the Owner's own forces including persons or entities under separate contracts not administered by the Construction Manager.

1.1.5 THE DRAWINGS

The Drawings are the graphic and pictorial portions of the Contract Documents, wherever located and whenever issued, showing the design, location and dimensions of the Work, generally including plans, elevations, sections, details, schedules and diagrams.

1.1.6 THE SPECIFICATIONS

The Specifications are that portion of the Contract Documents consisting of the written requirements for materials, equipment, construction systems, standards and workmanship for the Work, and performance of related services.

1.1.7 THE PROJECT MANUAL

The Project Manual is the volume usually assembled for the Work which may include the bidding requirements, sample forms, Conditions of the Contract and

Specifications.

1.2 EXECUTION, CORRELATION AND INTENT

1.2.1 The Contract Documents shall be signed by the Owner and Construction Manager as provided in the Agreement. If either the Owner or Construction Manager or both do not sign all the Contract Documents, the Architect shall identify such unsigned Documents upon request.

1.2.2 Execution of the Contract by the Construction Manager is a representation that the Construction Manager has visited the site, become familiar with local conditions under which the Work is to be performed and correlated personal observations with requirements of the Contract Documents.

1.2.3 The intent of the Contract Documents is to include all items necessary for the proper execution and completion

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of the Work under the supervision and direction of the Construction Manager. The Contract Documents are complementary, and what is required by one shall be as binding as if required by all; performance by a Subcontractor shall be required only to the extent consistent with the Contract Documents and reasonably inferable from them as being necessary to produce the intended results.

1.2.4 Organization of the Specifications into divisions, sections and articles, and arrangement of Drawings shall not control the Construction Manager in dividing the Work among Subcontractors or in establishing the extent of Work to be performed by any trade.

1.2.5 Unless otherwise stated in the Contract Documents, words which have well-known technical or construction industry meanings are used in the Contract Documents in accordance with such recognized meanings.

1.3 OWNERSHIP AND USE OF ARCHITECT'S DRAWINGS, SPECIFICATIONS AND OTHER DOCUMENTS

1.3.1 The Drawings, Specifications and other documents prepared by the Architect are instruments of the Architect's service through which the Work to be executed by the Subcontractor's and supervised by the Construction Manager is described. The Construction Manager may retain one contract record set. Neither a Subcontractor, Sub-subcontractor or material or equipment supplier shall own or claim a copyright in the Drawings, Specifications and other documents prepared by the Architect, and unless otherwise indicated the Architect shall be deemed the author of them and will retain all common law, statutory and other reserved rights, in addition to the copyright. The Drawings, Specifications and other documents prepared by the Architect, and copies thereof furnished to the Construction Manager, are for use solely with respect to this Project. They are not to be used by the Construction Manager or any Subcontractor, Sub-subcontractor or material or equipment supplier on other projects or for additions to this Project outside the scope of the Work without the specific written consent of the Owner and Architect. The Construction Manager, Subcontractors, Sub-subcontractors and material or equipment suppliers are granted a limited license to use and reproduce applicable portions of the Drawings, Specifications and other documents prepared by the Architect appropriate to and for use in the execution of the Work under the Contract Documents. All copies made under this license shall bear the statutory copyright notice, if any, shown on the Drawings, Specifications and other documents prepared by the Architect. Submittal or distribution to meet official regulatory requirements or for other purposes in connection with this Project is not to be

construed as publication in derogation of the Architect's copyright or other reserved rights.

1.4 CAPITALIZATION

1.4.1 Terms capitalized in these General Conditions include those which are (1) specifically defined, (2) the titles of numbered articles and identified references to Paragraphs, Subparagraphs and Clauses in the document or (3) the titles of other documents published by the American Institute of Architects.

1.5 INTERPRETATION

1.5.1 In the interest of brevity the Contract Documents frequently omit modifying words such as "all" and "any" and articles such as "the" and "an," but the fact that a modifier or an article is absent from one statement and appears in another is not intended to affect the interpretation of either statement.

ARTICLE 2 OWNER

2.1 DEFINITION

2.1.1 The Owner is the person or entity identified as such in the Agreement and is referred to throughout the Contract Documents as if singular in number. The term "Owner" means the Owner or the Owner's authorized representative.

2.1.2 The Owner upon reasonable written request shall furnish to the Construction Manager in writing information which is necessary and relevant for the Construction Manager to evaluate, give notice of or enforce mechanic's lien rights. Such information shall include a correct statement of the record legal title to the property on which the Project is located, usually referred to as the site, and the Owner's interest therein at the time of execution of the Agreement and, within five days after any change, information of such change in title, recorded or unrecorded.

2.2 INFORMATION AND SERVICES REQUIRED OF THE OWNER

2.2.1 The Owner shall, at the request of the Construction Manager, prior to execution of the Agreement

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and promptly from time to time thereafter, furnish to the Construction Manager reasonable evidence that financial arrangements have been made to fulfill the Owner's obligations under the Contract. [Note: Unless such reasonable evidence were furnished on request prior to the execution of the Agreement, the prospective contractor would not be required to execute the Agreement or to commence the Work.]

2.2.2 The Owner shall furnish surveys describing physical characteristics, legal limitations and utility locations for the site of the Project, and a legal description of the site.

2.2.3 Except for permits and fees which are the responsibility of the Subcontractors under the Contract Documents, the Owner shall secure and pay for necessary approvals, easements, assessments and charges required for construction, use or occupancy of permanent structures or for permanent changes

in existing facilities. The Owner, through the Construction Manager, shall secure and pay for the building permit.

2.2.4 Information or services under the Owner's control shall be furnished by the Owner with reasonable promptness to avoid delay in orderly progress of the Work.

2.2.5 The Construction Manager will be furnished, free of charge, such copies of Drawings and Project Manuals as are reasonably necessary for execution of the Work.

2.2.6 The Owner shall forward all communications to the Subcontractors through the Construction Manager and shall contemporaneously provide the same communications to the Architect.

2.2.7 The foregoing are in addition to other duties and responsibilities of the Owner enumerated herein and especially those in respect to Article 6 (Construction by Owner or by Other Contractors), Article 9 (Payments and Completion) and Article 11 (Insurance and Bonds).

2.3 OWNER'S RIGHT TO STOP THE WORK

2.3.1 If a Subcontractor fails to correct Work which is not in accordance with the requirements of the Contract Documents as required by Paragraph 12.2 or persistently fails to carry out Work in accordance with the Contract Documents, the Owner or the Construction Manager, by written order signed personally or by an agent specifically so empowered by the Owner in writing, may order the Subcontractor to stop the Work, or any portion thereof, until the cause for such order has been eliminated; however, the right of the Owner or the Construction Manager to stop the Work shall not give rise to a duty on the part of the Owner or Construction Manager to exercise this right for the benefit of the Subcontractor or any other person or entity.

2.4 OWNER'S RIGHT TO CARRY OUT THE WORK

2.4.1 If a Subcontractor defaults or neglects to carry out the Work in accordance with the Contract Documents and fails within a seven-day period after receipt of written notice from the Owner or the Construction Manager to commence and continue correction of such default or neglect with diligence and promptness, the Owner or the Construction Manager may after such seven-day period give the Subcontractor a second written notice to correct such deficiencies within a second seven-day period. If the Subcontractor within such second seven-day period after receipt of such second notice fails to commence and continue to correct any deficiencies, the Owner or the Construction Manager may, without prejudice to other remedies the Owner or Construction Manager may have, correct such deficiencies. In such case an appropriate Change Order shall be issued deducting from payments then or thereafter due the Subcontractor the cost of correcting such deficiencies, including compensation for the Construction Manager's and Architect's and their respective consultants' additional services and expenses made necessary by such default, neglect or failure. Such action by the Owner or Construction Manager and amounts charged to the Subcontractor are both subject to prior approval of the Architect, after consultation with the Construction Manager. If payments then or thereafter due the Subcontractor are not sufficient to cover such amounts, the Subcontractor shall pay the difference to the Owner.

ARTICLE 3 CONTRACTOR

3.1 DEFINITION

3.1.1 The Construction Manager is the person or entity identified as such in the Agreement and is referred to throughout this Agreement as if singular in number. The term "Contractor" means the Subcontractor or the Subcontractor's authorized representative.

3.1.2 The plural term "Contractors" refers to persons, Subcontractors or entities who perform construction under

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Conditions of the Contract that are administered by the Construction Manager, and that are identical or substantially similar to these Conditions.

3.2 REVIEW OF CONTRACT DOCUMENTS AND FIELD CONDITIONS BY CONTRACTOR

3.2.1 The Contractor shall carefully study and compare the Contract Documents with each other and with information furnished by the Owner pursuant to Subparagraph 2.2.2 and shall at once report to the Construction Manager and Architect errors, inconsistencies or omissions discovered. The Contractor shall not be liable to the Owner, Construction Manager or Architect for damage resulting from errors, inconsistencies or omissions in the Contract Documents unless the Contractor recognized such error, inconsistency or omission and knowingly failed to report it to the Construction Manager and Architect. If the Contractor performs any construction activity knowing it involves a recognized error, inconsistency or omission in the Contract Documents without such notice to the Construction Manager and Architect, the Contractor shall assume appropriate responsibility for such performance and shall bear an appropriate amount of the attributable costs for correction.

3.2.2 The Contractor shall take field measurements and verify field conditions and shall carefully compare such field measurements and conditions and other information known to the Contractor with the Contract Documents before commencing activities. Errors, inconsistencies or omissions discovered shall be reported to the Construction Manager and Architect at once.

3.2.3 The Contractor shall perform the Work in accordance with the Contract Documents and submittals approved pursuant to Paragraph 3.12.

3.3 SUPERVISION AND CONSTRUCTION PROCEDURES

3.3.1 The Construction Manager shall supervise and direct the Work, using the Contractor's Construction Manager's best skill and attention. The Construction Manager shall have made its best efforts to ensure that reasonable construction means, methods, techniques, sequences and procedures have been undertaken by each Contractor in connection with the Work. The Construction Manager shall Schedule and coordinate the sequence of construction in accordance with the Contract Documents and the latest Project construction schedule.

3.3.2 The Contractor shall be responsible to the Owner and the Construction Manager for acts and omissions of the Contractor's employees, and their agents and employees, and other persons performing portions of the Work under a contract with the Contractor.

3.3.3 The Contractor shall not be relieved of obligations to perform the Work in accordance with the Contract Documents either by activities or duties of the Construction Manager or Architect in their administration of the Contract, or by tests, inspections or approvals required or performed by persons other than the Contractor.

3.3.4 The Contractor shall inspect portions of the Project related to the

Contractor's Work in order to determine that such portions are in proper condition to receive subsequent Work.

3.4 LABOR AND MATERIALS

3.4.1 Unless otherwise provided in the Contract Documents, the Construction Manager shall provide and the Owner shall pay for labor, materials, equipment, tools, construction equipment and machinery, water, heat, utilities, transportation, and other facilities and services necessary for proper execution and completion of the Work, whether temporary or permanent and whether or not incorporated or to be incorporated in the Work.

3.4.2 The Construction Manager shall enforce strict discipline and good order among the Construction Manager's employees and other persons carrying out the Contract. The Construction Manager shall not permit employment of unfit persons or persons not skilled in tasks assigned to them.

3.5 WARRANTY

3.5.1 The Construction Manager shall cause Subcontractors to warrant to the Owner, Construction Manager and Architect that materials and equipment furnished under the Contract will be of good quality and new unless otherwise required or permitted by the Contract Documents, that the Work will be free from defects not inherent in the quality required or permitted, and that the Work will conform with the requirements of the Contract Documents. Work not conforming to these requirements, including substitutions not properly approved and authorized, may be considered defective. The Contractor's warranty excludes remedy for damage or defect caused by abuse, modifications not executed by the Contractor, improper or

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insufficient maintenance, improper operation, or normal wear and tear under normal usage. If required by the Construction Manager or Architect, the Contractor shall furnish satisfactory evidence as to the kind and quality of materials and equipment.

3.6 TAXES

3.6.1 The Contractor shall pay sales, consumer, use and similar taxes for the Work or portions thereof provided by the Contractor which are legally enacted when bids are received or negotiations concluded, whether or not yet effective or merely scheduled to go into effect.

3.7 PERMITS, FEES AND NOTICES

3.7.1 Unless otherwise provided in the Contract Documents, the Owner shall secure and pay for the building permit and the Contractor shall secure and pay for all other permits and governmental fees, licenses and inspections necessary for proper execution and completion of the Work which are customarily secured after execution of the Contract and which are legally required when bids are received or negotiations concluded.

3.7.2 The Contractor shall comply with and give notices required by laws, ordinances, rules and regulations and lawful orders of public authorities bearing on performance of the Work.

3.7.3 It is not the Contractor's responsibility to ascertain that the Contract

Documents are in accordance with applicable laws, statutes, ordinances, building codes, and rules and regulations. However, if the Contractor observes that portions of the Contract Documents are at variance therewith, the Contractor shall promptly notify the Construction Manager, Architect and Owner in writing, and necessary changes shall be accomplished by appropriate Modification.

3.7.4 If the Contractor performs Work knowing it to be contrary to laws, statutes, ordinances, building codes, and rules and regulations without such notice to the Construction Manager, Architect and Owner, the Contractor shall assume full responsibility for such Work and shall bear the attributable costs.

3.8 ALLOWANCES

3.8.1 The Contractor shall include in the Contract Sum all allowances stated in the Contract Documents. Items covered by allowances shall be supplied for such amounts and by such persons or entities as the Owner may direct, but the Contractor shall not be required to employ persons or entities against which the Contractor makes reasonable objection.

3.8.2 Unless otherwise provided in the Contract Documents:

- .1 materials and equipment under an allowance shall be selected promptly by the Owner to avoid delay in the Work;
- .2 allowances shall cover the cost to the Contractor of materials and equipment delivered at the site and all required taxes, less applicable trade discounts;
- .3 Contractor's costs for unloading and handling at the site, labor, installation costs, overhead, profit and other expenses contemplated for stated allowance amounts shall be included in the Contract Sum and not in the allowances;
- .4 whenever costs are more than or less than allowances, the Contract Sum shall be adjusted accordingly by Change Order. The amount of the Change Order shall reflect (1) the difference between actual costs and the allowances under Clause 3.8.2.2 and (2) changes in Contractor's costs under Clause 3.8.2.3.

3.9 SUPERINTENDENT

3.9.1 The Construction Manager shall employ a competent superintendent and necessary assistants who shall be in attendance at the Project site during performance of the Work. The superintendent shall represent the Construction Manager and communications given to the superintendent shall be as binding as if given to the Construction Manager. Important communications shall be confirmed in writing. Other communications shall be similarly confirmed on written request in each case.

3.10 CONTRACTOR'S CONSTRUCTION SCHEDULE

3.10.1 The Construction Manager, as soon as possible, shall prepare and submit for the Owner's and Architect's information a Construction Schedule for the Work. Such schedule shall not exceed time limits current under the Contract Documents, shall be revised at appropriate intervals as required by the conditions of the Work and Project, shall be related to the entire Project construction schedule to the extent required by the Contract Documents, and shall provide for expeditious and practicable execution of the Work.

noted below.

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3.10.2 The Contractor, as they are known, shall cooperate with the Construction Manager in scheduling and performing the Contractor's Work to avoid conflict, delay in or interference with the Work of other Contractors or the construction or operations of the Owner's own forces.

3.10.3 The Contractor shall prepare and keep current, for the Construction Manager's and Architects approval, a schedule of submittals which is coordinated with the Contractor's Construction Schedule and allows the Construction Manager and Architect reasonable time to review submittals.

3.10.4 The Contractor shall conform to the most recent schedules.

3.11 DOCUMENTS AND SAMPLES AT THE SITE

3.11.1 The Contractor(s) and the Construction Manager shall maintain at the site for the Owner one record copy of the Drawings, Specifications, addenda, Change Orders and other Modifications, in good order and marked currently to record changes and selections made during construction, and in addition approved Shop Drawings, Product Data, Samples and similar required submittals. These documents, as assembled by the Contractor(s), shall be available to the Construction Manager and Architect and shall be delivered to the Construction Manager for incorporation into a concise submittal to the Owner upon completion of the Work.

3.12 SHOP DRAWINGS, PRODUCT DATA AND SAMPLES

3.12.1 Shop Drawings are drawings, diagrams, schedules and other data specially prepared for the Work by the Contractor or a Sub-subcontractor, manufacturer, supplier or distributor to illustrate some portion of the Work.

3.12.2 Product Data are illustrations, standard schedules, performance charts, instructions, brochures, diagrams and other information furnished by the Contractor to illustrate materials or equipment for some portion of the Work.

3.12.3 Samples are physical examples which illustrate materials, equipment or workmanship and establish standards by which the Work will be judged.

3.12.4 Shop Drawings, Product Data, Samples and similar submittals are not Contract Documents. The purpose of their submittal is to demonstrate for those portions of the Work for which submittals are required the way the Contractor proposes to conform to the information given and the design concept expressed in the Contract Documents. Review by the Architect is subject to the limitations of Subparagraph 4.6.12.

3.12.5 The Contractor shall review, approve and submit to the Construction Manager, in accordance with the schedule and sequence approved by the Construction Manager, Shop Drawings, Product Data, Samples and similar submittals required by the Contract Documents. The Contractor shall cooperate with the Construction Manager in the coordination of the Contractor's Shop Drawings, Product Data, Samples and similar submittals with related documents submitted by other Contractors. Submittals made by the Contractor which are not required by the Contract Documents may be returned without action.

3.12.6 The Contractor shall perform no portion of the Work requiring submittal and review of Shop Drawings, Product Data, Samples or similar submittals until the respective submittal has been approved by the Construction Manager and Architect. Such Work shall be in accordance with approved submittals.

3.12.7 By approving and submitting Shop Drawings, Product Data, Samples and similar submittals, the Contractor represents that the Contractor has determined and verified materials, field measurements and field construction criteria related thereto, or will do so, and has checked and coordinated the information contained within such submittals with the requirements of the Work and of the

Contract Documents.

3.12.8 The Contractor shall not be relieved of responsibility for deviations from requirements of the Contract Documents by the Construction Manager's and Architects approval of Shop Drawings, Product Data, Samples or similar submittals unless the Contractor has specifically informed the Construction Manager and Architect in writing of such deviation at the time of submittal and the Construction Manager and Architect have given written approval to the specific deviation. The Contractor shall not be relieved of responsibility for errors or omissions in Shop Drawings, Product Data, Samples or similar submittals by the Construction Manager's and Architect's approval thereof.

3.12.9 The Contractor shall direct specific attention, in writing or on resubmitted Shop Drawings, Product Data, Samples or similar submittals, to revisions other than those requested by the Construction Manager and Architect on previous submittals.

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3.12.10 Informational submittals upon which the Construction Manager and Architect are not expected to take responsive action may be so identified in the Contract Documents.

3.12.11 When professional certification of performance criteria of materials, systems or equipment is required by the Contract Documents, the Construction Manager and Architect shall be entitled to rely upon the accuracy and completeness of such calculations and certifications.

3.13 USE OF SITE

3.13.1 The Contractor shall confine operations at the site to areas permitted by law, ordinances, permits and the Contract Documents and shall not unreasonably encumber the site with materials or equipment.

3.13.2 The Contractor shall coordinate the Contractor's operations with, and secure the approval of, the Construction Manager before using any portion of the site.

3.14 CUTTING AND PATCHING

3.14.1 The Contractor shall be responsible for cutting, fitting or patching required to complete the Work or to make its parts fit together properly.

3.14.2 The Contractor shall not damage or endanger a portion of the Work or fully or partially completed construction of the Owner's own forces or of other Contractors by cutting, patching, excavating or otherwise altering such construction. The Contractor shall not cut or otherwise alter such construction by other Contractors or by the Owner's own forces except with written consent of the Construction Manager, Owner and such other Contractors; such consent shall not be unreasonably withheld. The Contractor shall not unreasonably withhold from the other Contractors or the Owner the Contractor's consent to cutting or otherwise altering the Work.

13.15 CLEANING UP

13.15.1 The Contractor in conjunction with the Construction Manager shall keep the premises and surrounding area free from accumulation of waste materials or rubbish caused by operations under the Contract. The Construction Manager shall provide, at the Owner's expense, trash dumpsters which shall be located on the site. These dumpsters shall be used for placement of trash and other debris by

the Contractors. At completion of the Work the Contractor shall remove from and about the Project their waste materials, rubbish, the Contractor's tools, construction equipment, machinery and surplus materials.

3.15.2 If a Contractor fails to clean up as provided in the Contract Documents, the Construction Manager may do so with the Owner's approval and the cost thereof shall be charged to the Contractor.

3.16 ACCESS TO WORK

3.16.1 The Contractor shall provide the Owner, Construction Manager and Architect access to the Work in preparation and progress wherever located.

3.17 ROYALTIES AND PATENTS

3.17.1 A Contractor shall pay all royalties and license fees associated with his Work. A Contractor shall defend suits or claims for infringement of patent rights on Work performed or materials furnished by said Contractor and shall hold the Owner, Construction Manager and Architect harmless from loss on account thereof, but shall not be responsible for such defense or loss when a particular design, process or product of a particular manufacturer or manufacturers is required by the Contract Documents. However, if the Contractor has reason to believe that the required design, process or product is an infringement of a patent, the Contractor shall be responsible for such loss unless such information is promptly furnished to the Architect

3.18 INDEMNIFICATION

3.18.1 To the fullest extent permitted by law, the Contractor shall indemnify and hold harmless the Owner, Construction Manager, Architect, Construction Manager's and Architect's consultants, and agents and employees of any of them from and against claims, damages, losses and expenses, including but not limited to attorneys' fees, arising out of or resulting from performance of the Contractor's Work, provided that such claim, damage, loss or expense is attributable to bodily injury, sickness, disease or death, or to injury to or destruction of tangible property (other than the Work itself) including loss of use resulting therefrom, but only to the extent caused in whole or in part by negligent acts or omissions of the Contractor, anyone directly or indirectly employed by them or anyone for whose acts they may be liable, regardless of whether or not such claim, damage, loss or expense is caused in part by a party indemnified hereunder. Such obligation shall not be construed to negate, abridge or reduce other rights or obligations of indemnity which would otherwise exist as to a party or person described in this Paragraph 3.18.

3.18.2 In claims against any person or entity indemnified under this Paragraph 3.18 by an employee of the Contractor, anyone directly or indirectly employed by them or anyone for whose acts they may be liable, the

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indemnification obligation under this Paragraph 3.18 shall not be limited by a limitation on amount or type of damages, compensation or benefits payable by or for the Contractor or under workers' compensation acts, disability benefit acts or other employee benefit acts.

3.18.3 The obligations of the Contractor under this Paragraph 3.18 shall not extend to the liability of the Construction Manager, Architect, their consultants, and agents and employees of any of them arising out of (1) the preparation or approval of maps, drawings, opinions, reports, surveys, Change Orders, designs or specifications, or (2) the giving of or the failure to give directions or instructions by the Construction Manager, Architect, their

consultants, and agents and employees of any of them provided such giving or failure to give is the primary cause of the injury or damage.

ARTICLE 4

ADMINISTRATION OF THE CONTRACT

4.1 ARCHITECT

4.1.1 The Architect is the person lawfully licensed to practice architecture or an entity lawfully practicing architecture identified as such in the Agreement and is referred to throughout the Contract Documents as if singular in number. The term "Architect" means the Architect or the Architect's authorized representative.

4.2 CONSTRUCTION MANAGER

4.2.1 The Construction Manager is the person or entity identified as such in the Agreement and is referred to throughout the Contract Documents as if singular in number. The term "Construction Manager" means the Construction Manager or the Construction Manager's authorized representative.

4.3 Duties, responsibilities and limitations of authority of the Construction Manager and Architect as set forth in the Contract Documents shall not be restricted, modified or extended without written consent of the Owner, Construction Manager, Architect and Contractor. Consent shall not be unreasonably withheld.

4.4 In case of termination of employment of the Construction Manager or Architect, the Owner shall appoint a construction manager or architect against whom the Contractor makes no reasonable objection and whose status under the Contract Documents shall be that of the former construction manager or architect, respectively.

4.5 Disputes arising under Paragraphs 4.3 and 4.4 shall be subject to mediation.

4.6 ADMINISTRATION OF THE CONTRACT

4.6.1 The Construction Manager and Architect will provide administration of the Contract as described in the Contract Documents, and will be the Owner's representatives (1) during construction, (2) until final payment is due and (3) with the Owner's concurrence, from time to time during the correction period described in Paragraph 12.2. The Construction Manager and Architect will advise and consult with the Owner and will have authority to act on behalf of the Owner only to the extent provided in the Contract Documents, unless otherwise modified by written instrument in accordance with other provisions of the Contract

4.6.2 The Construction Manager will determine in general that the Work is being performed in accordance with the requirements of the Contract Documents, will keep the Owner informed of the progress of the Work, and will endeavor to guard the Owner against defects and deficiencies in the Work.

4.6.3 The Construction Manager will provide for coordination of the activities of other Contractors and of the Owner's own forces with the Work of the Contractor, who shall cooperate with them. A Contractor shall participate with other Contractors and the Construction Manager and Owner in reviewing their construction schedules when directed to do so. The Contractor shall make any revisions to the construction schedule deemed necessary after a joint review and mutual agreement. The construction schedules shall constitute the schedules to be used by the Contractor, other Contractors, the Construction Manager and the Owner until subsequently revised.

4.6.4 The Construction Manager will schedule and coordinate the activities of the Contractors in accordance with the latest approved Project construction schedule.

4.6.5 The Architect will visit the site at intervals appropriate to the stage of construction to become generally familiar with the progress and quality of the

completed Work and to determine in general if the Work is being performed in a manner indicating that the Work, when completed, will be in accordance with the Contract Documents. However, the Architect will not be required to make exhaustive or continuous on-site inspections to check quality or quantity of the Work. On the basis of on-site observations as an architect, the Architect will keep the Owner informed of progress of the Work, and will endeavor to guard the Owner against defects and deficiencies in the Work.

4.6.6 The Construction Manager,

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with respect to each Contractor's own Work, shall have made it's best effort to ensure that reasonable construction means, methods, techniques, sequences, procedures, and safety precautions and programs have been undertaken by each of the Contractors in connection with the Work. The Construction Manager will not be monetarily responsible for a Contractor's failure to carry out the Work in accordance with the Contract Documents. The Construction Manager shall, however, use its best efforts to ensure each Contractor does carry out the Work in accordance with respective Contract Documents. The Architect will not have control over or charge of or be responsible for acts or omissions of a Contractor, or their agents or employees, or of any other persons performing portions of the Work.

4.6.7 Communications Facilitating Contract Administration. Except as otherwise provided in the Contract Documents or when direct communications have been specially authorized, the Owner shall communicate through the Construction Manager, and shall contemporaneously provide the same communications to the Architect. Communications by and with the Architect's consultants shall be through the Architect. Communications by and with Subcontractors and material suppliers shall be through the Construction Manager. Communications by and with other Contractors shall be through the Construction Manager and shall be contemporaneously provided to the Architect.

4.6.8 The Construction Manager will review and certify all Applications for Payment by the Contractors, including final payment. The Construction Manager will assemble each of the Contractor's Applications for Payment with similar Applications from other Contractors into a Project Application and Project Certificate for Payment. After reviewing and certifying the amounts due the Contractors, the Construction Manager will submit the Project Application and Project Certificate for Payment, along with the applicable Contractors' Applications and Certificates for Payment, to the Architect.

4.6.9 Based on the Architect's observations and evaluations of Contractors' Applications for Payment, and the certifications of the Construction Manager, the Architect will review and certify the amounts due the Contractors and will issue a Project Certificate for Payment.

4.6.10 The Architect will have authority to reject Work which does not conform to the Contract Documents, and to require additional inspection or testing, in accordance with Subparagraphs 13.5.2 and 13.5.3, whether or not such Work is fabricated, installed or completed, but will take such action only after notifying the Construction Manager. Subject to review by the Architect, the Construction Manager will have the authority to reject Work which does not conform to the Contract Documents. Whenever the Construction Manager considers it necessary or advisable for implementation of the intent of the Contract Documents, the Construction Manager will have authority to require additional inspection or testing of the Work in accordance with Subparagraphs 13.5.2 and 13.5.3, whether or not such Work is fabricated, installed or completed. The foregoing authority of the Construction Manager will be subject to the provisions of Subparagraphs 4.6.18 through 4.6.20 inclusive, with respect to

interpretations and decisions of the Architect. However, neither the Architect's nor the Construction Manager's authority to act under this Subparagraph 4.6.10 nor a decision made by either of them in good faith either to exercise or not to exercise such authority shall give rise to a duty or responsibility of the Architect or the Construction Manager to a Contractor, material and equipment suppliers, their agents or employees, or other persons performing any of the Work.

4.6.11 The Construction Manager will receive from the Contractor and review and approve all Shop Drawings, Product Data and Samples, coordinate them with information received from other Contractors, and transmit to the Architect those recommended for approval. The Construction Manager's actions will be taken with such reasonable promptness as to cause no delay in the Work of the Contractor or in the activities of other Contractors, the Owner, or the Architect.

4.6.12 The Architect will review and approve or take other appropriate action upon the Contractor's submittals such as Shop Drawings, Product Data and Samples, but only for the limited purpose of checking for conformance with information given and the design concept expressed in the Contract Documents. The Architect's action will be taken with such reasonable promptness as to cause no delay in the Work of the Contractor or in the activities of the other Contractors, the Owner, or the Construction Manager, while allowing sufficient time in the Architect's professional judgment to permit adequate review. Review of such submittals is not conducted for the purpose of determining the accuracy and completeness of other details such as dimensions and quantities, or for substantiating instructions for installation or performance of equipment or systems, all of which remain the responsibility of the Contractor as required by the Contract Documents. The Architect's review of the Contractor's submittals shall not relieve the Contractor of the obligations under Paragraphs 3.3, 3.5 and 3.12. The Architect's review shall not constitute approval of safety

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precautions or, unless otherwise specifically stated by the Architect, of any construction means, methods, techniques, sequences or procedures. The Architect's approval of a specific item shall not indicate approval of an assembly of which the item is a component.

4.6.13 The Construction Manager will prepare Change Orders and Construction Change Directives.

4.6.14 Following consultation with the Construction Manager, the Architect will take appropriate action on Change Orders or Construction Change Directives in accordance with Article 7 and will have authority to order minor changes in the Work as provided in Paragraph 7.4.

4.6.15 The Construction Manager will maintain at the site for the Owner one record copy of all Contracts, Drawings, Specifications, addenda, Change Orders and other Modifications, in good order and marked currently to record all changes and selections made during construction, and in addition approved Shop Drawings, Product Data, Samples and similar required submittals. These will be available to the Architect and the Contractor, and will be delivered to the Owner upon completion of the Project.

4.6.16 The Construction Manager will assist the Architect in conducting inspections to determine the dates of Substantial Completion and final completion, and will receive and forward to the Architect written warranties and related documents required by the Contract and assembled by the Contractor(s). The Construction Manager will forward to the Architect a final Project Application and Project Certificate for Payment upon compliance with the requirements of the Contract Documents.

4.6.17 If the Owner and Architect agree, the Architect will provide one or more project representatives to assist in carrying out the Architect's responsibilities at the site. The duties, responsibilities and limitations of authority of such project representatives shall be as set forth in an exhibit to be incorporated in the Contract Documents.

4.6.18 The Architect will interpret and decide matters concerning performance under and requirements of the Contract Documents on written request of the Construction Manager, Owner or a Contractor. The Architect's response to such requests will be made with reasonable promptness and within any time limits agreed upon. If no agreement is made concerning the time within which interpretations required of the Architect shall be furnished in compliance with this Paragraph 4.6, then delay shall not be recognized on account of failure by the Architect to furnish such interpretations until 15 days after written request is made for them.

4.6.19 Interpretations and decisions of the Architect will be consistent with the intent of and reasonably inferable from the Contract Documents and will be in writing or in the form of drawings. When making such interpretations and decisions, the Architect will endeavor to secure faithful performance by both Owner and Contractor, will not show partiality to either and will not be liable for results of interpretations or decisions so rendered in good faith.

4.6.20 The Architect's decisions on matters relating to aesthetic effect will be final if consistent with the intent expressed in the Contract Documents.

4.7 CLAIMS AND DISPUTES

4.7.1 DEFINITION. A Claim is a demand or assertion by one of the parties seeking, as a matter of right, adjustment or interpretation of Contract terms, payment of money, extension of time or other relief with respect to the terms of the Contract. The term "Claim" also includes other disputes and matters in question between the Owner and Contractor arising out of or relating to the Contract. Claims must be made by written notice. The responsibility to substantiate Claims shall rest with the party making the Claim.

4.7.2 DECISION OF ARCHITECT. Claims, including those alleging an error or omission by the Construction Manager or Architect, shall be referred initially to the Architect for action as provided in Paragraph 4.8. A decision by the Architect, as provided in Subparagraph 4.8.4, shall be required as a condition precedent to mediation of a Claim between a Contractor and Owner as to all such matters arising prior to the date final payment is due, regardless of (1) whether such matters relate to execution and progress of the Work or (2) the extent to which the Work has been completed. The decision by the Architect in response to a Claim shall not be a condition precedent to mediation in the event (1) the position of Architect is vacant, (2) the Architect has not received evidence or has failed to render a decision within agreed time limits, (3) the Architect has failed to take action required under Subparagraph 4.8.4 within 30 days after the Claim is made, (4) 45 days have passed after the Claim has been referred to the Architect or (5) the Claim relates to a mechanic's lien.

4.7.3 TIME LIMITS ON CLAIMS. Claims by either party must be made within 21 days after occurrence of the event giving rise to such Claim or within 21 days after the claimant first recognizes the condition giving rise to the Claim, whichever is later. Claims must be made by written notice. An additional Claim made after the initial Claim has been implemented by Change Order will not be considered unless submitted in a timely manner.

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4.7.4 CONTINUING CONTRACT PERFORMANCE. Pending final resolution of a Claim including mediation, unless otherwise agreed in writing the Contractor shall proceed diligently with performance of the Contract and the Owner shall continue to make payments in accordance with the Contract Documents.

4.7.5 WAIVER OF CLAIMS: FINAL PAYMENT. The making of final payment shall constitute a waiver of Claims by the Owner except those arising from:

- .1 liens, Claims, security interests or encumbrances arising out of the Contract and unsettled;
- .2 failure of the Work to comply with the requirements of the Contract Documents; or
- .3 terms of special warranties required by the Contract Documents.

4.7.6 CLAIMS FOR CONCEALED OR UNKNOWN CONDITIONS. If conditions are encountered at the site which are (1) subsurface or otherwise concealed physical conditions which differ materially from those indicated in the Contract Documents or (2) unknown physical conditions of an unusual nature, which differ materially from those ordinarily found to exist and generally recognized as inherent in construction activities of the character provided for in the Contract Documents, then notice by the observing party shall be given to the other party promptly before conditions are disturbed and in no event later than 21 days after first observance of the conditions. The Architect will promptly investigate such conditions and, if they differ materially and cause an increase or decrease in the Contractor's cost of, or time required for, performance of any part of the Work, will recommend an equitable adjustment in the Contract Sum or Contract Time, or both. If the Architect determines that the conditions at the site are not materially different from those indicated in the Contract Documents and that no change in the terms of the Contract is justified, the Architect shall so notify the Owner and Contractor in writing, stating the reasons. Claims by either party in opposition to such determination must be made within 21 days after the Architect has given notice of the decision. If the Owner and a Contractor cannot agree on an adjustment in the Contract Sum or Contract Time, the adjustment shall be referred to the Architect for initial determination, subject to further proceedings pursuant to Paragraph 4.8.

4.7.7 CLAIMS FOR ADDITIONAL COST. If a Contractor wishes to make Claim for an increase in the Contract Sum, written notice as provided herein shall be given before proceeding to execute the Work. Prior notice is not required for Claims relating to an emergency endangering life or property arising under Paragraph 10.3. If the Contractor believes additional cost is involved for reasons including but not limited to (1) a written interpretation from the Architect, (2) an order by the Owner to stop the Work where the Contractor was not at fault, (3) a written order for a minor change in the Work issued by the Architect, (4) failure of payment by the Owner, (5) termination of the Contract by the Owner, (6) Owner's suspension or (7) other reasonable grounds, Claim shall be filed in accordance with the procedure established herein.

4.7.8 CLAIMS FOR ADDITIONAL TIME.

4.7.8.1 If the Contractor wishes to make Claim for an increase in the Contract Time, written notice as provided herein shall be given. The Contractor's Claim shall include an estimate of cost and of probable effect of delay on progress of the Work. In the case of a continuing delay only one Claim is necessary.

4.7.8.2 If adverse weather conditions are the basis for a Claim for additional time, such Claim shall be documented by data substantiating that weather conditions were abnormal for the period of time and could not have been reasonably anticipated, and that weather conditions had an adverse effect on the scheduled construction.

4.7.9 Injury or Damage to Person or Property. If either party to the Contract suffers injury or damage to person or property because of an act or omission of the other party, of any of the other party's employees or agents, or of others

for whose acts such party is legally liable, written notice of such injury or damage, whether or not insured, shall be given to the other party within a reasonable time not exceeding 21 days after first observance. The notice shall provide sufficient detail to enable the other party to investigate the matter. If a Claim for additional cost or time related to this Claim is to be asserted, it shall be filed as provided in Subparagraphs 4.7.7 or 4.7.8.

4.8 RESOLUTION OF CLAIMS AND DISPUTES

4.8.1 The Architect will review Claims and take one or more of the following preliminary actions within ten days of receipt of a Claim: (1) request additional supporting data from the claimant, (2) submit a schedule to the parties indicating when the Architect expects to take action, (3) reject the Claim in whole or in part, stating reasons for rejection, (4) recommend approval of the Claim by the other party or (5) suggest a compromise. The Architect may also, but is not obligated to, notify the surety, if any, of the nature and amount of the Claim.

4.8.2 If a Claim has been resolved, the Architect will

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prepare or obtain appropriate documentation.

4.8.3 If a Claim has not been resolved, the party making the Claim shall, within ten days after the Architect's preliminary response, take one or more of the following actions: (1) submit additional supporting data requested by the Architect, (2) modify the initial Claim or (3) notify the Architect that the initial Claim stands.

4.8.4 If a Claim has not been resolved after consideration of the foregoing and of further evidence presented by the parties or requested by the Architect, the Architect will notify the parties in writing that the Architect's decision will be made within seven days, which decision shall be final and binding on the parties but subject to mediation. Upon expiration of such time period, the Architect will render to the parties the Architect's written decision relative to the Claim, including any change in the Contract Sum or Contract Time or both. If there is a surety and there appears to be a possibility of a Contractor's default, the Architect may, but is not obligated to, notify the surety and request the surety's assistance in resolving the controversy.

4.9 ARBITRATION

4.9.1 CONTROVERSIES AND CLAIMS SUBJECT TO ARBITRATION. See Exhibit "A", dated August 20, 1997, to the Contract between the Owner and the Construction Manager. Arbitration is replaced by Mediation for "Dispute Resolution".

4.9.2 RULES AND NOTICES FOR ARBITRATION.

4.9.3 CONTRACT PERFORMANCE DURING ARBITRATION.

4.9.4 WHEN ARBITRATION MAY BE DEMANDED.

4.9.4.1

4.9.4.2

4.9.5 LIMITATION ON CONSOLIDATION OR JOINDER.

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4.9.6 CLAIMS AND TIMELY ASSERTION OF CLAIMS.

4.9.7 JUDGMENT ON FINAL AWARD.

ARTICLE 5

SUBCONTRACTORS

5.1 DEFINITIONS

5.1.1 A Subcontractor is a person or entity who has a direct contract to perform a portion of the Work at the site. The term "Subcontractor" is referred to throughout the Contract Documents as if singular in number and means a Contractor, a Subcontractor or an authorized representative of the Contractor or the Subcontractor. The terms "Contractor" and "Subcontractor" are synonymous with each other.

5.1.2 A Sub-subcontractor is a person or entity who has a direct or indirect contract with a Subcontractor to perform a portion of the Work at the site. The term "Sub-subcontractor" is referred to throughout the Contract Documents as if singular in number and means a Sub-subcontractor or an authorized representative of the Sub-subcontractor.

5.2 AWARD OF SUBCONTRACTS AND OTHER CONTRACTS FOR PORTIONS OF THE WORK

5.2.1 Unless otherwise stated in the Contract Documents or the bidding requirements, the Contractor, as soon as practicable after award of the Contract, shall furnish in writing to the Construction Manager for review by the Owner, Construction Manager and Architect the names of persons or entities (including those who are to furnish materials or equipment fabricated to a special design) proposed as a Sub-subcontractor, if any, for each principal portion of the Contractor's Work. The Construction Manager will promptly reply to the Contractor in writing stating whether or not the Owner, Construction Manager or Architect, after due investigation, has reasonable objection to any such proposed person or entity. Failure of the Construction Manager to reply promptly shall constitute notice of no reasonable objection.

5.2.2 The Contractor shall not contract with a proposed person or entity to whom the Owner, Construction Manager or Architect has made reasonable and timely objection. The Contractor shall not be required to contract with anyone to whom the Contractor has made reasonable objection.

5.2.3 If the Owner, Construction Manager or Architect has reasonable objection to a person or entity proposed by the Contractor, the Contractor shall propose another to whom the Owner, Construction Manager or Architect has no reasonable objection. The Contract Sum shall be increased or decreased by the difference in cost occasioned by such change and an appropriate Change Order shall be issued. However, no increase in the Contract Sum shall be allowed for such change unless the Contractor has acted promptly and responsively in submitting names as required.

5.2.4 The Construction Manager shall not change a Subcontractor, person or entity previously selected if the Owner, or Architect makes reasonable objection to such change.

5.3 SUBCONTRACTUAL RELATIONS

5.3.1 By appropriate agreement, written where legally required for validity, the Construction Manager shall require each Subcontractor, to the extent of the Work to be performed by the Subcontractor, to be bound to the Construction Manager by

terms of the Contract Documents, and to assume toward the Construction Manager all the obligations and responsibilities which the Construction Manager, by these Documents, assumes toward the Owner, and Architect. Each subcontract agreement shall preserve and protect the rights of the Owner, Construction Manager and Architect under the Contract Documents with respect to the Work to be performed by the Subcontractor so that subcontracting thereof will not prejudice such rights, and shall allow to the Subcontractor, unless specifically provided otherwise in the subcontract agreement, the benefit of all

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rights, remedies and redress against the Owner that the Construction Manager, by the Contract Documents, has against the Owner. Where appropriate, the Construction Manager shall require each Subcontractor to enter into similar agreements with Sub-subcontractors. The Construction Manager shall make available to each proposed Subcontractor, prior to the execution of the subcontract agreement, copies of the Contract Documents to which the Subcontractor will be bound, and, upon written request of the Subcontractor, identify to the Subcontractor terms and conditions of the proposed subcontract agreement which may be at variance with the Contract Documents. Subcontractors shall similarly make copies of applicable portions of such documents available to their respective proposed Sub-subcontractors.

5.4 CONTINGENT ASSIGNMENT OF
SUBCONTRACTS

5.4.1 Each subcontract agreement for a portion of the Work is assigned by the Construction Manager to the Owner provided that:

- .1 assignment is effective only after termination of the Contract by the Owner for cause pursuant to Paragraph 14.2 and only for those subcontract agreements which the Owner accepts by notifying the Subcontractor in writing; and
- .2 assignment is subject to the prior rights of the surety, if any, obligated under bond relating to the Contract.

5.4.2 If the Work has been suspended for more than 30 days, the Subcontractor's compensation shall be equitably adjusted.

ARTICLE 6
CONSTRUCTION BY OWNER OR BY
OTHER CONTRACTORS

6.1 OWNER'S RIGHT TO PERFORM
CONSTRUCTION WITH OWN FORCES
AND TO AWARD OTHER CONTRACTS

6.1.1 The Owner reserves the right to perform construction or operations related to the Project with the Owner's own forces, which include persons or entities under separate contracts not administered by the Construction Manager. The Owner further reserves the right to award other contracts in connection with other portions of the Project or other construction or operations on the site under Conditions of the Contract identical or substantially similar to these including those portions related to insurance and waiver of subrogation. If the Contractor claims that delay or additional cost is involved because of such action by the Owner, the Contractor shall make such Claim as provided elsewhere in the Contract Documents.

6.1.2 When the Owner performs construction or operations with the Owner's own forces including persons or entities under separate contracts not administered

by the Construction Manager, the Owner shall provide for coordination of such forces with the Work of the Contractor, who shall cooperate with them.

6.1.3 Unless otherwise provided in the Contract Documents, when the Owner performs construction or operations related to the Project with the Owner's own forces, the Owner shall be deemed to be subject to the same obligations and to have the same rights which apply to the Contractors under the Conditions of the Contract, including, without excluding others, those stated in this Article 6 and in Articles 3,10,11 and 12.

6.2 MUTUAL RESPONSIBILITY

6.2.1 The Contractor shall afford the Owner's own forces, Construction Manager and other Contractors reasonable opportunity for introduction and storage of their materials and equipment and performance of their activities, and shall connect and coordinate the Contractor's construction and operations with theirs as required by the Contract Documents.

6.2.2 If part of the Contractor's Work depends for proper execution or results upon construction or operations by the Owner's own forces or other Contractors, the Contractor shall, prior to proceeding with that portion of the Work, promptly report to the Construction Manager and Architect apparent discrepancies or defects in such other construction that would render it unsuitable for such proper execution and results. Failure of the Contractor so to report shall constitute an acknowledgment that the Owner's own forces or other Contractors' completed or partially completed construction is fit and proper to receive the Contractor's Work, except as to defects not then reasonably discoverable.

6.2.3 Costs caused by delays or by improperly timed activities or defective construction shall be borne by the party responsible therefor.

6.2.4 The Contractor shall promptly remedy damage wrongfully caused by the Contractor to completed construction or partially completed construction or to property of the Owner or other Contractors as provided in Subparagraph 10.2.5.

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6.2.5 Claims and other disputes and matters in question between the Contractor and other Contractors shall be subject to the provisions of Paragraph 4.7 provided the other Contractors have reciprocal obligations.

6.2.6 The Owner and other Contractors shall have the same responsibilities for cutting and patching as are described for the Contractor in Paragraph 3.14.

6.3 OWNER'S RIGHT TO CLEAN UP

6.3.1 If a dispute arises among a Contractor, other Contractors and the Owner as to the responsibility under their respective contracts for maintaining the premises and surrounding area free from waste materials and rubbish as described in Paragraph 3.15, the Owner may clean up and allocate the cost among those responsible as the Construction Manager, in consultation with the Architect, determines to be just.

ARTICLE 7 CHANGES IN THE WORK

7.1 CHANGES

7.1.1 Changes in the Work may be accomplished after execution of the Contract, and without invalidating the Contract, by Change Order, Construction Change Directive or order for a minor change in the Work, subject to the limitations

stated in this Article 7 and elsewhere in the Contract Documents.

7.1.2 A Change Order shall be based upon agreement among the Owner, Construction Manager, Architect and Contractor; a Construction Change Directive requires agreement by the Owner, Construction Manager and Architect and may or may not be agreed to by the Contractor; an order for a minor change in the Work may be issued by the Architect alone.

7.1.3 Changes in the Work shall be performed under applicable provisions of the Contract Documents, and Contractor shall proceed promptly, unless otherwise provided in the Change Order, Construction Change Directive or order for a minor change in the Work.

7.1.4 If unit prices are stated in the Contract Documents or subsequently agreed upon, and if quantities originally contemplated are so changed in a proposed Change Order or Construction Change Directive that application of such unit prices to quantities of Work proposed will cause substantial inequity to the Owner or Contractor, the applicable unit prices shall be equitably adjusted.

7.2 CHANGE ORDERS

7.2.1 A Change Order is a written instrument prepared by the Construction Manager and signed by the Owner, Construction Manager, Architect and Contractor, stating their agreement upon all of the following:

- .1 a change in the Work;
- .2 the amount of the adjustment in the Contract Sum, if any; and
- .3 the extent of the adjustment in the Contract Time, if any.

7.2.2 Methods used in determining adjustments to the Contract Sum may include those listed in Subparagraph 7.3.3.

7.3 CONSTRUCTION CHANGE DIRECTIVES

7.3.1 A Construction Change Directive is a written order prepared by the Construction Manager and signed by the Owner, Construction Manager and Architect, directing a change in the Work and stating a proposed basis for adjustment, if any, in the Contract Sum or Contract Time, or both. The Owner may by Construction Change Directive, without invalidating the Contract, order changes in the Work within the general scope of the Contract consisting of additions, deletions or other revisions, the Contract Sum and Contract Time being adjusted accordingly.

7.3.2 A Construction Change Directive shall be used in the absence of total agreement on the terms of a Change Order.

7.3.3 If the Construction Change Directive provides for an adjustment to the Contract Sum, the adjustment shall be based on one of the following methods:

- .1 mutual acceptance of a lump sum properly itemized and supported by sufficient substantiating data to permit evaluation;
- .2 unit prices stated in the Contract Documents or subsequently agreed upon;
- .3 cost to be determined in a manner agreed upon by the parties and a mutually acceptable fixed or percentage fee; or
- .4 as provided in Subparagraph 7.3.6.

7.3.4 Upon receipt of a Construction Change Directive, the Contractor shall

promptly proceed with the change in the

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Work involved and advise the Construction Manager and Architect of the Contractor's agreement or disagreement with the method, if any, provided in the Construction Change Directive for determining the proposed adjustment in the Contract Sum or Contract Time.

7.3.5 A Construction Change Directive signed by the Contractor indicates the agreement of the Contractor therewith, including adjustment in Contract Sum and Contract Time or the method for determining them. Such agreement shall be effective immediately and shall be recorded as a Change Order.

7.3.6 If the Contractor does not respond promptly or disagrees with the method for adjustment in the Contract Sum, the method and the adjustment shall be determined by the Construction Manager on the basis of reasonable expenditures and savings of those performing the Work attributable to the change, including, in case of an increase in the Contract Sum, a reasonable allowance for overhead and profit. In such case, and also under Clause 7.3.3.3, the Contractor shall keep and present, in such form as the Construction Manager may prescribe, an itemized accounting together with appropriate supporting data. Unless otherwise provided in the Contract Documents, costs for the purposes of this Subparagraph 7.3.6 shall be limited to the following:

- .1 costs of labor, including social security, old age and unemployment insurance, fringe benefits required by agreement or custom, and workers compensation insurance;
- .2 costs of materials, supplies and equipment, including cost of transportation, whether incorporated or consumed;
- .3 rental costs of machinery and equipment, exclusive of hand tools, whether rented from the Contractor or others;
- .4 costs of premiums for all bonds and insurance, permit fees, and sales, use or similar taxes related to the Work; and
- .5 additional costs of supervision and field office personnel directly attributable to the change.

7.3.7 Pending final determination of cost to the Owner, amounts not in dispute may be included in Applications for Payment. The amount of credit to be allowed by the Contractor to the Owner for a deletion or change which results in a net decrease in the Contract Sum shall be actual net cost as confirmed by the Construction Manager. When both additions and credits covering related Work or substitutions are involved in a change, the allowance for overhead and profit shall be figured on the basis of net increase, if any, with respect to that change.

7.3.8 If the Owner and Contractor do not agree with the adjustment in Contract Time or the method for determining it, the adjustment or the method shall be referred to the Construction Manager for determination.

7.3.9 When the Owner and Contractor agree with the determination made by the Construction Manager concerning the adjustments in the Contract Sum and Contract Time, or otherwise reach agreement upon the adjustments, such agreement shall be effective immediately issued through the Construction Manager and shall be recorded by preparation and execution of an appropriate Change Order.

7.4 MINOR CHANGES IN THE WORK

7.4.1 The Architect will have authority to order minor changes in the Work not involving adjustment in the Contract Sum or extension of the Contract Time and not inconsistent with the intent of the Contract Documents. Such changes shall be effected by written order issued through the Construction Manager and shall be binding on the Owner and Contractor. The Contractor shall carry out such written orders promptly.

ARTICLE 8

TIME

8.1 DEFINITIONS

8.1.1 Unless otherwise provided, Contract Time is the period of time, including authorized adjustments, allotted in the Contract Documents for Substantial Completion of the Work.

8.1.2 The date of commencement of the Work is the date established in the Agreement. The date shall not be postponed by the failure to act of the Contractor or of persons or entities for whom the Contractor is responsible.

8.1.3 The date of Substantial Completion is the date certified by the Architect in accordance with Paragraph 9.8.

8.1.4 The term "day" as used in the Contract Documents shall mean calendar day unless otherwise specifically defined.

8.2 PROGRESS AND COMPLETION

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8.2.1 Time limits stated in the Contract Documents are of the essence of the Contract. By executing the Agreement the Contractor confirms that the Contract Time is a reasonable period for performing the Work.

8.2.2 The Contractor shall not knowingly, except by agreement or instruction of the Owner in writing, prematurely commence operations on the site or elsewhere prior to the effective date of insurance required by Article 11 to be furnished by the Contractor. The date of commencement of the Work shall not be changed by the effective date of such insurance. Unless the date of commencement is established by a notice to proceed given by the Owner, the Contractor shall notify the Owner in writing not less than five days or other agreed period before commencing the Work to permit the timely filing of mortgages, mechanic's liens and other security interests.

8.2.3 The Contractor shall proceed expeditiously with adequate forces and shall ensure that his actions shall cause Substantial Completion within the Contract Time to be achieved.

8.3 DELAYS AND EXTENSIONS OF TIME

8.3.1 If the Contractor is delayed at any time in progress of the Work by an act or neglect of the Owner's own forces, Construction Manager, Architect, any of the other Contractors or an employee of any of them, or by changes ordered in the Work, or by labor disputes, fire, unusual delay in deliveries, unavoidable casualties or other causes beyond the Contractor's control, or by delay authorized by the Owner pending mediation, or by other causes which the Architect, based on the recommendation of the Construction Manager, determines may justify delay, then the Contract Time shall be extended by Change Order for such reasonable time as the Architect may determine.

8.3.2 Claims relating to time shall be made in accordance with applicable provisions of Paragraph 4.7.

8.3.3 This Paragraph 8.3 does not preclude recovery of damages for delay by either party under other provisions of the Contract Documents.

ARTICLE 9

PAYMENTS AND COMPLETION

9.1 CONTRACT SUM

9.1.1 The Contract Sum is stated in the Agreement and, including authorized adjustments, is the total amount payable by the Owner, through the Construction Manager, to the Contractor for performance of the Work under the Contract Documents.

9.2 SCHEDULE OF VALUES

9.2.1 Before the first Application for Payment, the Contractor shall submit to the Architect, through the Construction Manager, a schedule of values allocated to various portions of the Work, prepared in such form and supported by such data to substantiate its accuracy as the Construction, Manager and Architect may require. This schedule, unless objected to by the Construction Manager or Architect, shall be used as a basis for reviewing the Contractor's Applications for Payment.

9.3 APPLICATIONS FOR PAYMENT

9.3.1 At least ten days before the date established for each progress payment, the Contractor shall submit to the Construction Manager an itemized Application for Payment for Work completed in accordance with the schedule of values. Such application shall be notarized, if required, and supported by such data substantiating the Contractor's right to payment as the Owner, Construction Manager or Architect may require, such as copies of requisitions from Sub-subcontractors and material suppliers, and reflecting retainage if provided for elsewhere in the Contract Documents.

9.3.1.1 Such applications may include requests for payment on account of changes in the Work which have been properly authorized by Construction Change Directives but not yet included in Change Orders.

9.3.1.2 Such applications may not include requests for payment of amounts the Contractor does not intend to pay to a Sub-subcontractor or material supplier because of a dispute or other reason.

9.3.2 Unless otherwise provided in the Contract Documents, payments shall be made on account of materials and equipment delivered and suitably stored at the site for subsequent incorporation in the Work. If approved in advance by the Owner, payment may similarly be made for materials and equipment suitably stored off the site at a location agreed upon in writing. Payment for materials and equipment stored on or off the site shall be conditioned upon compliance by the Contractor with procedures satisfactory to the Owner to establish the Owner's title to such materials and equipment or otherwise protect the Owner's interest, and shall include applicable insurance, storage and transportation to the site for such materials and equipment stored off the site.

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9.3.3 The Contractor warrants that title to all Work covered by an Application for Payment will pass to the Owner no later than the time of payment. The

Contractor further warrants that upon submittal of an Application for Payment all Work for which Certificates for Payment have been previously issued and payments received from the Owner shall, to the best of the Contractor's knowledge, information and belief, be free and clear of liens, claims, security interests or encumbrances in favor of the Contractor, Subcontractors, material suppliers, or other persons or entities making a claim by reason of having provided labor, materials and equipment relating to the Work.

9.4 CERTIFICATES FOR PAYMENT

9.4.1 The Construction Manager will assemble a Project Application for Payment by combining the Contractor's applications with similar applications for progress payments from other Contractors and, after certifying the amounts due on such applications, forward them to the Architect within seven days.

9.4.2 Within seven days after the Architect's receipt of the Project Application for Payment, the Construction Manager and Architect will either issue to the Owner a Project Certificate for Payment, for such amount as the Construction Manager and Architect determine is properly due, or notify the Contractor and Owner in writing of the Construction Manager's and Architect's reasons for withholding certification in whole or in part as provided in Subparagraph 9.5.1. Such notification will be forwarded to the Contractor by the Construction Manager.

9.4.3 The issuance of a separate Certificate for Payment or a Project Certificate for Payment will constitute representations made separately by the Construction Manager and Architect to the Owner, based on their individual observations at the site and the data comprising the Application for Payment submitted by the Contractor, that the Work has progressed to the point indicated and that, to the best of the Construction Manager's and Architect's knowledge, information and belief, quality of the Work is in accordance with the Contract Documents. The foregoing representations are subject to an evaluation of the Work for conformance with the Contract Documents upon Substantial Completion, to results of subsequent tests and inspections, to minor deviations from the Contract Documents correctable prior to completion and to specific qualifications expressed by the Construction Manager or Architect. The issuance of a separate Certificate for Payment or a Project Certificate for Payment will further constitute a representation that the Contractor is entitled to payment in the amount certified. However, the issuance of a separate Certificate for Payment or a Project Certificate for Payment shall be a representation that the Construction Manager has made it's best efforts (1) to perform on-site inspections to check the quality or quantity of the Work, (2) to review the Contractor's construction means, methods, techniques, sequences or procedures, (3) to review copies of requisitions received from Subcontractors and material suppliers and other data requested by the Owner to substantiate the Contractor's right to payment or (4) to ascertain how or for what purpose the Contractor has used money previously paid on account of the Contract Sum.

9.5 DECISIONS TO WITHHOLD CERTIFICATION

9.5.1 The Construction Manager or Architect may decide not to certify payment and may withhold a Certificate for Payment in whole or in part to the extent reasonably necessary to protect the Owner, if in the Construction Manager's or Architect's opinion the representations to the Owner required by Subparagraph 9.4.3 cannot be made. If the Construction Manager or Architect is unable to certify payment in the amount of the Application, the Construction Manager or Architect will notify the Contractor and Owner as provided in Subparagraph 9.4.2. If the Contractor, Construction Manager and Architect cannot agree on a revised amount, the Construction Manager and Architect will promptly issue a Certificate for Payment for the amount for which the Construction Manager and Architect are able to make such representations to the Owner. The Construction Manager or Architect may also decide not to certify payment or, because of subsequently discovered evidence or subsequent observations, may nullify the whole or a part of a Certificate for Payment previously issued, to such extent as may be necessary in the Construction Manager's or Architect's opinion to protect the Owner from loss because of:

- .1 defective Work not remedied;
- .2 third party claims filed or reasonable evidence indicating probable filing of such claims;
- .3 failure of the Contractor to make payments properly to Sub-subcontractors or for labor, materials or equipment;
- .4 reasonable evidence that the Work cannot be completed for the unpaid balance of the Contract Sum;
- .5 damage to the Owner or another contractor;

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- .6 reasonable evidence that the Work will not be completed within the Contract Time, and that the unpaid balance would not be adequate to cover actual or liquidated damages for the anticipated delay; or
- .7 persistent failure to carry out the Work in accordance with the Contract Documents.

9.5.2 When the above reasons for withholding certification are removed, certification will be made for amounts previously withheld.

9.6 PROGRESS PAYMENTS

9.6.1 After the Construction Manager and Architect have issued a Project Certificate for Payment, the Owner shall make payment in the manner and within the time provided in the Contract Documents, and shall so notify the Construction Manager and Architect.

9.6.2 The Construction Manager shall promptly pay each Subcontractor, upon receipt of payment from the Owner, out of the amount paid to the Construction Manager on account of such Subcontractor's portion of the Work, the amount to which said Subcontractor is entitled, reflecting percentages actually retained from payments to the Construction Manager on account of such Subcontractor's portion of the Work. The Construction Manager shall, by appropriate agreement with each Subcontractor, require each Subcontractor to make payments to Sub-subcontractors in similar manner.

9.6.3 The Construction Manager will, on request, furnish to a Subcontractor, if practicable, information regarding percentages of completion or amounts applied for and action taken thereon by the Owner, Construction Manager and Architect on account of portions of the Work done by such Subcontractor.

9.6.4 Neither the Owner, Construction Manager nor Architect shall have an obligation to pay or to see to the payment of money to a Subcontractor except as may otherwise be required by law.

9.6.5 Payment to material suppliers shall be treated in a manner similar to that provided in Subparagraphs 9.6.2, 9.6.3 and 9.6.4.

9.6.6 A Certificate for Payment, a progress payment, or partial or entire use or occupancy of the Project by the Owner shall not constitute acceptance of Work not in accordance with the Contract Documents.

9.7 FAILURE OF PAYMENT

9.7.1 If, through no fault of the Contractor, 1) the Construction Manager and Architect do not issue a Project Certificate for Payment within twenty-one days after the Construction Manager's receipt of the Contractor's Application for Payment or 2) the Owner does not pay the Construction Manager within fifteen days after the date established in the Documents the amount certified by the Construction, Manager and Architect or awarded by mediation, then the Contractor may, upon seven additional days' written notice to the Owner, Construction, Manager and Architect, stop the Work until payment of the amount owing has been received. The Contract Time shall be extended appropriately and the Contract Sum shall be increased by the amount of the Contractor's reasonable costs of shut-down, delay and start-up, which shall be accomplished as provided in Article 7.

9.8 SUBSTANTIAL COMPLETION

9.8.1 Substantial Completion is the stage in the progress of the Work when the Work or designated portion thereof is sufficiently complete in accordance with the Contract Documents so the Owner can occupy or utilize the Work for its intended use.

9.8.2 When the Construction Manager considers that the Work, or a portion thereof which the Owner agrees to accept separately, is substantially complete, the Construction Manager shall prepare and submit to the Architect a comprehensive list of items to be completed or corrected. The Construction Manager shall proceed promptly to have the Contractors complete and correct their respective items on the list. Failure to include an item on such list does not alter the responsibility of a Contractor to complete all of his Work in accordance with the Contract Documents. Upon receipt of the list, the Architect, assisted by the Construction Manager, will make an inspection to determine whether the Work or designated portion thereof is substantially complete. If the Architect's inspection discloses any item, whether or not included on the list, which is not in accordance with the requirements of the Contract Documents, the responsible Contractor shall, before issuance of the Certificate of Substantial Completion, complete or correct such item upon notification by the Architect. The Contractor shall then submit a request for another inspection by the Architect, assisted by the Construction Manager, to determine Substantial Completion. When the Work or designated portion thereof is substantially complete, the Architect will prepare a Certificate of Substantial Completion which shall establish the date of Substantial Completion, shall establish

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responsibilities of the Owner and Contractor(s) for security, maintenance, heat. utilities, damage to the Work and insurance, and shall fix the time within which the Contractor(s) shall furnish all items on the list accompanying the Certificate. Warranties required by the Contract Documents shall commence on the date of Substantial Completion of the Work or designated portion, thereof unless otherwise provided in the Certificate of Substantial Completion. The Certificate of Substantial Completion shall be submitted to the Owner and Contractor(s) for their written acceptance of responsibilities assigned to them in such Certificate.

9.8.3 Upon Substantial Completion of the Work or designated portion thereof and upon application by the Contractor and certification by the Construction Manager and Architect, the Owner shall make payment, reflecting adjustment in retainage, if any, for such Work or portion thereof as provided in the Contract Documents.

9.9 PARTIAL OCCUPANCY OR USE

9.9.1 The Owner may occupy or use any completed or partially completed portion of the Work at any stage when such portion is designated by separate agreement

with the Construction Manager provided such occupancy or use is consented to by the insurer as required under Subparagraph 11.3.11 and authorized by public authorities having jurisdiction over the Work. Such partial occupancy or use may commence whether or not the portion is substantially complete, provided the Owner and Construction Manager have accepted in writing the responsibilities assigned to each of them for payments, retainage if any, security, maintenance, heat, utilities, damage to the Work and insurance, and have agreed in writing concerning the period for correction of the Work and commencement of warranties required by the Contract Documents. When the Construction Manager considers a portion substantially complete, the and Construction Manager shall jointly prepare and submit a list to the Architect as provided under Subparagraph 9.8.2. Consent of the Construction Manager to partial occupancy or use shall not be unreasonably withheld. The stage of the progress of the Work shall be determined by written agreement between the Owner and Contractor Construction Manager or, if no agreement is reached, by decision of the Architect after consultation with the Construction Manager.

9.9.2 Immediately prior to such partial occupancy or use, the Owner, Construction Manager, Contractor(s) and Architect shall jointly inspect the area to be occupied or portion of the Work to be used in order to determine and record the condition of the Work.

9.9.3 Unless otherwise agreed upon, partial occupancy or use of a portion or portion,s of the Work shall not constitute acceptance of Work not complying with the requirements of the Contract Documents.

9.10 FINAL COMPLETION AND FINAL PAYMENT

9.10.1 Upon completion of the Work, the Construction Manager shall forward to the Architect a written notice that the Work is ready for final inspection and acceptance and shall also forward to the Architect a final Contractor's Application for Payment. Upon receipt, the Architect will promptly make such inspection. When the Architect, based on the recommendation of the Construction Manager, finds the Work acceptable under the Contract Documents and the Contract fully performed, the Construction Manager and Architect will promptly issue a final Certificate for Payment stating that to the best of their knowledge, information and belief, and on the basis of their observations and inspections, the Work has been completed in accordance with terms and conditions of the Contract Documents and that the entire balance found to be due the Contractor and noted in said final Certificate is due and payable. The Construction Manager's and Architect's final Certificate for Payment will constitute a further representation that conditions listed in Subparagraph 9.10.2 as precedent to the Contractor's being entitled to final payment have been fulfilled.

9.10.2 Neither final payment nor any remaining retained percentage shall become due until the Contractor submits to the Architect through the Construction Manager (1) an affidavit that payrolls, bills for materials and equipment, and other indebtedness connected with the Work for which the Owner or the Owner's property might be responsible or encumbered (less amounts withheld by Owner) have been paid or other wise satisfied, (2) a certificate evidencing that insurance required by the Contract Documents to remain in force after final payment is currently in effect and will not be canceled or allowed to expire until at least 30 days' prior written notice has been given to the Owner, (3) a written statement that the Contractor knows of no substantial reason that the insurance will not be renewable to cover the period required by the Contract Documents, (4) consent of surety, if any, to final payment and (5), if required by the Owner, other data establishing payment or satisfaction of obligations, such as receipts, releases and waivers of liens, claims, security interests or encumbrances arising out of the Contract, to the extent and in such form as may be designated by the Owner. If a Subcontractor refuses to furnish a release or waiver required by the Owner, the Owner may cause to have furnished a bond satisfactory to the Owner to

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indemnify the Owner against such lien. If such lien remains unsatisfied after payments are made, the Contractor shall refund to the Owner all money that the Owner may be compelled to pay in discharging such lien,, including all costs and reasonable attorneys' fees.

9.10.3 If, after Substantial Completion of the Work, final completion, thereof is materially delayed through no fault of the Contractor or by issuance of Change Orders affecting final completion, and the Construction Manager and Architect so confirm, the Owner shall, upon application by the Contractor and certification by the Construction Manager and Architect, and without terminating the Contract, make payment of the balance due for that portion of the Work fully completed and accepted. If the remaining balance for Work not fully completed or corrected is less than retainage stipulated in the Contract Documents, and if bonds have been furnished, the written consent of surety to payment of the balance due for that portion of the Work fully completed and accepted shall be submitted by the Contractor to the Architect through the Construction Manager prior to certification of such payment. Such payment shall be made under terms and conditions governing final payment, except that it shall not constitute a waiver of Claims. The making of final payment shall constitute a waiver of Claims by the Owner as provided in Subparagraph 4.4.5.

9.10.4 Acceptance of final payment by a Subcontractor or material supplier shall constitute a waiver of claims by that payee except those previously made in writing and identified by that payee as unsettled at the time of final Application for Payment. Such waivers shall be in addition to the waiver described in Subparagraph 4.7.5.

ARTICLE 10

PROTECTION OF PERSONS AND PROPERTY

10.1 SAFETY PRECAUTIONS AND PROGRAMS

10.1.1 The Construction Manager shall use it's best efforts in initiating, maintaining and supervising all safety precautions and programs in connection with the performance of the Contract. The Contractors shall submit their respective Contractor's safety program to the Construction Manager for review and coordination with the safety programs of other Contractors.

10.1.2 In the event a Contractor encounters on the site material reasonably believed to be asbestos or polychlorinated biphenyl (PCB) which has not been rendered harmless, the Contractor shall immediately stop Work in the area affected and report the condition to the Owner, Construction Manager and Architect in writing. The Work in the affected area shall not thereafter be resumed except by written agreement of the Owner and Contractor if in fact the material is asbestos or polychlorinated biphenyl (PCB) and has not been rendered harmless. The Work in the affected area shall be resumed in the absence of asbestos or polychlorinated biphenyl (PCB), or when it has been rendered harmless, by written agreement of the Owner and Contractor, or in accordance with final determination by the Architect on which mediation has not been demanded, or by mediation under Article 4.

10.1.3 The Contractor shall not be required pursuant to Article 7 to perform without consent any Work relating to asbestos or polychlorinated biphenyl (PCB)

10.1.4 To the fullest extent permitted by law, the Owner shall indemnify and hold harmless the Contractor, Construction Manager, Architect, their consultants, and agents and employees of any of them from and against claims, damages, losses and expenses, including but not limited to attorneys' fees, arising out of or resulting from performance of the Work in the affected area if in fact the material is asbestos or polychlorinated biphenyl (PCB) and has not been rendered harmless, provided that such claim, damage, loss or expense is

attributable to bodily injury, sickness, disease or death, or to injury to or destruction of tangible property (other than the Work itself) including loss of use resulting therefrom, but only to the extent caused in whole or in part by negligent acts or omissions of the Owner, anyone directly or indirectly employed by the Owner or anyone for whose acts the Owner may be liable, regardless of whether or not such claim, damage, loss or expense is caused in part by a party indemnified hereunder. Such obligation shall not be construed to negate, abridge or reduce other rights or obligations of indemnity which would otherwise exist as to a party or person described in this Subparagraph 10.1.4.

10.1.5 If reasonable precautions will be inadequate to prevent foreseeable bodily injury or death to persons resulting from a material or substance encountered on the site by a Contractor, the Contractor shall, upon recognizing the condition, immediately stop Work in the affected area and report the condition to the Owner, Construction Manager and Architect in writing. The Owner, Contractor, Construction Manager and Architect shall then proceed in the same manner described in Subparagraph 10.1.2.

10.1.6 The Owner shall be responsible for obtaining the services of a licensed laboratory to verify a presence or absence of the material or substance reported by the Contractor and, in the event such material or substance is found to be present, to verify that it has been rendered harmless. Unless otherwise required by the Contract

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Documents, the Owner shall furnish in writing to the Construction Manager and Architect the names and qualifications of persons or entities who are to perform tests verifying the presence or absence of such material or substance or who are to perform the task of removal or safe containment of such material or substance. The Construction Manager and the Architect will promptly reply to the Owner in writing stating whether or not any of them has reasonable objection to the persons or entities proposed by the Owner. If the Construction Manager or Architect has an objection to a person or entity proposed by the Owner, the Owner shall propose another to whom the Construction Manager and the Architect have no reasonable objection.

10.2 SAFETY OF PERSONS AND PROPERTY

10.2.1 The Construction Manager shall take reasonable precautions for safety of, and shall provide or cause to have provided reasonable protection to prevent damage, injury or loss to:

- .1 employees on the Work of other persons who may be affected thereby;
- .2 the Work and materials and equipment to be incorporated therein, whether in storage on or off the site, under care, custody or control of the Contractor or Sub-subcontractors;
- .3 other property at the site or adjacent thereto, such as trees, shrubs, lawns, walks, pavements, roadways, structures and utilities not designated for removal, relocation or replacement in the course of construction; and
- .4 construction or operations by the Owner or other Contractors.

10.2.2 The Construction Manager shall give notices and comply with applicable laws, ordinances, rules, regulations and lawful orders of public authorities bearing on safety of persons or property or their protection from damage, injury or loss.

10.2.3 The Construction Manager shall erect and maintain, as required by existing conditions and performance of the Contract, reasonable safeguards for safety and protection, including posting danger signs and other warnings against hazards, promulgating safety regulations and notifying owners and users of adjacent sites and utilities.

10.2.4 When use for storage of explosives or other hazardous materials or equipment or unusual methods are necessary for execution of the Work, the Construction Manager shall exercise utmost care and carry on such activities under supervision of properly qualified personnel.

10.2.5 The Construction Manager shall use it's best efforts to promptly remedy damage and loss (other than damage or loss insured under property insurance required by the Contract Documents) to property referred to in Clauses 10.2.1.2, 10.2.1.3 and 10.2.1.4 caused in whole or in part by a Subcontractor, a Sub-subcontractor, or anyone directly or indirectly employed by any of them, or by anyone for whose acts they may be liable and for which the Construction Manager is responsible under Clauses 10.2.1.2, 10.2.1.3 and 10.2.1.4, except damage or loss attributable to acts or omissions of the Owner, or Architect or anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable, and not attributable to the fault or negligence of the Construction Manager. The foregoing obligations of the Construction Manager are in addition to the Construction Manager's obligations under Paragraph 3.18.

10.2.6 The Construction Manager shall designate a responsible member of the Construction Manager's organization at the site whose duty shall be the prevention of accidents.

10.2.7 The Construction Manager shall use it's best efforts to ensure that no part of the construction or site is loaded so as to endanger its safety.

10.3 EMERGENCIES

10.3.1 In an emergency affecting safety or persons or property, the Construction Manager shall act, at the Construction Manager's discretion, to prevent threatened damage, injury or loss. Additional compensation or extension of time claimed by the Construction Manager on account of an emergency shall be determined as provided in Paragraph 4.7 and Article 7.

ARTICLE 11 INSURANCE AND BONDS

11.1 CONTRACTOR'S LIABILITY INSURANCE

11.1.1 The Construction Manager shall purchase

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from and maintain in a company or companies lawfully authorized to do business in the jurisdiction in which the Project is located such insurance as will protect the Construction Manager from claims set forth below which may arise out of or result from the Construction Manager's operations under the Contract and for which the Construction Manager may be legally liable, whether such operations be by the Construction Manager or by a Subcontractor or by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable:

.1 claims under workers compensation, disability benefit and other

similar employee benefit acts which are applicable to the Work to be performed;

- .2 claims for damages because of bodily injury, occupational sickness or disease, or death of the Construction Manager's employees;
- .3 claims for damages because of bodily injury, sickness or disease, or death of any person other than the Construction Manager's employees;
- .4 claims for damages insured by usual personal injury liability coverage which are sustained (1) by a person as a result of an offense directly or indirectly related to employment of such person by the Construction Manager, or (2) by another person;
- .5 claims for damages, other than to the Work itself, because of injury to or destruction of tangible property, including loss of use resulting therefrom;
- .6 claims for damages because of bodily injury, death of a person or property damage arising out of ownership, maintenance or use of a motor vehicle; and
- .7 claims involving contractual liability insurance applicable to the Construction Manager's obligations under Paragraph 3.1 8.

11.1.2 The insurance required by Subparagraph 11.1.1 shall be written for not less than limits of liability specified in the Contract Documents or required by law, whichever coverage is greater. Coverages, whether written on an occurrence or claims-made basis, shall be maintained without interruption from date of commencement of the Work until date of final payment and termination of any coverage required to be maintained after final payment.

11.1.3 Certificates of insurance acceptable to the Owner shall be submitted to the Owner with a copy to the Architect prior to commencement of the Work. These certificates and the insurance policies required by this Paragraph 11.1 shall contain a provision that coverages afforded under the policies will not be canceled or allowed to expire until at least 30 days' prior written notice has been given to the Owner. If any of the foregoing insurance coverages are required to remain in force after final payment and are reasonably available, an additional certificate evidencing continuation of such coverage shall be submitted with the final Application for Payment as required by Subparagraph 9.10.2. Information concerning reduction of coverage shall be furnished by the Construction Manager with reasonable promptness in accordance with the Construction Manager's information and belief.

11.2 OWNER'S LIABILITY INSURANCE

11.2.1 The Owner shall be responsible for purchasing and maintaining the Owner's usual liability insurance. Optionally, the Owner may purchase and maintain other insurance for self-protection against claims which may arise from operations under the Contract. The Construction Manager shall not be responsible for purchasing and maintaining this optional Owner's liability insurance unless specifically required by the Contract Documents.

11.3 PROPERTY INSURANCE

11.3.1 Unless otherwise provided, the Owner shall purchase and maintain, in a company or companies lawfully authorized to do business in the jurisdiction in which the Project is located, property insurance in the amount of the initial estimated Contract Sum as well as subsequent modifications thereto for the entire Work at the site on a replacement cost basis without voluntary deductibles. Such property insurance shall be maintained, unless otherwise provided in the Contract Documents or otherwise agreed in writing by all persons and entities who are beneficiaries of such insurance, until final payment has been made as provided in Paragraph 9.10 or until no person or entity other than the Owner has an insurable interest in the property required by this Paragraph

11.3 to be covered, whichever is earlier. This insurance shall include interests of the Owner, the Construction Manager, Subcontractors and Sub-subcontractors in the Work.

11.3.1.1 Property insurance shall be on an "all-risk" policy form and shall insure against the perils of fire and extended coverage and physical loss or damage including,

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without duplication of coverage, theft, vandalism, malicious mischief, collapse, falsehood, temporary buildings and debris removal including demolition occasioned by enforcement of any applicable legal requirements, and shall cover reasonable compensation for Architect's services and expenses required as a result of such insured loss. Coverage for other perils shall not be required unless otherwise provided in the Contract Documents.

11.3.1.2 If the Owner does not intend to purchase such property insurance required by the Contract and with all of the coverages in the amount described above, the Owner shall so inform the Construction Manager in writing prior to commencement of the Work. The Construction Manager may then effect insurance which will protect the interests of the Construction Manager, Subcontractors and Sub-subcontractors in the Work, and by appropriate Change Order the cost thereof shall be charged to the Owner. If the Construction Manager is damaged by the failure or neglect of the Owner to purchase or maintain insurance as described above, without so notifying the Construction Manager, then the Owner shall bear all reasonable costs properly attributable thereto.

11.3.1.3 If the property insurance requires minimum deductibles and such deductibles are identified in the Contract Documents, the Owner shall pay costs not covered because of such deductibles. If the Owner or insurer increases the required minimum deductibles above the amounts so identified or if the Owner elects to purchase this insurance with voluntary deductible amounts, the Owner shall be responsible for payment of the additional costs not covered because of such increased or voluntary deductibles.

11.3.1.4 Unless otherwise provided in the Contract Documents, this property insurance shall cover portions of the Work stored off the site after written approval of the Owner at the value established in the approval, and also portions of the Work in transit.

11.3.1.5 The insurance required by this Paragraph 11.3 is not intended to cover machinery, tools or equipment owned or rented by the Construction Manager or the Contractors which are utilized in the performance of the Work but not incorporated into the permanent improvements. The Construction Manager shall, at the Construction Manager's own expense, provide insurance coverage for owned or rented machinery, tools or equipment which shall be subject to the provisions of Subparagraph 11.3.7.

11.3.2 BOILER AND MACHINERY INSURANCE. The Owner shall purchase and maintain boiler and machinery insurance required by the Contract Documents or by law, which shall specifically cover such insured objects during installation and until final acceptance by the Owner; this insurance shall include interests of the Owner, Construction Manager, Subcontractors and Sub-subcontractors in the Work, and the Owner and Construction Manager shall be named insureds.

11.3.3 LOSS OF USE INSURANCE. The Owner, at the Owner's option, may purchase and maintain such insurance as will insure the Owner against loss of use of the Owner's property due to fire or other hazards, however caused. The Owner waives all rights of action against the Construction Manager, for loss of use of the

Owner's property, including consequential losses due to fire or other hazards however caused.

11.3.4 If the Construction Manager requests in writing that insurance for risks other than those described herein or for other, special hazards be included in the property insurance policy, the Owner shall, if possible, include such insurance.

11.3.5 If during the Project construction period the Owner insures properties, real or personal or both, adjoining or adjacent to the site by property insurance under policies separate from those insuring the Project, or if after final payment property insurance is to be provided on the completed Project through a policy or policies other than those insuring the Project during the construction period, the Owner shall waive all rights in accordance with the terms of Subparagraph 11.3.7 for damages caused by fire or other perils covered by this separate property insurance. All separate policies shall provide this waiver of subrogation by endorsement or otherwise.

11.3.6 Before an exposure to loss may occur, the Owner shall file with the Construction Manager, a copy of each policy that includes insurance coverages required by this Paragraph 11.3. Each policy shall contain all generally applicable conditions, definitions, exclusions and endorsements related to this Project. Each policy shall contain a provision that the policy will not be canceled or allowed to expire until at least 30 days' prior written notice has been given to the Contractor.

11.3.7 Waivers of Subrogation. The Owner and Construction Manager waive all rights against each other and against the Architect, Owner's other Contractors and own forces described in Article 6, if any, and the subcontractors, sub-subcontractors, consultants, agents and employees of any of them, for

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damages caused by fire or other perils to the extent covered by property insurance obtained pursuant to this Paragraph 11.3 or other property insurance applicable to the Work, except such rights as the Owner and Construction Manager may have to the proceeds of such insurance held by the Owner as fiduciary. The Owner or Construction Manager, Construction Manager's consultants, as appropriate, shall require of the Architect, Architect's consultants, Owner's separate contractors described in Article 6, if any, and the subcontractors, sub-subcontractors, agents and employees of any of them, by appropriate agreements, written where legally required for validity, similar waivers each in favor of other parties enumerated herein. The policies shall provide such waivers of subrogation by endorsement or otherwise. A waiver of subrogation shall be effective as to a person or entity even though that person or entity would otherwise have a duty of indemnification, contractual or otherwise, did not pay the insurance premium directly or indirectly, and whether or not the person or entity had an insurable interest in the property damaged.

11.3.8 A loss insured under Owner's property insurance shall be adjusted by the Owner as fiduciary and made payable to the Owner as fiduciary for the insureds, as their interests may appear, subject to requirements of any applicable mortgagee clause and of Subparagraph 11.3.10. The Construction Manager shall pay Subcontractors their just shares of insurance proceeds received by the Construction Manager and by appropriate agreements, written where legally required for validity, shall require Subcontractors to make payments to their Sub-subcontractors in similar manner.

11.3.9 If required in writing by a party in interest, the Owner as fiduciary shall, upon occurrence of an insured loss, give bond for proper performance of the Owner's duties. The cost of required bonds shall be charged against proceeds

received as fiduciary. The Owner shall deposit in a separate account proceeds so received, which the Owner shall distribute in accordance with such agreement as the parties in interest may reach, or in accordance with a mediation award in which case the procedure shall be as provided in Paragraph 4.9. If after such loss no other special agreement is made, replacement of damaged property shall be covered by appropriate Change Order.

11.3.10 The Owner as fiduciary shall have power to adjust and settle a loss with insurers unless one of the parties in interest shall object in writing within five days after occurrence of loss to the Owner's exercise of this power if such objection be made, mediators shall be chosen as provided in Paragraph 4.9. The Owner, as fiduciary shall, in that case, make settlement with insurers in accordance with directions of such mediators. If distribution of insurance proceeds by mediation is required, the mediators will direct such distribution.

11.3.11 Partial occupancy or use in accordance with Paragraph 9.9 shall not commence until the insurance company or companies providing property insurance have consented to such partial occupancy or, use by endorsement or otherwise. The Owner and the Construction Manager, shall take reasonable steps to obtain consent of the insurance company or, companies and shall, without mutual written consent, take no action with respect to partial occupancy or use that would cause cancellation, lapse or reduction of insurance.

11.4 PERFORMANCE BOND AND PAYMENT BOND

11.4.1 The Owner shall have the right to require the Contractor(s) to furnish bonds covering faithful performance of the Contract and payment of obligations arising thereunder as stipulated in bidding requirements or specifically required in the Contract Documents on the date of execution of the Contract.

11.4.2 Upon the request of any person or entity appearing to be a potential beneficiary of bonds covering payment of obligations arising under, the Contract, the Contractor(s) shall promptly furnish a copy of the bonds or shall permit a copy to be made.

ARTICLE 12

UNCOVERING AND CORRECTION OF WORK

12.1 UNCOVERING OF WORK

12.1.1 If a portion of the Work is covered contrary to the Construction Manager's or Architect's request or to requirements specifically expressed in the Contract Documents, it must, if required in writing by either, be uncovered for their observation and be replaced at the Contractor's expense without change in the Contract Time.

12.1.2 If a portion of the Work has been covered which the Construction Manager or Architect has not specifically requested to observe prior to its being covered, the Construction Manager or Architect may request to see such Work and it shall be uncovered by the Contractor. If such Work is in accordance with the Contract Documents, costs of uncovering and replacement shall, by appropriate Change Order, be charged to the Owner. If such Work is not in

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accordance with the Contract Documents, the Contractor shall pay such costs unless the condition was caused by the Owner or one of the other Contractors in which event the Owner, shall be responsible for payment of such costs.

12.2 CORRECTION OF WORK

12.2.1 A Contractor shall promptly correct Work rejected by the Construction Manager or Architect or, failing to conform to the requirements of the Contract Documents, whether observed before or after Substantial Completion and whether or, not fabricated, installed or completed. The Contractor shall bear costs of correcting such rejected Work, including additional testing and inspections and compensation for the Construction Manager's and Architect's services and expenses made necessary thereby.

12.2.2 If, within one year after the date of Substantial Completion of the Work or designated portion thereof, or after the date for, commencement of warranties established under Subparagraph 9.9.1, or, by terms of an applicable special warranty required by the Contract Documents, any of the Work is found to be not in accordance with the requirements of the Contract Documents, the Contractor shall correct it promptly after receipt of written notice from the Owner or the Construction Manager to do so unless the Owner has previously given the Contractor a written acceptance of such condition. This period of one year shall be extended with respect to portions of Work first performed after Substantial Completion by the period of time between Substantial Completion and the actual performance of the Work. This obligation under this Subparagraph 12.2.2 shall survive acceptance of the Work under the Contract and termination of the Contract. The Owner shall give such notice promptly after discovery of the condition.

12.2.3 The Contractor shall remove from the site portions of the Work which are not in accordance with the requirements of the Contract Documents and are neither corrected by the Contractor nor accepted by the Owner.

12.2.4 If the Contractor fails to correct nonconforming Work within a reasonable time, the Owner may correct it in accordance with Paragraph 2.4. If the Contractor does not proceed with correction of such nonconforming Work within a reasonable time fixed by written notice from the Architect issued through the Construction Manager, the Owner may remove it and store the salvable materials or equipment at the Contractor's expense. If the Contractor does not pay costs of such removal and storage within ten days after written notice, the Owner may upon ten additional days' written notice sell such materials and equipment at auction or at private sale and shall account for the proceeds thereof, after deducting costs and damages that should have been borne by the Contractor,, including compensation for the Construction Manager's and Architect's services and expenses made necessary thereby. If such proceeds of sale do not cover costs which the Contractor, should have borne, the Contract Sum shall be reduced by the deficiency. If payments then or thereafter due the Contractor are not sufficient to cover such amount, the Contractor shall pay the difference to the Owner.

12.2.5 The Contractor shall bear the cost of correcting destroyed or, damaged construction, whether completed or partially completed, of the Owner, or other Contractors caused by the Contractor's correction or removal of Work which is not in accordance with the requirements of the Contract Documents.

12.2.6 Nothing contained in this Paragraph 12.2 shall be construed to establish a period of limitation with respect to other obligations which the Contractor might have under the Contract Documents. Establishment of the time period of one year as described in Subparagraph 12.2.2 relates only to the specific obligation of the Contractor to correct the Work, and has no relationship to the time within which the obligation to comply with the Contract Documents may be sought to be enforced, nor to the time within which proceedings may be commenced to establish the Contractor's liability with respect to the Contractor's obligations other than specifically to correct the Work.

12.3 ACCEPTANCE OF NONCONFORMING WORK

12.3.1 If the Owner prefers to accept Work which is not in accordance with the requirements of the Contract Documents, the Owner may do so instead of requiring its removal and correction, in which case the Contract Sum will be reduced as

appropriate and equitable. Such adjustment shall be effected whether or not final payment has been made.

ARTICLE 13

MISCELLANEOUS PROVISIONS

13.1 GOVERNING LAW

13.1.1 The Contract shall be governed by the law of the place where the Project is located.

13.2 SUCCESSORS AND ASSIGNS

13.2.1 The Owner and Construction Manager respectively bind themselves, their partners, successors, assigns and legal representatives to the other party hereto and to partners, successors, assigns and legal representatives of

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such other party in respect to covenants, agreements and obligations contained in the Contract Documents. Neither party to the Contract shall assign the Contract as a whole without written consent of the other. If either, party attempts to make such an assignment without such consent, that party shall nevertheless remain legally responsible for, all obligations under the Contract.

13.3 WRITTEN NOTICE

13.3.1 Written notice shall be deemed to have been duly served if delivered in person to the individual or a member of the firm or entity or to an officer, of the corporation for, which it was intended, or, if delivered at or sent by registered or certified mail to the last business address known to the party giving notice.

13.4 RIGHTS AND REMEDIES

13.4.1 Duties and obligations imposed by the Contract Documents and rights and remedies available thereunder shall be in addition to and not a limitation of duties, obligations, rights and remedies otherwise imposed or, available by law.

13.4.2 No action or failure to act by the Owner, Construction Manager, Architect or Contractor shall constitute a waiver of a right or, duty afforded them under the Contract, nor shall such action or failure to act constitute approval of or acquiescence in a breach thereunder, except as may be specifically agreed in writing.

13.5 TESTS AND INSPECTIONS

13.5.1 Tests, inspections and approvals of portions of the Work required by the Contract Documents or by laws, ordinances, rules, regulations or orders of public authorities having jurisdiction shall be made at an appropriate time. Unless otherwise provided, the Construction Manager shall make arrangements for such tests, inspections and approvals with an independent testing laboratory or entity acceptable to the Owner, or with the appropriate public authority and the Owner shall bear all related costs of tests, inspections and approvals through which the Construction Manager, has been directed by the Owner to contract directly with those agencies to perform such tests, inspections, and/or approvals. This does not apply to those tests normally performed by the governmental agencies in which the project is constructed and is compensated by

the fees normally paid by the respective subcontractors; (i.e. The fee for the Electrical Permit is paid by the electrical subcontractor and inspections by the respective governmental agency of the electrical work is performed at no other costs to the Owner.) The Construction Manager shall give the Architect timely notice of when and where tests and inspections are to be made so the Architect may observe such procedures if he so desires. The Owner shall bear, costs of tests, inspections or approvals which do not become requirements until after bids are received or negotiations concluded.

13.5.2 If the Construction Manager,, Architect, Owner or, public authorities having jurisdiction determine that portions of the Work require additional testing, inspection or, approval not included under Subparagraph 13.5.1, the Construction Manager and Architect will, upon written authorization from the Owner, instruct the Contractor to make arrangements for such additional testing, inspection or approval by an entity acceptable to the Owner, and the Contractor shall give timely notice to the Construction Manager and Architect of when and where tests and inspections are to be made so the Construction Manager and Architect may observe such procedures. The Owner shall bear such costs except as provided in Subparagraph 13.5.3.

13.5.3 If such procedures for testing, inspection or, approval under Subparagraphs 13.5.1 and 13.5.2 reveal failure of the portions of the Work to comply with requirements established by the Contract Documents, the Contractor shall bear all costs made necessary by such failure including those of repeated procedures and compensation for, the Construction Manager's and Architect's services and expenses.

13.5.4 Required certificates of testing, inspection or approval shall, unless otherwise required by the Contract Documents, be secured by the Contractor and promptly delivered to the Construction Manager for transmittal to the Architect.

13.5.5 If the Construction Manager or Architect is to observe tests, inspections or approvals required by the Contract Documents, the Construction Manager or Architect will do so promptly and, where practicable, at the normal place of testing.

13.5.6 Tests or inspections conducted pursuant to the Contract Documents shall be made promptly to avoid unreasonable delay in the Work.

13.6 INTEREST

13.6.1 Payments due and unpaid under the Contract Documents shall bear interest from the date payment is due at such rate as the parties may agree upon in writing or, in the absence thereof, at the legal rate prevailing from time to time at the place where the Project is located.

13.7 COMMENCEMENT OF STATUTORY

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LIMITATION PERIOD

13.7.1 As between the Owner and Construction Manager:

- .1 Before Substantial Completion. As to acts or failures to act occurring prior to the relevant date of Substantial Completion, any applicable statute of limitations shall commence to run and any alleged cause of action shall be deemed to have accrued in any and all events not later than such date of Substantial Completion;

.2 Between Substantial Completion and Final Certificate for Payment. As

to acts or failures to act occurring subsequent to the relevant date of Substantial Completion and prior to issuance of the final Certificate for Payment, any applicable statute of limitations shall commence to run and any alleged cause of action shall be deemed to have accrued in any and all events not later than the date of issuance of the final Certificate for, Payment; and

- .3 After Final Certificate for Payment. As to acts or failures to act occurring after the relevant date of issuance of the final Certificate for Payment, any applicable statute of limitations shall commence to run and any alleged cause of action shall be deemed to have accrued in any and all events not later than the date of any act or failure to act by the Contractor pursuant to any warranty provided under Paragraph 3.5, the date of any correction of the Work or failure to correct the Work by the Contractor under Paragraph 12.2, or the date of actual commission of any other act or failure to perform any duty or obligation by the Contractor or Owner, whichever occurs last.

ARTICLE 14
TERMINATION OR SUSPENSION
OF THE CONTRACT

14.1 TERMINATION BY THE CONTRACTOR

14.1.1 The Construction Manager, may terminate the Contract if the Work is stopped for a period of 30 days through no act or fault of the Construction Manager or a Subcontractor, Sub-subcontractor or their agents or, employees or any other persons performing portions of the Work under contract with the Construction Manager, for any of the following reasons:

- .1 issuance of an order of a court or other public authority having jurisdiction;
- .2 an act of government, such as a declaration of national emergency, making material unavailable;
- .3 because the Architect has not issued a Certificate for Payment and has not notified the Construction Manager of the reason for withholding certification as provided in Subparagraph 9.4.2, or because the Owner has not made payment on a Certificate for Payment within the time stated in the Contract Documents;
- .4 if repeated suspensions, delays or interruptions by the Owner, as described in Paragraph 14.3 constitute in the aggregate more than 100 percent of the total number of days scheduled for, completion, or 120 days in any 365-day period, whichever is less; or
- .5 the Owner has failed to furnish to the Construction Manager promptly, upon the Construction Manager's request, reasonable evidence as required by Subparagraph 2.2.1.

14.1.2 If one of the above reasons exists, the Construction Manager may, upon seven additional days' written notice to the Owner, and Architect, terminate the Contract and recover from the Owner payment for Work executed and for proven loss with respect to materials, equipment, tools, and construction equipment and machinery, including reasonable overhead, profit and damages.

14.1.3 If the Work is stopped for a period of 30 days through no act or fault of the Construction Manager or a Subcontractor or their agents or employees or any other persons performing portions of the Work under contract with the Construction Manager because the Owner has persistently failed to fulfill the Owner's obligations under the Contract Documents with respect to matters important to the progress of the Work, the Construction Manager, upon seven additional days' written notice to the Owner, and Architect, terminate the Contract and recover from the Owner as provided in Subparagraph 14.1.2.

14.2 TERMINATION BY THE OWNER FOR
CAUSE

14.2.1 The Owner may terminate the Contract if the Construction Manager:

.1

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- .2 fails to make payment to Subcontractors for materials or labor, in accordance with the respective agreements between the Construction Manager and the Subcontractors;
- .3 persistently disregards laws, ordinances, or rules, regulations or, orders of a public authority having jurisdiction; or
- .4 otherwise is guilty of substantial breach of a provision of the Contract Documents.

14.2.2 When any of the above reasons exist, the Owner, after consultation with the Architect, and upon certification by the Architect that sufficient cause exists to justify such action, may without prejudice to any other rights or remedies of the Owner and after giving the Construction Manager and the Construction Manager's surety, if any, seven days' written notice, terminate employment of the Construction Manager and may, subject to any prior rights of the surety:

- .1 take possession of the site and of all materials, equipment, tools, and construction equipment and machinery thereon owned by the Construction Manager;
- .2 accept assignment of subcontracts pursuant to Paragraph 5.4; and
- .3 furnish the Work by whatever reasonable method the Owner may deem expedient.

14.2.3 When the Owner terminates the Contract for one of the reasons stated in Subparagraph 14.2.1, the Construction Manager shall not be entitled to receive further payment until the Work is finished. However, the Construction Manager shall be reimbursed for his costs through the date of termination.

14.2.4

14.3 SUSPENSION BY THE OWNER FOR
CONVENIENCE

14.3.1 The Owner may, without cause, order the Construction Manager in writing to suspend, delay or interrupt the Work in whole or in part for such period of time as the Owner may determine.

14.3.2 An adjustment shall be made for increases in the cost of performance of the Contract, including profit on the increased cost of performance, caused by suspension, delay or interruption. No adjustment shall be made to the extent:

- .1 that performance is, was or would have been so suspended, delayed or interrupted by another cause for which the Construction Manager is responsible; or
- .2 that an equitable adjustment is made or denied under another

provision of this Contract.

14.3.3 Adjustments made in the cost of performance may have a mutually agreed fixed or percentage fee.

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Exhibit 10 (H)

THE PROGRESSIVE CORPORATION
1998 DIRECTORS' STOCK OPTION PLAN

SECTION 1. PURPOSE; DEFINITIONS.

The purposes of The Progressive Corporation 1998 Directors' Stock Option Plan (the "Plan") are to enable The Progressive Corporation (the "Company") to attract, retain and reward directors of the Company and to strengthen the mutuality of interests between such directors and the Company's shareholders by offering such directors options to purchase Common Shares of the Company.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) "Award" means any award of Stock Options under the Plan.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(d) "Committee" means the Committee referred to in Section 2 hereof.

(e) "Company" means The Progressive Corporation, an Ohio corporation, or any successor corporation.

(f) "Disability" means disability as determined under procedures established by the Committee for purposes of the Plan, or in the absence of the Committee, the Board.

(g) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(h) "Fair Market Value" means, as of any given date, the mean between the highest and lowest quoted selling price, regular way, of the Stock on such date on the New York Stock Exchange or, if no such sale of the Stock occurs on the New York Stock Exchange on such date, then such mean price on the next preceding day on which the Stock was traded. If the Stock is no longer traded on the New York Stock Exchange, then the Fair Market Value of the Stock shall be determined by the Committee in good faith.

(i) "Non-Qualified Stock Option" means any Stock Option that is not an incentive stock option, within the meaning of Section 422 of the Code or any successor section thereto.

(j) "Option Term" has the meaning given to such term in Section 4(b)(2).

(k) "Plan" means The Progressive Corporation 1998 Directors' Stock Option Plan, as amended from time to time.

(l) "Stock" means the Common Shares, \$1.00 par value per share, of the Company.

(m) "Stock Option" or "Option" means any option to purchase shares of Stock granted pursuant to Section 4.

(n) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

In addition, the terms "Change in Control," "Potential Change in Control" and "Change in Control Price" shall have meanings set forth, respectively, in Sections 5(b), (c) and (d) below.

SECTION 2. ADMINISTRATION.

The Plan shall be administered by a Committee of not less than three directors of the Company, all of whom shall be directors who are "Non-Employee Directors", as defined in Section 16 of the Exchange Act or the rules and regulations promulgated thereunder. Such directors shall be appointed by the Board and shall serve as the Committee at the pleasure of the Board. The functions of the Committee specified in the Plan shall be exercised by the Board if and to the extent that no Committee exists which has the authority to so administer the Plan.

The Committee shall have full power and authority to interpret and administer the Plan and, subject to Section 4(a) below, full authority to select the individuals to whom Awards will be granted, and to determine the number of shares of Stock that may be purchased upon exercise of Awards granted under the Plan, the consideration, if any, to be paid for such Awards, the timing of such Awards, the terms and conditions of Awards granted under the Plan and the terms and conditions of the related agreements which will be entered into with participants.

The Committee shall have the authority to adopt, alter and repeal such rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreements relating thereto); to direct employees of the Company or other advisors to prepare such materials or perform such analyses as the Committee deems necessary or appropriate; and otherwise to supervise the administration of the Plan.

Any interpretation and administration of the Plan by the Committee, and all actions and determinations of the Committee in connection with the Plan, shall be final, binding and conclusive on the Company, its shareholders, all participants in the Plan, their respective legal representatives, successors and assigns, and upon all persons claiming under or through any of them. No member of the Board or of the Committee shall incur any liability for any action taken or omitted, or any determination made, in good faith in connection with the Plan.

SECTION 3. STOCK SUBJECT TO THE PLAN.

(a) AGGREGATE STOCK SUBJECT TO THE PLAN. Subject to adjustment as

provided in Section 3(c) below, the total number of shares of Stock reserved and available for Awards under the Plan is 200,000. Any Stock issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) FORFEITURE OR TERMINATION OF AWARDS OF STOCK. If any Award granted hereunder is forfeited or an Award otherwise terminates or expires without the issuance of Stock, the unissued Stock that is subject to such Award shall again be available for distribution in connection with future Awards under the Plan as set forth in Section 3(a).

(c) ADJUSTMENT.

(1) If the Company (i) pays a dividend or makes a distribution in shares of Stock, (ii) subdivides or splits its outstanding Stock into a greater number of shares, or (iii) combines its outstanding Stock into a smaller number of shares, the aggregate number of shares of Stock reserved for issuance pursuant to the Plan and the number and option price of shares of Stock subject to outstanding Options granted pursuant to the Plan immediately prior thereto shall be adjusted so that, assuming that Options had been previously granted for all of the shares of Stock so reserved, the participants would be entitled to receive for the same aggregate price that number of shares of Stock which they would have owned after the happening of any of the events described above had they exercised all of such Options prior to the happening of such event. An adjustment made pursuant to this Section 3(c)(1) shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision or combination.

(2) If the Company reclassifies or changes the Stock (except for splitting or combining, or changing par value, or changing from par value to no par value, or changing from no par value to par value) or participates in a consolidation or merger (other than a merger in which the Company is the surviving corporation and which does not result in any reclassification of or change in the Stock except as stated above), the aggregate number of shares of Stock reserved for issuance pursuant to the Plan and the number and option price of shares of Stock subject to outstanding Options granted pursuant to the Plan immediately prior thereto shall be adjusted so that, assuming that Options had been previously granted for all the shares of Stock so reserved, the participants would be entitled to receive for the same aggregate price that number and type of shares of capital stock which they would have owned after the happening of any of the events described above had they exercised all of such Options prior to the happening of such event.

(3) No adjustment pursuant to this Section 3(c) shall be required unless such adjustment would require an increase or decrease of at least 1% in such number or price; PROVIDED, HOWEVER, that any adjustments which by reason of this Section 3(c)(3) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 3(c) shall be made to the nearest cent or to

the nearest full share, as the case may be. Anything in this Section 3(c) to the contrary notwithstanding, the Company shall be entitled to make such reductions in the option price, in addition

to those required by this Section 3(c), as it in its discretion shall determine to be advisable in order that any stock dividends or distributions, subdivisions or splits of shares, distribution of rights to purchase stock or securities, or a distribution of securities convertible into or exchangeable for stock hereafter made by the Company to its stockholders shall not be taxable.

SECTION 4. STOCK OPTIONS.

(a) GRANT. All directors of the Company who are not full time employees of the Company or any of its Subsidiaries are eligible to be granted Stock Options under the Plan. The Committee shall determine the individual directors to whom, and the time or times at which, grants of Stock Options will be made, the number of shares purchasable under each Stock Option granted hereunder and the other terms and conditions of the Stock Options in addition to those set forth in Sections 4(b). Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve. Stock Options granted under the Plan will be Non-Qualified Stock Options.

(b) TERMS AND CONDITIONS. Options granted under the Plan shall be evidenced by Option agreements substantially in the form of Exhibit A hereto (or such other form as the Committee may approve), shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(1) OPTION PRICE. The option price per share of Stock purchasable under a Stock Option shall be equal to the Fair Market Value of the Stock on the date the Option is granted.

(2) OPTION TERM. The term of each Stock Option shall be determined by the Committee and may not exceed ten (10) years from the date the Option is granted ("Option Term").

(3) EXERCISE. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at or after grant; provided, however, that, unless otherwise provided herein or determined by the Committee at or after grant, no Stock Option shall be exercisable prior to six months and one day following the date of grant. If any Stock Option is exercisable only in installments or only after a specified vesting date, the Committee may accelerate or waive, in whole or in part, such installment exercise provisions or vesting date at any time at or after grant based on such factors as the Committee shall determine, in its sole discretion.

(4) METHOD OF EXERCISE. Subject to whatever installment exercise provisions apply with respect to such Stock Option and, if applicable, the six month and one day holding period set forth in Section 4(b) (3), a Stock Option may be exercised, in whole or in part, at

any time during the related Option Term, by giving the Company written notice of exercise specifying the number of shares of Stock to be purchased.

Such notice shall be accompanied by payment in full of the option price of the shares of Stock for which the

Option is being exercised, in cash or by check or such other instrument as the Committee may accept. Unless otherwise determined by the Committee, in its sole discretion, at or after grant, payment, in full or in part, of the option price may be made in the form of unrestricted Stock then owned by the participant or Stock that is part of the Stock Option being exercised. The value of each share of such Stock so surrendered or withheld shall be 100% of the Fair Market Value of the Stock on the date the Option is exercised.

No Stock shall be issued pursuant to an exercise of an Option until full payment has been made. A participant shall not have rights to dividends or any other rights of a shareholder with respect to any Stock subject to an Option unless and until the participant has given written notice of exercise, has paid in full for such shares, has given, if requested, the representation described in Section 8(a) and such shares have been issued to such participant.

(5) NON-TRANSFERABILITY OF OPTIONS. Stock Options shall not be transferable by the participant, and all Stock Options shall be exercisable during the participant's lifetime only by the participant or, subject to Section 4(b)(7), by the participant's authorized legal representative if the participant is unable to exercise an Option as a result of the participant's Disability.

(6) TERMINATION BY DEATH. If any participant dies while holding unexercised Stock Options, any Stock Option held by such participant at the time of his or her death may thereafter be exercised, to the extent such Option was exercisable at the time of death or would have become exercisable within one year from the time of death had the participant continued to fulfill all conditions of the Option during such period, by the estate of the participant (acting through its fiduciary) for a period of one year (or such other period as the Committee may specify at or after grant) from the date of such death, regardless of the term of the Stock Option remaining at the date of the participant's death. The balance of the Stock Option shall be forfeited.

(7) TERMINATION BY REASON OF DISABILITY. If a participant is unable to serve as a director by reason of Disability, any Stock Option then held by such participant may thereafter be exercised, to the extent such Option was exercisable at the inception of such Disability or would have become exercisable within one year thereafter had the participant continued to fulfill all conditions of the Option during such period, by the participant or by the participant's duly authorized legal representative if the participant is unable to exercise the Option as a result of his or her Disability, for a period of one year (or such other period as the Committee may specify at or after grant) from the date of the inception of such Disability; provided, however, that in no event may any such Option be exercised prior to six months and one day from the date of grant; and provided, further, that if the participant dies within

such one-year period (or such other period as the Committee shall specify at or after grant), any unexercised Stock Option held by such participant at the time of his or her death shall thereafter be exercisable by the estate of the participant (acting through its fiduciary) to the same extent to which it was exercisable immediately prior to the time of death for a period of one year (or such other period as the Committee may specify at or after

grant) from the date of the inception of such Disability. The balance of the Stock Option shall be forfeited.

(c) BUYOUT PROVISIONS. The Committee may at any time buy out, for a payment in cash or Stock, an Option previously granted, based on such terms and conditions as the Committee shall establish and agree upon with the participant, provided that no such transaction shall be structured or effected in a manner that would violate, or result in any liability on the part of the participant under, Section 16 of the Exchange Act or the rules and regulations promulgated thereunder.

SECTION 5. CHANGE IN CONTROL PROVISIONS.

(a) IMPACT OF EVENT. In the event of: (1) a "Change in Control" as defined in Section 5(b), or (2) a "Potential Change in Control" as defined in Section 5(c), the value of all outstanding Awards shall be cashed out on the basis of the "Change in Control Price" as defined in Section 5(d) as of the date such Change in Control or such Potential Change in Control is determined to have occurred.

(b) DEFINITION OF CHANGE IN CONTROL. For purposes of this Section 5, a "Change in Control" means the happening of any of the following:

(1) When any "person" as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act, but excluding the Company and any Subsidiary and any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities; provided, however, that the terms "person" and "group" shall not include any "Excluded Director"; and the term "Excluded Director" means any director who, on the effective date of the Plan, is the beneficial owner of or has the right to acquire an amount of Stock equal to five percent (5%) or more of the number of shares of Stock outstanding on such effective date; and further provided that, unless otherwise determined by the Board or any committee thereof, the terms "person" and "group" shall not include any entity or group of entities that has acquired Stock of the Company in the ordinary course of business for investment purposes only and not with the purpose or effect of changing or influencing the control of the Company, or in connection with or as a participant in any transaction having such purpose or effect, ("Investment Intent"), as demonstrated by the filing by such entity or group of a statement on Schedule 13G (including amendments thereto) pursuant to Regulation 13D under the Exchange Act, as long as such entity or group continues to hold such Stock with an Investment Intent;

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(2) When, during any period of 24 consecutive months during the existence of the Plan, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof; provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of

the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this Section 5(b)(2); or

(3) The occurrence of a transaction requiring shareholder approval for the acquisition of the Company by an entity other than the Company or a Subsidiary through purchase of assets, by merger or otherwise;

provided, however, a change in control shall not be deemed to be a Change in Control for purposes of the Plan if the Board had approved such change prior to either (i) the occurrence of any of the events described in Section 5(b)(1), (2), (3) or 5(c)(1), or (ii) the commencement by any person other than the Company or a Subsidiary of a tender offer for Stock.

(c) DEFINITION OF POTENTIAL CHANGE IN CONTROL. For purposes of this Section 5, a "Potential Change in Control" means the happening of any one of the following:

(1) The approval by shareholders of an agreement by the Company, the consummation of which would result in a Change in Control of the Company as defined in Section 5(b); or

(2) The acquisition of beneficial ownership, directly or indirectly, by any entity, person or group (other than the Company or a Subsidiary or any Company employee benefit plan (including any trustee of such plan acting as such trustee)) of securities of the Company representing five percent (5%) or more of the combined voting power of the Company's outstanding securities and the adoption by the Board of a resolution to the effect that a Potential Change in Control of the Company has occurred for purposes of this Plan.

(d) CHANGE IN CONTROL PRICE. For purposes of this Section 5, "Change in Control Price" means the highest price per share paid in any transaction reported on the New York Stock Exchange Composite Index, or paid or offered in any bona fide transaction related to a Change in Control or Potential Change in Control of the Company, at any time during the 60-day period immediately preceding the occurrence of the Change in Control (or, where applicable, the occurrence of the Potential Change in Control event).

SECTION 6. AMENDMENTS AND TERMINATION.

Subject to the following sentence, the Board may at any time, in its sole discretion, amend, alter or discontinue the Plan, but no such amendment, alteration or discontinuation shall be made which would impair the rights of a participant under an Award theretofore granted, without the participant's

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consent. Notwithstanding the foregoing, no such amendment or alteration shall be made which would make the exemption from Section 16(b) of the Exchange Act provided by Rule 16b-3 thereunder unavailable to any participant holding an Award or which would result in any liability on the part of any participant under Section 16(b) of the Exchange Act.

SECTION 7. UNFUNDED STATUS OF PLAN.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a

participant by the Company, nothing contained herein shall give any such participant any rights that are greater than those of a general creditor of the Company.

SECTION 8. GENERAL PROVISIONS.

(a) The Company may require each participant acquiring Stock pursuant to an Option under the Plan (i) to represent and warrant to and agree with the Company in writing that the participant is acquiring the Stock for investment and without a view to the distribution thereof, and (ii) to make such additional representations, warranties and agreements with respect to the investment intent of such participant as the Company may request. The certificates for such shares may include any legend which the Company deems appropriate to reflect any restrictions on transfer.

All shares of Stock or other securities delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed, and any applicable federal or state securities law, and the Company may cause a legend or legends to be put on any certificates for such shares to make appropriate reference to such restrictions.

(b) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(c) No later than the date as of which an amount first becomes includable in the gross income of the participant for federal income tax purposes with respect to any Award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state or local taxes or other items of any kind required by law to be withheld with respect to such amount. Subject to Section 16 of the Exchange Act and the rules and regulations promulgated thereunder, withholding obligations may be settled with unrestricted Stock then owned by the participant or Stock that is issuable upon the exercise of the Option which gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes or other items from any payment of any kind otherwise due to the participant.

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(d) The Plan, all Awards made and actions taken thereunder and any agreements relating thereto shall be governed by and construed in accordance with the laws of the State of Ohio.

(e) All agreements entered into with participants pursuant to the Plan shall be subject to the Plan.

(f) The provision of Awards need not be the same with respect to each participant.

SECTION 9. EFFECTIVE DATE OF PLAN.

The Plan was adopted by the Board on February 6, 1998, subject to approval by shareholders of the Company in accordance with applicable law. The Plan will become effective on the date of such shareholder approval.

SECTION 10. TERM OF PLAN.

No Award shall be granted pursuant to the Plan on or after April 24, 2008, but Awards granted prior to such date may extend beyond that date.

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EXHIBIT A

DIRECTORS' STOCK OPTION AGREEMENT

This Agreement (the "Agreement") is made as of the _____ day of _____, _____ between The Progressive Corporation, an Ohio corporation (the "Company"), and _____ (the "Optionee"). The Company hereby grants Optionee an option (the "Option") to purchase _____ Common Shares, \$1.00 par value (the "Common Shares"), of the Company for a purchase price of _____ (\$ _____) per share (the "Option Price"). The Option has been granted pursuant to The Progressive Corporation 1998 Directors' Stock Option Plan (the "Plan") and shall include and be subject to all provisions of the Plan, which are hereby incorporated herein by reference, and shall be subject to the following provisions of this Agreement:

1. TERM. The Option shall be exercisable, in whole or part, on and after _____, _____ but not after 5:00 o'clock p.m., Cleveland time, on _____, _____.

2. METHOD OF EXERCISE. The Option shall be exercisable from time to time by written notice (in form acceptable to the Company) which shall:

(a) state that the Option is thereby being exercised, the number of Common Shares with respect to which the Option is being exercised, each person in whose name any certificates for the Common Shares should be registered and his or her address and social security number;

(b) be signed by the person or persons entitled to exercise the Option and, if the Option is being exercised by anyone other than the Optionee, be accompanied by proof satisfactory to counsel for the Company of the right of such person or persons to exercise the Option under the Plan and all applicable laws and regulations; and

(c) be accompanied by such representations, warranties or agreements with respect to the investment intent of such person or persons exercising the Option as the Company may request, in form and substance satisfactory to counsel for the Company.

3. PAYMENT OF PRICE. Upon exercise of the Option, the Company shall deliver a certificate or certificates for such Common Shares to the specified person or persons at the specified time upon receipt of the full purchase price for such Common Shares: (i) by certified or bank cashier's check, or (ii) by delivery of unrestricted Stock with a Fair Market Value equal to the Option Price, or (iii) by any other method of payment or combination thereof authorized by the Plan.

4. TRANSFERABILITY. The Option shall not be transferable by the Optionee. The Option shall be exercisable (subject to any other applicable restrictions on exercise) only by the Optionee for his or her own account, except in the event of the death or Disability of the Optionee, in either of which events the Option shall be exercisable (subject to any other applicable restrictions on exercise) only by the Optionee's estate (acting through its fiduciary) or, if the Optionee is unable to exercise the Option as a result of such Disability, by the Optionee's duly authorized legal representative, respectively.

5. RESTRICTIONS ON EXERCISE. The Option is subject to all restrictions set forth in this Agreement or in the Plan. As a condition of any exercise of the Option, the Company may require the Optionee or his successor to make any representation and warranty to comply with any applicable law or regulation or to confirm any factual matters reasonably requested by counsel for the Company.

6. TAXES. The Optionee hereby agrees to pay to the Company, in cash or unrestricted Stock or by any other method authorized under the Plan, any federal, state or local taxes or other items of any kind required by law to be withheld with respect to the Option granted hereunder or its exercise. If the Optionee does not make such payment

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to the Company, the Company shall have the right to deduct from any payment of any kind otherwise due to the Optionee from the Company, any federal, state or local taxes or other items of any kind required by law to be withheld with respect to the Option, its exercise or the Common Shares to be purchased by the Optionee under this Agreement. The Option shall not be treated as an incentive stock option under Section 422 or any successor Section thereto of the Internal Revenue Code of 1986, as amended.

7. DEFINITIONS. Unless otherwise defined in this Agreement, capitalized terms will have the same meanings given them in the Plan.

THE PROGRESSIVE CORPORATION

DATE OF GRANT: _____ By: _____

ACCEPTANCE OF AGREEMENT

The Optionee hereby: (a) acknowledges receiving a copy of the Plan Description relating to the Plan, and represents that he/she is familiar with all provisions of the Plan; (b) accepts this Agreement and the Option granted to him/her under this Agreement subject to all provisions of the Plan and this Agreement; and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Company.

Date: _____
Optionee

Exhibit 10 (I)

THE PROGRESSIVE CORPORATION
1990 DIRECTORS' STOCK OPTION PLAN
(AMENDED AND RESTATED AS OF APRIL 24, 1992,
AS FURTHER AMENDED ON JULY 1, 1992)

SECTION 1. PURPOSE; DEFINITIONS.

The purpose of The Progressive Corporation 1990 Directors' Stock Option Plan (the "Plan") is to enable The Progressive Corporation (the "Company") to attract, retain and reward directors of the Company and strengthen the mutuality of interests between such directors and the Company's shareholders by offering such directors options to purchase Common Shares of the Company.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) "Award" means any award of Stock Options under the Plan.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(d) "Company" means The Progressive Corporation, an Ohio corporation, or any successor corporation.

(e) "Disability" means disability as determined under procedures established by the Committee of the Board administering The Progressive Corporation 1989 Incentive Plan for purposes of that Plan, or in the absence of such Committee, the Board.

(f) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(g) "Fair Market Value" means, as of any given date, the mean between the highest and lowest quoted selling price, regular way, of the Stock on such date on the New York Stock Exchange or, if no such sale of the Stock occurs on the New York Stock Exchange on such date, then such mean price on the next preceding day on which the Stock was traded. If the Stock is no longer traded on the New York Stock Exchange, then the Fair Market Value of the Stock shall be determined by the Company in good faith.

(h) "Plan" means The Progressive Corporation 1990 Directors' Stock Option Plan, as amended from time to time.

(i) "Stock" means the Common Shares, \$1.00 par value per share, of the Company.

(j) "Stock Option" or "Option" means any option to purchase shares of Stock granted pursuant to Section 3, which options shall be non-qualified stock options.

(k) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

In addition, the terms "Change in Control," "Potential Change in Control" and "Change in Control Price" shall have meanings set forth,

respectively, in Sections 4(b), (c) and (d) below.

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SECTION 2. STOCK SUBJECT TO THE PLAN.

(a) AGGREGATE STOCK SUBJECT TO THE PLAN. Subject to adjustment as provided below in Section 2(c), the total number of shares of Stock reserved and available for Awards under the Plan is 150,000. Any Stock issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) FORFEITURE OR TERMINATION OF AWARDS OF STOCK. If any Stock subject to any Award granted hereunder is forfeited or an Award otherwise terminates or expires without the issuance of Stock, the Stock subject to such Award shall again be available for distribution in connection with future Awards under the Plan as set forth in Section 2(a).

(c) ADJUSTMENT.

(1) If the Company (i) pays a dividend or makes a distribution in shares of Stock, (ii) subdivides or splits its outstanding Stock into a greater number of shares, or (iii) combines its outstanding Stock into a smaller number of shares, the aggregate number of shares of Stock reserved for issuance pursuant to the Plan and the number and option price of shares of Stock subject to outstanding Options granted pursuant to the Plan immediately prior thereto shall be adjusted so that, assuming that Options had been previously granted for all of the shares of Stock so reserved, the participants would be entitled to receive for the same aggregate price that number of shares of Stock which they would have owned after the happening of any of the events described above had they exercised all of such Options prior to the happening of such event. An adjustment made pursuant to this Section 2(c)(1) shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision or combination.

(2) If the Company reclassifies or changes the Stock (except for splitting or combining, or changing par value, or changing from par value to no par value, or changing from no par value to par value) or participates in a consolidation or merger (other than a merger in which the Company is the surviving corporation and which does not result in any reclassification or change of the Stock except as stated above), the aggregate number of shares of Stock reserved for issuance pursuant to the Plan and the number and option price of shares of Stock subject to outstanding Options granted pursuant to the Plan immediately prior thereto shall be adjusted so that, assuming that Options had been previously granted for all the shares of Stock so reserved, the participants would be entitled to receive for the same aggregate price that number and type of shares of capital stock which they would have owned after the happening of any of the events described above had they exercised all of such Options prior to the happening of such event.

(3) No adjustment pursuant to this Section 2(c) shall be required unless such adjustment would require an increase or decrease of at least 1% in such number or price; PROVIDED, HOWEVER, that any adjustments which by reason of this Section 2(c)(3) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 2(c) shall be made to the nearest cent or to the nearest full share, as the case may be. Anything in this Section 2(c) to the contrary notwithstanding, the Company shall be entitled to make such reductions in the option price, in addition to those required by this Section 2(c), as it in its discretion shall determine to be advisable in order that any stock dividends or distributions, subdivisions or splits of shares, distribution of rights to purchase stock or

securities, or a distribution of securities convertible into or exchangeable for stock hereafter made by the Company to its stockholders shall not be taxable.

(4) Whenever an adjustment is made pursuant to this Section 2(c), the Company shall promptly prepare a notice of such adjustment setting forth the terms of such adjustment and the date on which such adjustment becomes effective and shall mail such notice of such adjustment to the participants at their respective addresses appearing on the records of the Company or at such other address as any participant may from time to time designate in writing to the Company.

SECTION 3. STOCK OPTIONS.

(a) GRANT AND ELIGIBILITY. All directors of the Company who are not full time employees of the Company are eligible to be granted Awards under the Plan. Promptly following each annual meeting of the shareholders of the Company

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on or after the effective date of the Plan, each person who is then a director of the Company and not a full time employee of the Company shall receive an Option to purchase 2,000 shares of Stock.

(b) TERMS AND CONDITIONS. Options granted under the Plan shall be evidenced by option agreements, and shall be subject to the following terms and conditions:

(1) OPTION PRICE. The option price per share of Stock purchasable under a Stock Option shall be the Fair Market Value of the Stock on the day of the annual meeting of shareholders coinciding with the date of grant, or, if the date of grant does not coincide with the day of an annual meeting of shareholders, then the option price per share of Stock purchasable under the Stock Option shall be the Fair Market Value of the Stock on the day of the annual meeting of shareholders immediately preceding the date of grant.

(2) OPTION TERM. Subject to Section 3(b)(6), the term of each Stock Option shall commence as of the date such Stock Option is granted and shall terminate on the tenth anniversary thereof.

(3) EXERCISE. Subject to Section 3(b)(6), each Stock Option shall become exercisable on the date which is six months and one day after the date on which such Stock Option is granted and shall thereafter be exercisable during the remaining term of such Stock Option, as specified in Section 3(b)(2).

(4) METHOD OF EXERCISE. When exercisable in accordance with Section 3(b)(3), Stock Options may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of shares of Stock to be purchased.

Such notice shall be accompanied by payment in full of the option price of the shares of Stock for which the Option is then being exercised, in cash or by check or such other instrument as the Company may accept. Subject to Section 16 of the Exchange Act and the rules and regulations promulgated thereunder, payment, in full or in part, of the option price may be made in the form of unrestricted Stock then owned by the participant or Stock that is issuable upon the exercise of such Option. The value of each such share of Stock surrendered shall be 100% of the Fair Market Value of the Stock on the date the Option is exercised.

No Stock shall be issued pursuant to an exercise of an Option until full payment has been made. A participant shall not have rights to dividends or any other rights of a shareholder with respect to any Stock subject

to an Option unless and until the participant has given written notice of exercise, has paid in full for such shares, has given, if requested, the representations described in Section 7(a) and such shares have been issued to him.

(5) NON-TRANSFERABILITY OF OPTIONS. No Stock Option shall be transferable by the participant. All Stock Options shall be exercisable only by the participant, by the Participant's estate (as provided in Section 3(b)(6)) or by the participant's authorized legal representative if the participant is unable to exercise an Option as a result of the participant's Disability.

(6) DEATH OF PARTICIPANT. If any participant dies while holding unexercised Stock Options, any Stock Option held by such participant at the time of his or her death may thereafter be exercised, to the extent such Option was exercisable at the time of death, by the estate of the participant (acting through its fiduciary), for a period of one year from the date of such death regardless of the term of the Stock Option remaining at the director's death.

(c) BUYOUT PROVISIONS. The Company may at any time buy out, for a payment in cash or Stock, an Option previously granted, based on such terms and conditions as the Company shall establish and agree upon with the participant, provided that no such transaction shall be structured in a manner that would violate, or result in any liability on the part of the participant under, Section 16 of the Exchange Act or the rules and regulations promulgated thereunder.

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SECTION 4. CHANGE IN CONTROL PROVISIONS.

(a) IMPACT OF EVENT. In the event of: (1) a "Change in Control" as defined in Section 4(b), or (2) a "Potential Change in Control" as defined in Section 4(c), the value of all outstanding Awards shall be cashed out on the basis of the "Change in Control Price" as defined in Section 4(d) as of the date such Change in Control or such Potential Change in Control is determined to have occurred, provided, however, that the provisions of this Section 4 shall not apply with respect to Awards granted to any participant which have been held by such participant for less than six months and one day as of the date that such Change in Control or Potential Change in Control is determined to have occurred.

(b) DEFINITION OF CHANGE IN CONTROL. For purposes of Section 4(a), a "Change in Control" means the happening of any of the following:

(1) When any "person" as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act, but excluding the Company and any Subsidiary and any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities; provided, however, that the terms "person" and "group" shall not include any "Excluded Director"; and the term "Excluded Director" means any director who, on the effective date of the Plan, is the beneficial owner of or has the right to acquire an amount of Stock equal to five percent or more of the number of shares of Stock outstanding on such effective date; and further provided that, unless otherwise determined by the Board or any committee thereof, the terms "person" and "group" shall not include any entity or group of entities which has acquired Stock of the Company in the ordinary course of business for investment purposes only and not with the purpose or effect of changing or influencing the control of the Company, or in connection with or as a participant in any transaction having such purpose or effect, ("Investment Intent"), as demonstrated by the filing by such entity or group of a statement on Schedule 13G (including amendments thereto) pursuant to

Regulation 13D under the Exchange Act, as long as such entity or group continues to hold such Stock with an Investment Intent;

(2) When, during any period of 24 consecutive months during the existence of the Plan, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof; provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this Section 4(b)(2); or

(3) The occurrence of a transaction requiring shareholder approval for the acquisition of the Company by an entity other than the Company or a Subsidiary through purchase of assets, by merger or otherwise;

provided, however, a change in control shall not be deemed to be a Change in Control for purposes of the Plan if the Board had approved such change prior to either (i) the commencement of any of the events described in Section 4(b)(1), (2), (3) or 4(c)(1), or (ii) the commencement by any person other than the Company of a tender offer for Stock.

(c) DEFINITION OF POTENTIAL CHANGE IN CONTROL. For purposes of Section 4(a), a "Potential Change in Control" means the happening of any one of the following:

(1) The approval by shareholders of an agreement by the Company, the consummation of which would result in a Change in Control of the Company as defined in Section 4(b); or

(2) The acquisition of beneficial ownership, directly or indirectly, by any entity, person or group (other than the Company or a Subsidiary or any Company employee benefit plan (including any trustee of such plan acting as such trustee)) of securities of the Company representing 5% or more of the combined voting power of the Company's outstanding

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securities and the adoption by the Board of a resolution to the effect that a Potential Change in Control of the Company has occurred for purposes of this Plan.

(d) CHANGE IN CONTROL PRICE. For purposes of this Section 4, "Change in Control Price" means the highest price per share paid in any transaction reported on the New York Stock Exchange Composite Index, or paid or offered in any bona fide transaction related to a Change in Control or Potential Change in Control of the Company, at any time during the 60-day period immediately preceding the occurrence of the Change in Control (or, where applicable, the occurrence of the Potential Change in Control event).

SECTION 5. AMENDMENTS AND TERMINATION.

Subject to the following sentence, the Board may at any time, in its sole discretion, amend, alter or discontinue the Plan, but no such amendment, alteration or discontinuation shall be made which would impair the rights of a participant under an Award theretofore granted, without the participant's consent. Notwithstanding the foregoing, (a) no such amendment or alteration shall be made which would make the exemption from Section 16(b) of the Exchange Act provided by Rule 16b-3 thereunder unavailable to any participant holding an Award or which would result in any liability on the part

of any participant under Section 16(b) of the Exchange Act, and (b) the provisions of Sections 3(a) and 3(b)(1) hereof, and any other provisions relating to the eligibility for or the amount, price or timing of Awards under the Plan, shall not be amended more than once every six (6) months other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974 or the rules thereunder. The Company shall submit to the shareholders of the Company for their approval any amendments to the Plan which are required by Section 16 of the Exchange Act, or the related rules and regulations, to be approved by the shareholders.

SECTION 6. UNFUNDED STATUS OF PLAN.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a participant by the Company, nothing contained herein shall give any such participant any rights that are greater than those of a general creditor of the Company.

SECTION 7. GENERAL PROVISIONS.

(a) The Company may require each participant acquiring Stock pursuant to an Option under the Plan (i) to represent and warrant to and agree with the Company in writing that the participant is acquiring the Stock without a view to the distribution thereof, and (ii) to make such additional representations, warranties and agreements with respect to the investment intent of such participant as the Company may request. The certificates for such shares may include any legend which the Company deems appropriate to reflect any restrictions on transfer.

All shares of Stock or other securities delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed, and any applicable federal or state securities law, and the Company may cause a legend or legends to be put on any certificates for such shares to make appropriate reference to such restrictions.

(b) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(c) No later than the date as of which an amount first becomes includable in the gross income of the participant for federal income tax purposes with respect to any Award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state or local taxes of any kind required by law to be withheld with respect to such amount. Subject to Section 16 of the Exchange Act and the rules and regulations

promulgated thereunder, withholding obligations may be settled with unrestricted Stock then owned by the participant or Stock that is issuable upon the exercise of the Option which gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(d) The Plan, all Awards made and actions taken thereunder and any agreements relating thereto shall be governed by and construed in accordance

with the laws of the State of Ohio.

(e) All agreements entered into with participants pursuant to the Plan shall be subject to the Plan.

SECTION 8. EFFECTIVE DATE OF PLAN.

The Plan was adopted by the Board on April 27, 1990, and approved by shareholders on April 19, 1991. This amendment and restatement of the Plan shall be effective as of April 24, 1992.

SECTION 9. TERM OF PLAN.

No Award shall be granted pursuant to the Plan on or after April 27, 2000, but Awards granted prior to such date may extend beyond that date.

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DIRECTORS' STOCK OPTION AGREEMENT

This Agreement (the "Agreement") is made as of the ____ day of _____, ____ between The Progressive Corporation, an Ohio corporation (the "Company"), and _____ (the "Optionee"). The Company hereby grants Optionee an option (the "Option") to purchase Two Thousand (2000) Common Shares, \$1.00 par value (the "Common Shares"), of the Company for a purchase price (the "Option Price") of _____ (\$_____) per share. The Option has been granted pursuant to The Progressive Corporation 1990 Directors' Stock Option Plan (the "Plan") and shall include and be subject to all provisions of the Plan, which are hereby incorporated herein by reference, and shall be subject to the following provisions of this Agreement:

1. TERM. The Option shall be exercisable, in whole or part, on and after _____, ____ but not after 5:00 o'clock p.m., Cleveland time, on _____, _____.

2. METHOD OF EXERCISE. The Option shall be exercisable from time to time by written notice (in substantially the form attached as Exhibit A) to the Company which shall:

(a) state that the Option is thereby being exercised, the number of Common Shares with respect to which the Option is being exercised, each person in whose name any certificates for the Common Shares should be registered and his or her address and social security number;

(b) be signed by the person or persons entitled to exercise the Option and, if the Option is being exercised by anyone other than the Optionee, be accompanied by proof satisfactory to counsel for the Company of the right of such person or persons to exercise the Option under the Plan and all applicable laws and regulations; and

(c) be accompanied by such representations, warranties or agreements with respect to the investment intent of such person or persons exercising the Option as the Company may request in form and substance satisfactory to counsel for the Company.

3. PAYMENT OF PRICE. Upon exercise of the Option, the Company shall deliver a certificate or certificates for such Common Shares to the specified person or persons at the specified time upon receipt of the full purchase price for such Common Shares: (i) by certified or bank cashier's check, or (ii) by

delivery of Common Shares with a Fair Market Value equal to the Option Price, or (iii) by any other method of payment or combination thereof authorized by the Plan.

4. TRANSFERABILITY. The Option shall not be transferable by the Optionee. The Option shall be exercisable (subject to any other applicable restrictions on exercise) only by the Optionee for his own account, except in the event of the death or disability of the Optionee, in either of which events the Option shall be exercisable (subject to any other applicable restrictions on exercise) only by the Optionee's estate(acting through its fiduciary) or by the Optionee's duly authorized legal representative, respectively.

5. RESTRICTIONS ON EXERCISE. The Option is subject to all restrictions in this Agreement or in the Plan. As a condition of any exercise of the Option, the Company may require the Optionee or his successor to make any representation and warranty to comply with any applicable law or regulation or to confirm any factual matters reasonably requested by counsel for the Company.

6. TAXES. The Optionee hereby agrees to pay to the Company, in cash or unrestricted Stock or by any other method authorized under the Plan, any federal, state or local taxes of any kind required by law to be withheld with respect to the Option granted hereunder or its exercise. If the Optionee does not make such payment to the Company, the Company shall have the right to deduct from any payment of any kind otherwise due to the Optionee from the Company, any federal, state or local taxes of any kind required by law to be withheld with respect to the Option or the Common Shares to be purchased by the Optionee under this Agreement. The Option shall not be treated as an incentive stock option under Section 422 or any successor Section thereto of the Internal Revenue Code of 1986, as amended.

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7. DEFINITIONS. Unless otherwise defined in this Agreement, capitalized terms will have the same meanings given them in the Plan.

THE PROGRESSIVE CORPORATION

DATE OF GRANT: _____ By: _____

ACCEPTANCE OF AGREEMENT

The Optionee hereby: (a) acknowledges receiving a copy of the Plan Description relating to the Plan, and represents that he/she is familiar with all provisions of the Plan; (b) accepts this Agreement and the Option granted to him/her under this Agreement subject to all provisions of the Plan and this Agreement; and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Company.

Date: _____
Optionee

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EXHIBIT A

Exercise of Stock Option

The Progressive Corporation
6000 Parkland Boulevard
Mayfield Heights, Ohio 44124

Gentlemen:

The undersigned Optionee hereby exercises the Option granted to him/her pursuant to the Directors' Stock Option Agreement dated _____, 19__ between The Progressive Corporation and the Optionee with respect to _____ Common Shares, covered by said Option, and tenders herewith \$_____ in payment of the purchase price thereof by delivery of _____.

The name and registered address on such certificate should be:

The Optionee's social security number is: _____

Optionee

Dated: _____

THE PROGRESSIVE CORPORATION EXECUTIVE
DEFERRED COMPENSATION PLAN

(JANUARY 1, 1997 AMENDMENT AND RESTATEMENT)

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THE PROGRESSIVE CORPORATION EXECUTIVE
DEFERRED COMPENSATION PLAN
(JANUARY 1, 1997 AMENDMENT AND RESTATEMENT)

WHEREAS, The Progressive Corporation maintains The Progressive Corporation Executive Deferred Compensation Plan pursuant to a plan document dated December 28, 1994; and,

WHEREAS, it is desired to amend and restate the Plan;

NOW, THEREFORE, effective January 1, 1997, the Plan is hereby amended and restated in its entirety to provide as follows:

ARTICLE 1

DEFINITIONS

- 1.1 "AFFILIATED COMPANY" means any corporation included in the affiliated group of corporations as defined in Section 1504 of the Code (determined without regard to 1504(b)) of which the Company is the common parent corporation.
- 1.2 "ANNUAL DEFERRAL ACCOUNT" or "ACCOUNT" shall have the meaning set forth in Section 4.1.
- 1.3 "BENEFICIARY" means such person(s) as the Participant has designated. A Participant may change his Beneficiary designation at any time. All Beneficiary designations (including changes) shall be made in writing on such forms as the Committee shall prescribe, and shall become

effective only when received and accepted by the Committee; provided, however, that a Beneficiary designation (including a change) received by the Committee after the designating Participant's death shall be disregarded. In the absence of a Beneficiary designation, or if the designated Beneficiary is no longer living or in existence at the time of the Participant's death, all distributions payable from the Plan upon the Participant's death shall be paid to the Participant's estate.

- 1.4 "CHANGE IN CONTROL" means a "Change in Control" or "Potential Change in Control" within the meaning of The Progressive Corporation 1989 Incentive Plan (amended and restated as of April 24, 1992 and as further amended as of July 1, 1992 and February 5, 1993).
- 1.5 "CODE" means the Internal Revenue Code of 1986, as amended.
- 1.6 "COMMITTEE" means the Executive Compensation Committee of the Board of Directors of the Company, or any successor committee.
- 1.7 "COMPANY" means The Progressive Corporation, an Ohio corporation, or its successors.
- 1.8 "COMPANY STOCK FUND" means an Investment Fund consisting of Stock.

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- 1.9 "DEDUCTION LIMITATION" means the following described limitation on a payment that may otherwise be distributable under the Plan. If the Committee determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Company would not be deductible by the Company solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Committee to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to a Change in Control is deductible, the Committee may elect to defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be deemed to be invested as provided in Article 5. The amounts so deferred (subject to investment gains and losses) shall be distributed to the Participant or his or her Beneficiary (if the Participant dies) at the earliest possible date, as determined by the Committee in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Company during which the distribution is made will not be limited by Code Section 162(m), or, if earlier, upon a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.
- 1.10 "DEFERRAL AGREEMENT" means a written agreement entered into by an Eligible Executive pursuant to Article 2.
- 1.11 "DEFERRAL" means an amount credited to an Annual Deferral Account pursuant to a Deferral Agreement.
- 1.12 "DISABLED" AND "DISABILITY" means that a Participant is expected to be unable to perform the duties of his usual occupation for at least twelve (12) consecutive months, as determined by the Committee.
- 1.13 "DISTRIBUTION EVENT" means, as to each Participant, the earliest of the following events:
 - (i) the Participant's death;
 - (ii) the Participant's Termination of Employment; or

(iii) Change in Control.

- 1.14 "ELIGIBLE EXECUTIVE" means any executive of the Company or any Affiliated Company who is designated in writing as an Eligible Executive by the Committee, excluding, however, individuals who are not residents of the United States or are not working at a location in the United States.
- 1.15 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- 1.16 "FIXED DEFERRAL PERIOD" shall have the meaning set forth in Section 2.3.
- 1.17 "FIXED INCOME FUND" means the Vanguard Money Market Reserves - Prime Portfolio or such other Investment Fund as may be designated by the Committee as the Fixed Income Fund within the meaning of the Plan.
- 1.18 "GAINSHARING AWARD" means any bonus or other incentive award payable with respect to a Plan Year under The Progressive Corporation 1997 Executive Bonus Plan, The Progressive Corporation 1997 Gainsharing Plan or any other plan or program as may be designated by the Committee.
- 1.19 "INVESTMENT FUND" means a device established from time to time by the Committee pursuant to Section 5.1 that is used to calculate gains and losses in amounts deferred by Participants under the Plan.
- 1.20 "PARTICIPANT" means an Eligible Executive who has deferred receipt of a portion of any Gainsharing Award pursuant to a Deferral Agreement. Participation shall begin on the date that a Deferral Account is established in the name of the Participant and shall end on the date that the Participant dies or receives a distribution of the balance of all his Deferral Accounts.
- 1.21 "PLAN" means The Progressive Corporation Executive Deferred Compensation Plan (January 1, 1997 Amendment and Restatement), as set forth herein and as it may be amended from time to time.
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- 1.22 "PLAN YEAR" means 1997 and each subsequent calendar year.
- 1.23 "TERMINATION OF EMPLOYMENT" means the voluntary or involuntary cessation of a Participant's active employment with the Company and all Affiliated Companies as a result of any reason other than death, Disability and approved leave of absence.
- 1.24 "STOCK" means the Common Shares, \$1.00 par value, of the Company.
- 1.25 "TRUST" shall mean the trust maintained pursuant to the Trust Agreement and known as The Progressive Corporation Executive Deferred Compensation Trust.
- 1.26 "TRUST AGREEMENT" shall mean the agreement of trust between the Company and the Trustee executed in furtherance of the Plan, as the same may be amended from time to time.
- 1.27 "TRUSTEE" shall mean the person selected from time to time by the Company to serve as trustee under the Trust Agreement.
- 1.28 "VALUATION DATE" shall mean each day that the New York Stock Exchange is open for trading.
- 1.29 "WITHDRAWAL AMOUNT" shall have the meaning provided in Article 3.

ARTICLE 2

DEFERRAL OF GAINSHARING AWARDS

2.1 Method of Deferral.

Each Eligible Executive may elect to defer receipt of all or a portion of his/her Gainsharing Award in respect of any Plan Year in excess of applicable tax withholding and other deductions required to be made in respect of the Gainsharing Award by signing a Deferral Agreement and delivering it to the Committee. If a Gainsharing Award is payable in installments, each installment, whether or not payable in the same Plan Year, shall be subject to the same Deferral Agreement.

2.2 Deferral Agreement Provisions.

Each Deferral Agreement must satisfy all of the following requirements:

- (a) it must be in writing and be in the form specified by the Committee;
- (b) it must be irrevocable;
- (c) it must apply to only one Gainsharing Award;
- (d) it must be signed by the Eligible Executive making the Deferral and be delivered to the Committee prior to the Plan Year in which the applicable Gainsharing Award will be earned;
- (e) it must specify the percentage of the Eligible Executive's Gainsharing Award to be deferred, which percentage shall not be less than ten percent (10%). The same deferral percentage shall apply to each installment of a Gainsharing Award covered by the Deferral Agreement. However, a Deferral Agreement may provide for the deferral of a percentage of that portion of a Gainsharing Award that exceeds a specified gross dollar amount, which percentage shall not be less than ten percent (10%). Notwithstanding the preceding provisions of this Section 2.2(e), no Deferral shall be less than such dollar amount as the Committee may specify from time to time. All Deferrals shall be reduced by applicable tax withholding and other legally required deductions;

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- (f) it must specify whether the balance of the Annual Deferral Account to be established pursuant to that Deferral Agreement will be distributed in a lump sum, in three (3) annual installments or in five (5) annual installments; and
- (g) it must contain such other provisions, conditions and limitations as may be required by the Company or the Committee.

2.3 Fixed Deferral Periods.

If an Eligible Executive wishes to defer receipt of all or a portion of any Gainsharing Award for a fixed period of time ("Fixed Deferral Period"), then his/her Deferral Agreement relating to such Gainsharing

Award shall specify that Fixed Deferral Period, which shall not be less than three (3) years following the end of the Plan Year in which the Gainsharing Award will be earned.

ARTICLE 3

DISTRIBUTIONS AND WITHDRAWALS

3.1 Date of Distribution.

The balance of each Annual Deferral Account of a Participant shall be distributed within thirty (30) days following the earlier of (i) the date a Distribution Event occurs, (ii) the date on which the Fixed Deferral Period, if any, applicable to such Account expires, or (iii) the date, if any, selected by the Company, in its sole discretion, pursuant to Section 9.2. The Committee, in its sole discretion, may also permit the balance of all of a Participant's Annual Deferral Accounts to be distributed at any time following the date the Participant is determined by the Committee to be Disabled. If the Committee approves such a Disability distribution, no further Deferrals shall be made with respect to the Disabled Participant following the date of the Committee's approval, and each Deferral Agreement to which such Participant is a party shall be of no further effect.

3.2 Method of Distribution.

Each distribution of the balance of an Annual Deferral Account made on account of the Participant's death shall be made to the Participant's Beneficiary. Each distribution made on account of the Participant's death, termination of the Plan or a Change in Control shall be paid in a lump sum. Each distribution made on account of the Participant's Termination of Employment or expiration of a Fixed Deferral Period shall be paid in either a lump sum or installments, as specified in the applicable Deferral Agreement. Each distribution made on account of the Participant's Disability shall be paid in either a lump sum or installments, as determined by the Committee in its sole discretion. If a Participant elects to receive (or, in the case of Disability, begins receiving) payment in installments and dies prior to payment of all installments, the balance remaining unpaid at his/her death shall be paid to his/her Beneficiary in a lump sum. Installment payments shall be paid annually for three (3) years or five (5) years, as specified in the applicable Deferral Agreement. Notwithstanding the preceding provisions of this Section 3.2, a Participant may elect to change the method of distribution elected in respect of any distribution to be made on account of Termination of Employment or expiration of a Fixed Deferral Period to any of the three permissible options (lump sum, installments over three (3) years, installments over five (5) years). Each such change must be made in writing on such forms as the Committee shall specify and must be delivered to the Committee at least one (1) year prior to Termination of Employment or expiration of the Fixed Deferral Period.

3.3 Amount of Distribution.

The amount of each lump sum payment shall be equal to the balance of the Annual Deferral Account, as of the Valuation Date immediately preceding the date of distribution. The amount of each installment payment shall be equal to the balance of the Annual Deferral Account as

of the Valuation Date immediately preceding the date of payment multiplied by a fraction, the numerator of which is one and the denominator of which is the number of years remaining in the period over which installments are to be paid. Installment distributions to be made in Stock shall be rounded to the nearest whole share. Notwithstanding anything in the Plan to the contrary, all distributions, except those made on account of a Change in Control, are subject to the Deduction Limitation.

3.4 Form of Distribution.

All distributions shall be made in cash, except that a distribution representing amounts invested in the Company Stock Fund shall be made in Stock.

3.5 Withdrawal Election.

A Participant may elect at any time to withdraw all of his/her Annual Deferral Account balances, less a withdrawal penalty equal to 10% of such amount (the net amount shall be referred to as the "Withdrawal Amount"). This election can be made at any time before or after Disability, death or Termination of Employment, and whether or not the Participant is in the process of being paid pursuant to an installment payment schedule. No partial withdrawals of the Withdrawal Amount shall be allowed. The Withdrawal Amount shall be paid in a lump sum, except to the extent the Deduction Limitation requires otherwise. The Participant shall make a withdrawal election by giving the Committee advance written notice of the election in a form specified by the Committee. The election shall be irrevocable. The Participant shall be paid (or, if the Deduction Limitation applies, commence to be paid) the Withdrawal Amount within 30 days after the Committee's receipt of his/her election. Once the Withdrawal Amount is paid, or commences to be paid, the Participant's participation in the Plan shall terminate and the Participant shall not be eligible to participate in the Plan thereafter. If the Deduction Limitation applies, the entire balance of all of the Participant's Annual Deferral Accounts shall be reduced by the 10% withdrawal penalty effective on the date that payment of the Withdrawal Amount is to commence, even though final payment of the last portion of the Withdrawal Amount will not be made until permitted by the Deduction Limitation provisions. Any portion of the Withdrawal Amount not paid immediately shall continue to be deemed to be invested as provided in Article 5. If a Participant dies prior to payment of any portion of a Withdrawal Amount, the remaining portion shall be paid to his/her Beneficiary in a lump sum, subject to the Deduction Limitation. The provisions of Section 3.4 shall apply to all withdrawals under this Section 3.5.

ARTICLE 4

ACCOUNTS

4.1 Establishment of Annual Deferral Accounts.

The Committee shall establish an Annual Deferral Account in the name of each Participant for each Gainsharing Award, or portion thereof, that is the subject of a Deferral Agreement. Such Account shall be established as of the first date that such Gainsharing Award or portion otherwise would have been paid to the Participant. Each Annual Deferral Account shall be credited with the deferred portion of such Gainsharing Award. Thereafter, all Annual Deferral Accounts shall be valued and administered as provided in this Article.

4.2 Investment of Accounts.

All credits to an Annual Deferral Account of a Participant shall be deemed to be invested in such Investment Funds as the Participant shall elect from time to time in accordance with Article 5. The number of shares of Stock to be credited to a Participant's Account by virtue of a Participant's election to invest a portion of a Deferral in the Company Stock Fund shall be determined on the date of the Deferral, based on the closing price of Stock on the immediately preceding Valuation Date as quoted in the New York Stock Exchange composite trading. However, the amount of a Deferral otherwise elected by the Participant to be invested in the Company Stock Fund shall be reduced to the extent necessary to insure that only whole shares of Stock are credited and an amount corresponding to any fractional shares shall be invested in the Fixed Income Fund.

4.3 Valuation of Investment Funds.

As of each Valuation Date, the Trustee shall compute the value of each Investment Fund from which shall be determined the net gain or loss of such Investment Fund since the immediately preceding Valuation Date. The net gain or loss shall include any unrealized and realized profits and losses, and any dividends, interest or other income and any expenses which are due or accrued, but shall not include distributions from such Investment Fund or dividends transferred to the Fixed Income Fund pursuant to the following sentence. Notwithstanding the preceding provisions of this Section, any cash dividends paid in respect of Stock shall not be considered part of the gain of the Company Stock Fund; instead, those dividends shall be considered as having been transferred to the Fixed Income Fund as of the date such dividends are paid. In determining the value of each Investment Fund, the Trustee shall use the following values: securities listed on any nationally recognized securities exchange shall be valued at the closing price reported on any such exchange on the Valuation Date, or, if there were no sales on the Valuation Date, then at the quoted bid price on the Valuation Date. Securities not listed on a recognized securities exchange shall be valued at the quoted closing bid price on the Valuation Date. A unit of participation in a common trust fund maintained by the Trustee or a share in a mutual fund shall be valued at the unit value, or share price respectively, in effect at the close of business on the Valuation Date. Securities with respect to which there were no available sale prices or bid prices on the Valuation Date, and any other investments, shall be valued at prices deemed by the Trustee to represent the fair market value thereof on the Valuation Date.

4.4 Valuation of Accounts.

As of each Valuation Date, the net gain or loss of each Investment Fund shall be allocated among the appropriate Annual Deferral Accounts in accordance with such procedures as the Committee shall establish, which procedures shall apply uniformly to all Participants.

4.5 Nature of Accounts.

All credits to each Annual Deferral Account of each Participant shall be recorded as a liability on the books of the Company. However, no Participant or Beneficiary shall have any proprietary rights of any nature with respect to any Account of any Participant or with respect

to any funds, securities or other property owned by the Company or any Affiliated Company that is held in the Trust or that otherwise may be represented from time to time by Investment Funds. All payments under the Plan shall be made from the Trust or from the Company's general funds and in no event shall any Participant or Beneficiary have any claims or rights to any payment hereunder that are superior to any claims or rights of any general creditor of the Company.

4.6 Account Statements.

The Committee will furnish each Participant with quarterly statements of the value of each of his/her Annual Deferral Accounts.

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ARTICLE 5

INVESTMENT FUNDS

5.1 Investment Funds.

The Committee shall establish and maintain the Company Stock Fund and such other Investment Funds as are specified from time to time by the Company. In this regard, the Company may choose to offer as Investment Funds any investment vehicles, including without limitation: (i) securities issued by investment companies advised by affiliates of the Trustee, (ii) guaranteed investment contracts recommended by the Trustee, and (iii) collective investment trusts maintained by the Trustee.

5.2 Investment Elections of Participants.

Each Participant shall make an investment election in the manner prescribed by the Committee, directing the manner in which his/her Deferrals shall be deemed to be invested. Each investment election must be made in writing at the time the applicable Deferral Agreement is signed and may be changed upon written notice to the Committee at least five (5) business days prior to the deemed deposit of the applicable Deferral into one or more Investment Funds. Each Participant may make a separate investment election for each of his/her Annual Deferral Accounts. Each investment election shall specify that Deferrals shall be deemed to be deposited in one or more of the Investment Funds in percentages that are each an integral multiple of 1% and that in the aggregate equal 100% of the Deferral.

5.3 Transfers.

Amounts deemed to be invested in an Investment Fund pursuant to this Section may be transferred to another Investment Fund in accordance with such procedures and limitations as the Committee shall prescribe. The procedures and limitations prescribed by the Committee may include, without limitation, provisions which (i) limit transfers to specified dollar amounts or percentages (ii) limit the number of transfers that each Participant may make each Plan year (iii) limit the dates as of which transfers may become effective and (iv) impose waiting periods or other restrictions in connection with multiple transfers in and out of the same Investment Fund. All such procedures and limitations shall apply uniformly to similarly situated Participants.

5.4 Nature of Investment Funds.

Notwithstanding anything in the Plan, Trust or any Deferral Agreement to the contrary, no Participant shall have any rights or interests in any particular funds, securities or property of the Company, any Affiliated Company or the Trust, or in any investment vehicle in which Deferrals are deemed to be invested, by virtue of any investment election made by the Participant under the Plan or any transactions engaged in by the Trust. Each Annual Deferral Account, however, shall be credited/charged in accordance with Article 4 with gains/losses as if the Participant in fact had made a corresponding actual investment.

5.5 Liquidation of Investment Funds.

If any Investment Fund is liquidated or otherwise ceases to exist without a successor, then that portion of each Account balance that previously has been deemed to have been invested in that Investment Fund shall be deemed to have been transferred to an Investment Fund consisting of money market instruments, or, if none, such other Investment Fund selected by the Committee.

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ARTICLE 6

TRUST

6.1 Establishment of Trust.

The Company shall establish and maintain a Trust to provide a source of funds to assist the Company in meeting its liabilities under the Plan. Within thirty (30) days following the end of each Plan Year ending after the Trust has become irrevocable pursuant to the Trust Agreement, the Company shall be required to irrevocably deposit additional cash or other property to the Trust in an amount sufficient to pay each Participant or Beneficiary the benefits payable pursuant to the terms of the Plan as of the close of that Plan year.

The principal of the Trust, and any earnings thereon, shall be held separate and apart from other funds of Company and shall be used exclusively for the uses and purposes of Plan Participants and general creditors of the Company as set forth herein and in the Trust Agreement. Plan Participants and their Beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and the Trust Agreement shall be mere unsecured contractual rights of Plan Participants and their Beneficiaries against Company. Any assets held by the Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in the Trust Agreement. All assets deposited in the Trust shall be held, administered and distributed by the Trustee in accordance with the Trust Agreement. The Company shall pay directly, or reimburse the Trustee for, all taxes due in respect of any income or gains on Trust assets.

ARTICLE 7

PLAN OPERATION AND ADMINISTRATION

7.1 Powers of Committee.

The Committee will have full power to administer the Plan. Such power includes, but is not limited to, the following authority:

- (a) to make and enforce such rules and regulations as it deems necessary or proper for the efficient administration of the Plan;
- (b) to interpret the Plan and to decide all matters arising thereunder, including the right to resolve or remedy any ambiguities, inconsistencies or omissions. All such interpretations shall be final and binding on all parties;
- (c) to compute the amounts payable to any Participant or Beneficiary or other person in accordance with the provisions of the Plan;
- (d) to authorize disbursements from the Trust or the Plan;
- (e) to keep such records and submit such filings, elections, applications, returns or other documents or forms as may be required under ERISA, the Code or other applicable law;
- (f) to appoint such agents, counsel, accountants and consultants as may be desirable to assist in administering the Plan;
- (g) To exercise the other powers that are expressly granted to it herein, or that are impliedly necessary for it to carry out any of its responsibilities hereunder; and
- (h) by written instrument, to delegate any of the foregoing powers.

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7.2 Nondiscriminatory Exercise of Authority.

The Committee shall exercise its authority in a nondiscriminatory manner so that all persons similarly situated will receive substantially the same treatment.

7.3 Reliance on Tables, etc.

The Committee will be entitled, to the extent permitted by law, to rely conclusively on all tables, valuations, certificates, opinions and reports which are furnished by any accountant, Trustee, counsel or other expert retained by the Committee to assist it in administering the Plan.

7.4 Indemnification.

In addition to whatever rights of indemnification to which employees, officers and directors of the Company and the Affiliated Companies may be entitled under the articles of incorporation, regulations or bylaws of the Company or the Affiliated Companies, under any provision of law, or under any other agreement, the Company shall satisfy any liabilities actually and reasonably incurred by any such employee, officer or director, including expenses, attorneys' fees, judgments, fines and

amounts paid in settlement, in connection with any threatened, pending, or completed action, suit, or proceeding which is related to the exercise or failure to exercise by such person or persons of any of the powers, authority, responsibilities, or discretion of the Company, the Affiliated Companies or the Committee provided under the Plan or the Trust Agreement, or reasonably believed by such person or persons to be provided thereunder, and any action taken by such person or persons in connection therewith.

7.5 Notices to Committee.

The Committee shall designate one or more addresses to which notices and other communications to the Committee shall be sent. No notice or other communication shall be considered to have been given to or received by the Committee until it has been delivered to the Committee's attention at one of such designated addresses.

ARTICLE 8

CLAIMS PROCEDURES

8.1 Establishment of Claims Procedures.

The Committee shall establish reasonable procedures under which a claimant, who may be a Participant or Beneficiary, may present a claim for benefits under this Plan.

8.2 Claims Denials.

Unless such claim is allowed in full by the Committee, written notice of the denial shall be furnished to the claimant within ninety (90) days (which may be extended by a period not to exceed an additional ninety (90) days if special circumstances so require and proper written notice to the claimant is given prior to the expiration of the initial ninety (90) day period) setting forth the following in a manner calculated to be understood by the claimant:

- (a) The specific reason(s) for the denial;
- (b) Specific reference(s) to any pertinent provision(s) of the Plan or rules promulgated pursuant thereto on which the denial is based;
- (c) A description of any additional information or material as may be necessary to perfect the claim, together with an explanation of why it is necessary; and
- (d) An explanation of the steps to be taken if the claimant wishes to resubmit his/her claim for review.

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8.3 Appeals of Denied Claims.

Within a reasonable period of time after the denial of the claim, but in any event not to be more than sixty (60) days, the claimant or his/her duly authorized representative may make written application to the Committee for a review of such denial. The claimant or his/her representative may review documents held by the Committee and pertinent to the denial of such claim, and may submit a written statement of

issues and comments together with such application for review.

8.4 Review of Appeals.

If an appeal is timely filed, the Committee shall conduct a full and fair review of the claim and mail or deliver to the claimant its written decision within sixty (60) days after the claimant's request for review (which may be extended by a period not to exceed an additional sixty (60) days if special circumstances or a hearing so require and proper written notice to the claimant is given prior to the expiration of the initial sixty (60) day period). Such decision shall:

- (i) Be written in a manner calculated to be understandable by the claimant;
- (ii) State the specific reason(s) for the decision;
- (iii) Make specific reference to pertinent provision(s) of the Plan upon which such decision is based; and
- (iv) Be final and binding on all parties.

ARTICLE 9

AMENDMENT AND TERMINATION OF THE PLAN

9.1 Amendment.

The Company may amend the Plan and Trust Agreement in any respect at any time for any reason by action of the Committee without liability to any Participant, Beneficiary or other person for any such amendment or for any other action taken pursuant to this Section 9.1, provided that any amendment required to be approved by the Company's shareholders pursuant to Section 162(m) of the Code shall not be effective until approved by the Company's shareholders in accordance with the requirements of Section 162(m) and further provided that no such amendment shall be made retroactively in a manner that would deprive any Participant of any rights or benefits which have accrued to his/her benefit under the Plan as of the date such amendment is proposed to be effective, unless such amendment is necessary to comply with applicable law.

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9.2 Termination.

The Company may terminate the Plan at any time for any reason by action of the Committee without any liability to any Participant, Beneficiary or other person for any such termination or for any other action taken pursuant to this Section 9.2. Following termination of the Plan, and notwithstanding the provisions of any Deferral Agreement entered into prior to such termination, no additional Deferrals may be made hereunder, but all existing Accounts shall continue to be administered in accordance with the Plan, as in effect immediately prior to termination, and shall be distributed in accordance with such terms of the Plan and the applicable Deferral Agreements, unless and until the Company elects to accelerate distribution as provided below. At any time on or after the effective date of termination of the Plan, the Company, in its sole discretion, may elect to accelerate the distribution of the entire balance of each Participant's Accounts. Such

accelerated distributions shall be made in accordance with Article 3, except that all distributions shall be made in a lump sum based on the value of the Accounts, determined as of the Valuation Date immediately preceding the date of distribution. Upon the completion of distributions to all Participants or Beneficiaries, as the case may be, no Participant, Beneficiary or person claiming under or through them, will have any claims in respect of the Plan.

9.3 Liquidation of the Trust.

The Trust shall continue in existence after the termination of the Plan for such period of time as may be required to complete the liquidation thereof in accordance with the terms of this Article 9.

ARTICLE 10

MISCELLANEOUS PROVISIONS

10.1 Headings.

The headings of the Plan have been inserted for convenience of reference only and are not to be deemed controlling in any constructions of the provisions herein (other than with respect to defined terms).

10.2 Plan Not Contract of Employment.

The existence of the Plan shall not create, evidence or change any contract of employment with any Participant. The right of the Company and all Affiliated Companies to take corrective, disciplinary or other action with respect to their employees, including terminating their respective employment at any time for any reason, shall not be affected by any provision of this Plan, and the Company and the Affiliated Companies will not be deemed responsible to provide continuing employment for any reason, at any time solely by reason of this Plan.

10.3 Severability.

If any provision of the Plan shall be invalid, such provision shall be fully severable, and the remainder of the Plan and the application thereof shall not be affected thereby.

10.4 Prohibition on Assignment.

No right or interest under the Plan of any Participant or Beneficiary shall be subject at any time or in any manner to anticipation, alienation, assignment (either at law or in equity), encumbrance (as security or otherwise), garnishment, levy, execution, or other legal or equitable process, and no Participant or Beneficiary shall have the power at any time or in any manner to anticipate, transfer, assign (either at law or in equity), alienate, or subject to attachment, garnishment, levy, execution or other legal or equitable process, or in any way encumber, such Participant's or Beneficiary's rights or interests under the Plan, and any attempt to do so shall be void; provided, however, that the Company shall have the unrestricted right to set off against or recover out of any payments due a Participant or Beneficiary at the time such payments would have otherwise been payable hereunder, any amounts owed the Company or any Affiliated Company by such Participant or Beneficiary.

10.5 Number and Gender.

Any use of the singular shall be interpreted to include the plural and the plural the singular. Any use of the masculine, feminine or neuter shall be interpreted to include the masculine, feminine and neuter, as the context shall require.

10.6 Governing Law.

To the extent not preempted by Federal law, the provisions of the Plan shall be construed, regulated and administered under the laws of the State of Ohio.

10.7 Satisfaction of Claims.

Any payment to any Participant or Beneficiary in accordance with the terms of the Plan shall, to the extent thereof, be in full satisfaction of all claims hereunder, whether they be against the Company, the Committee, or the Trustee, any of whom may require the Participant or Beneficiary (or legal representative), as a condition precedent to such payment to execute a release and receipt therefor.

10.8 No Liability.

Participation in the Plan is entirely at the risk of each Participant. Neither the Company, any Affiliated Company, the Committee, the Trustee nor any other person associated with the Plan shall have any liability for any loss or diminution in the value of Accounts, or for any failure of the Plan to effectively defer recognition of income or to achieve any Participant's desired tax treatment or financial results.

10.9 Tax Withholding.

All payments under the Plan shall be subject to federal, state and local income tax withholding and other legally required deductions.

10.10 Facility of Payment.

If the Committee determines that a Participant or Beneficiary entitled to receive a payment under this Plan is (at the time such payment is to be made) a minor or physically, mentally or legally incompetent to receive such payment and that another person or an institution has legal custody of such minor or incompetent individual, the Committee may cause payment to be made to such person or institution having custody of such Participant or Beneficiary. Such payment, to the extent made, shall operate as a complete discharge of obligation by the Committee, the Company, the Trustee and the Trust.

10.11 Repayment of Gainsharing Awards.

If any amount credited to an Annual Deferral Account represents a portion of a Gainsharing Award that is subsequently found to be repayable by the Participant to the Company or any Affiliated Company pursuant to the plan pursuant to which the Gainsharing Award was made, the amount of that credit shall nevertheless remain unaffected by that repayment obligation, and the Participant shall make the required

repayment out of his/her own funds.

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10.12 Stock Subject to the Plan.

Subject to adjustment as provided below, the total number of shares of Stock reserved and available for issuance in connection with the Plan is Three Hundred Thousand (300,000). Any Stock issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares. If there is a merger, reorganization, consolidation, recapitalization, share dividend, share split, combination of shares or other change in corporate structure of the Company affecting the Stock, such substitution or adjustment shall be made in the aggregate number of shares of Stock reserved for issuance under the Plan as may be approved by the Committee in its sole discretion; provided that the number of shares of Stock to be issued in connection with the Plan shall always be a whole number. Any fractional shares shall be eliminated and the value of such fractional shares shall be deemed to have been transferred to the Fixed Income Fund as of the effective date of such substitution or adjustment.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its duly authorized officers as of this 16th day of December, 1996.

THE PROGRESSIVE CORPORATION

By: /s/ David M. Schneider

Title: Secretary

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SECOND AMENDMENT TO THE PROGRESSIVE CORPORATION
EXECUTIVE DEFERRED COMPENSATION PLAN
(JANUARY 1, 1997 AMENDMENT AND RESTATEMENT)

WHEREAS, The Progressive Corporation Executive Deferred Compensation Plan is currently maintained pursuant to a January 1, 1997 Amendment and Restatement and the First Amendment thereto ("Plan"); and

WHEREAS, it is deemed desirable to amend the Plan further;

NOW, THEREFORE, the Plan is hereby amended in the respects hereinafter set forth, effective December 1, 1997.

1. Section 2.2(f) of the Plan is hereby amended and restated in its entirety to provide as follows:

"it must specify whether the balance of the Annual

Deferral Account to be established pursuant to that Deferral Agreement will be distributed in a lump sum, in three (3) annual installments, in five (5) annual installments or in ten (10) annual installments; and"

2. Section 3.2 of the Plan is hereby amended and restated in its entirety to provided as follows:

"Each distribution of the balance of an Annual Deferral Account made on account of the Participant's death shall be made to the Participant's Beneficiary.

Each distribution made on account of the Participant's death, termination of the Plan or a Change in Control shall be paid in a lump sum. Each distribution made on account of the Participant's Termination of Employment or expiration of a Fixed Deferral Period shall be paid in either a lump sum or installments, as specified in the applicable Deferral Agreement. Each distribution made on account of the Participant's Disability shall be paid in either a lump sum or installments, as determined by the Committee in its sole discretion. If a Participant elects to receive (or, in the case of Disability, begins receiving) payment in installments and dies prior to payment of all installments, the balance remaining unpaid at his/her death shall be paid to his/her Beneficiary in a lump sum. Installment payments shall be paid in three (3) annual installments, in five (5) annual installments or in ten (10) annual installments,

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as specified in the applicable Deferral Agreement. Notwithstanding the preceding provisions of this Section 3.2, a Participant may elect to change the method of distribution elected in respect of any distribution to be made on account of Termination of Employment or expiration of a Fixed Deferral Period to any of the four permissible options (lump sum, in three (3) annual installments, in five (5) annual installments or in ten (10) annual installments). Each such change must be made in writing on such forms as the Committee shall specify and must be delivered to the Committee at least one (1) year prior to Termination of Employment or expiration of the Fixed Deferral Period.

3. Except as expressly provided in this Amendment, the terms and provisions of the Plan shall remain entirely unchanged and continue in full force and effect.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Amendment to be executed by its duly authorized representative effective as of the date set forth above.

THE PROGRESSIVE CORPORATION

By: /s/ David M. Schneider

Title: Secretary

Exhibit 11

THE PROGRESSIVE CORPORATION
 COMPUTATION OF EARNINGS PER SHARE
 (MILLIONS - EXCEPT PER SHARE AMOUNTS)

	1997		1996		1995	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
BASIC:						
Net income	\$400.0		\$313.7		\$250.5	
Less: Preferred stock dividends	--		(3.5)		(8.4)	
Excess Preferred Stock liquidation price over carrying value	--		(2.9)		--	
	\$400.0	\$5.56	\$307.3	\$4.29	\$242.1	\$3.37
Average shares outstanding	72.0		71.6		71.8	
DILUTED:						
Net income	\$400.0		\$313.7		\$250.5	
Less: Preferred stock dividends	--		(3.5)		(8.4)	
Excess Preferred Stock liquidation price over carrying value	--		(2.9)		--	
	\$400.0	\$5.31	\$307.3	\$4.14	\$242.1	\$3.26
Average shares outstanding	72.0		71.6		71.8	
Net effect of dilutive stock options	3.3		2.6		2.4	
Total	75.3		74.2		74.2	

Exhibit 12

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

	Twelve Months Ended December 31,	
	1997	1996
Income before income taxes	\$578.5	\$441.7
Fixed Charges:		
Interest and amortization on indebtedness	64.6	61.5
Portion of rents representative of the interest factor	5.6	4.5
Total fixed charges	70.2	66.0
Total income available for fixed charges	\$648.7	\$507.7
Ratio of earnings to fixed charges	9.2	7.7

Sixtieth Anniversary Edition

TRUE
STORIES

[STAR]

The Progressive Corporation Annual Report 1997

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words and pictures

Progressive is committed to providing innovative insurance products and services at the lowest possible cost. We respond to consumers 24 hours a day, 7 days a week when, how and where they need us. But don't take our word for it. In this year's annual report we'd like to share with you just a few of the stories of the past year--stories that we believe show how Progressive is meeting customers' needs and changing the face of auto insurance. And to let you in the picture fully, we have commissioned eleven artists to respond visually to each of our narratives. The efforts on paper and canvas of Marty Ackley, Donald Baechler, Linda Burnham, Jody Guralnick, Jane Hammond, David Humphrey, Sean Mellyn, Amy Sillman, Elena Sisto, Megan Williams and Andy Yoder appear in the pages to come and will join Progressive's growing collection of contemporary art.

[ARTWORK]

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no. 1

a story of success

Our company recently celebrated its 60th year of operations. In 1937, the Progressive insurance organization began business during a difficult but hopeful era. From the start, we have been a forward-looking firm, growing into new markets and pioneering new ways to meet consumers' needs. In 1956, when Progressive Casualty Insurance Company was founded, we became one of the first specialty underwriters of nonstandard auto insurance. In 1965, our success led to the formation of The Progressive Corporation, a holding company whose 86 subsidiaries and 1 mutual insurance company affiliate have since provided a range of personal automobile and other specialty property-casualty insurance and related services throughout the United States and Canada. As we end the year, our market (which includes personal auto insurance in the U.S. and Ontario, along with commercial vehicle insurance) is estimated to consist of \$135.4 billion of premiums and Progressive finds itself with a 3.3% share.

Donald Baechler, acrylic and collage on paper, 1997

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1997 Financial Highlights

	1997	1996	% CHANGE	AVERAGE ANNUAL COMPOUNDED RATE OF INCREASE (DECREASE)	
				5-YEAR 1993-1997	10-YEAR 1988-1997
FOR THE YEAR					
Direct premiums written	\$ 4,825.2	\$ 3,638.4	33%	24%	15%
Net premiums written	4,665.1	3,441.7	36	26	15
Net premiums earned	4,189.5	3,199.3	31	24	15
Total revenues	4,608.2	3,478.4	32	22	16
Operating income	336.0	309.1	9	21	14
Net income	400.0	313.7	28	21	16
Per share(1):					
Operating income	4.46	4.12	8	21	15
Net income	5.31	4.14	28	21	17
Underwriting margin(2)	6.6%	8.5%		8	6
AT YEAR-END					
Consolidated shareholders' equity	\$ 2,135.9	\$ 1,676.9	27	28	18
Common Shares outstanding	72.3	71.5	1	2	(2)
Book value per Common Share	\$ 29.54	\$ 23.45	26	30	20
Market capitalization	\$ 8,667.0	\$ 4,817.3	80	35	26
Return on average common shareholders' equity(2)	20.9%	20.5%		23	23

1 Presented on a diluted basis.

2 The 5- and 10-year amounts represent averages for the period, not rates of increase.

3 Assumes dividend reinvestment.

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Vision, Core Values and Objectives

Communicating a clear picture of Progressive by stating what we try to achieve (Vision), what guides our behavior (Core Values), what our people expect to accomplish (Objectives), and how we evaluate performance (Measurements), permits all people associated with Progressive to understand their role and enjoy their contributions.

VISION

We seek to be an excellent, innovative, growing and enduring business by reducing the human trauma and economic costs of auto accidents, theft and other perils while building a recognized, trusted, admired, business-generating consumer brand. We seek to earn a superior return on equity and to provide a positive environment to attract quality people and achieve ambitious growth plans.

CORE VALUES

Progressive's Core Values are pragmatic statements of what works best for us in the real world and they govern our decisions and behavior. We want them understood and embraced by all Progressive people. Growth and change provide new perspective and require regular refinement of Core Values.

Integrity We revere honesty. We adhere to high ethical standards, report completely, encourage disclosing bad news and welcome disagreement.

Golden Rule We respect all people, value the differences among them and deal with them in the way we want to be dealt with. This requires us to know ourselves and to try to understand others.

Objectives We strive to be clear and open about Progressive's ambitious objectives and our people's personal and team objectives. We evaluate performance against all these objectives.

Excellence We strive constantly to improve in order to meet and exceed the highest expectations of our customers, shareholders and people. "Quality" is Progressive's process for teaching and encouraging our people to improve performance and reduce the costs of what they do for customers. We base rewards on results and promotion on ability.

Profit The opportunity to earn a profit is how the competitive free-enterprise system motivates investment to enhance human health and happiness. Our increasing profits reflect our customers and claimants increasingly positive view of Progressive. We strive to find the most cost-effective ways to reduce the human trauma and economic costs of automobile accidents. We value social and economic well-being and strive to give back to our communities.

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They knew they had found their policyholder when they saw the balloons: "I've had an accident. I'm at a phone booth. I'm late for a party and I'm holding three balloons." Not that they had to look far. Two Progressive representatives were busy organizing a new claim office in the Bronx when the Manhattan office called and asked if they could help a policyholder who had a minor auto accident nearby. They looked out the window and there she was! Now, Progressive has been opening new claim offices across the country to ensure that our Immediate Response(R) claims service is just that--immediate. But even we can't pretend to have located our Bronx office with that degree of foresight. Still, there was something uncanny about the whole situation. We were preparing for a grand opening, our policyholder had the balloons, and our Bronx office responded to its first claim in about 30 seconds. Might make you think that Progressive is a company of destiny.

Sean Mellyn, oil on canvas, 1997

OF BALLOONS
AND FATE

NO. 2

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[ARTWORK]

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Until our claim representative Robert Simon arrived on the scene, a Progressive policyholder in Garden City, Kansas was having a bad day. First, some of his cows were missing. Then, when he set off after them, his truck got stuck in a field. Finally, while trying to get unstuck, he inadvertently started a grass fire that almost removed the garden from Garden City. It spread for three miles destroying fields, fences and equipment. How did our claim representative react? Unable to assess the devastation from the ground, he hired a pilot to fly him over the scene, swooped down out of the clouds and determined that the damage wasn't as bad as it seemed. In the end, the claim was settled within the property damage policy limits. Progressive's claim representative Robert Simon may not have saved the day entirely, but he certainly took the edge off.

Jane Hammond, mixed media on rice paper, 1997

Financial Objectives and Measurements

Consistent achievement of superior results requires that our people understand Progressive's objectives and their specific role, and that their personal objectives dovetail with Progressive's. Our objectives are ambitious yet realistic. We are committed to achieving financial objectives over rolling five-year periods. Experience always clarifies objectives and illuminates better strategies. We constantly evolve as we monitor the execution of our strategies and progress toward achieving our objectives.

RETURN ON SHAREHOLDERS' EQUITY

Our most important financial goal is to achieve an after-tax return on shareholders' equity over a five-year period that is at least 15 percentage points greater than the rate of inflation (measured by the Consumer Price Index which was 1.7% in 1997, and averaged 2.6% over the past five years and 3.4% over the past ten years). Return on equity was 20.9% in 1997, and averaged 23.3% over the past five years and 22.8% over the past ten years.

PROFITABILITY

Progressive is driven by the goal of producing a 4% underwriting profit over the entire retention period of an insured. Overall, we had an underwriting profit of 6.6% in 1997, 8.1% for the past five years and 5.8% for the past ten years. Estimated industry results for the personal auto insurance market were underwriting gains of 2.0% in 1997 and underwriting losses of .6% and 3.0%, for the past five and ten years, respectively.

GROWTH

We seek increases in net premium volume that are at least 15 percentage points greater than the rate of inflation. Company-wide net premiums written increased 35.5% in 1997, 26.3% compounded annually over the past five years and 15.4% over the past ten years. Net premiums written in the personal auto insurance market for the same periods grew 5.9%, 5.3% and 5.9%.

ACHIEVEMENTS

We are convinced that the best way to maximize shareholder value is to achieve these financial objectives consistently. A shareholder who purchased 100 shares of Progressive for \$1,800 in our first public stock offering on April 15, 1971, owned 7,689 shares on December 31, 1997, with a market value of \$922,000, for a 26.3% compounded annual return, compared to the 8.9% return achieved by investors in the Standard & Poor's 500 during the same period. In addition, the shareholder received dividends of \$1,845 in 1997, bringing total dividends received to \$16,345 since the shares were purchased.

In the ten years since December 31, 1987, Progressive shareholders have realized compounded annual returns of 29.0%, compared to 18.0% for the S&P 500. In the five years since December 31, 1992, Progressive shareholders' returns were 33.3%, compared to 20.2% for the S&P 500. In 1997, the returns were 78.4% on Progressive shares and 33.3% on the S&P 500.

The repurchase of Progressive stock is another way the Company increases shareholder value. Over the years, when we have adequate capital and Progressive's stock is attractively priced, we have repurchased our shares. Since 1971, we spent \$571.2 million repurchasing our shares, at an average cost of \$6.96 per share. During 1997, we repurchased 30,193 Common Shares to offset obligations under various employee benefit plans.

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1997 Objectives and Accomplishments

	1997	last 5 years	last 10 years
RETURN ON SHAREHOLDERS' EQUITY			
Objective	16.7%	17.6%	18.4%
Accomplishment	20.9	23.3	22.8
UNDERWRITING PROFIT (LOSS)			
Objective	4.0	4.0	4.0
Accomplishment	6.6	8.1	5.8
Industry-Personal Auto Insurance Market	2.0	(.6)	(3.0)
GROWTH (ANNUALIZED)			
Objective	16.7	17.6	18.4
Accomplishment	35.5	26.3	15.4
Industry-Personal Auto Insurance Market	5.9	5.3	5.9

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In a free-association test recently administered to 1,153 college students, the word "insurance" prompted the response "romance" in 82.8% of cases...Alright, we admit it--we're only kidding. Still, for our claim representatives (at our more than 350 claim offices), romance isn't an unknown continent. On a recent Saturday evening, Chandra Haines, a Progressive claim representative in Savannah, Georgia came to the rescue of a young couple involved in a fender bender. She helped them contact their families, and, despite the late hour, arranged to have their car repaired immediately. The couple, who had just been married, were heading to Florida for their honeymoon and had thought for certain their trip was ruined. But they weren't counting on the efficiency of Progressive's Immediate Response(R) claims service. In a romantic cause, our claim representatives stand ready to slay any dragon.

THE
ROMANCE
OF
IMMEDIATE RESPONSE

Marty Ackley, mixed media on canvas, 1997

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[ARTWORK]

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[ARTWORK]

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NO. 5

Question: When is a two-hour delay still an immediate response? Answer: When a tornado rips through your property and the rest of your neighborhood. It took a Progressive claim representative two hours one Friday evening to navigate his way through the debris and find the home of one of our policyholders after a tornado wreaked havoc in Smyrna, Tennessee. The twister had lifted our policyholder's garage high into the air and then very considerably deposited it straight down onto his pickup truck. Our claim representative made his way to the scene, assessed the damage and had a check in the policyholder's hand by the next business day. Under the circumstances, we hesitate to call our service a whirlwind, but we won't sit at home waiting out the weather.

WHIRLWIND

Megan Williams, gouache, pastel and charcoal on paper, 1997

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Letter to Shareholders

In 1997, Progressive continued on its path to leadership in automobile

insurance. I am proud and happy to report that we believe that our private passenger auto premium growth in 1997 made Progressive the 5th largest United States auto insurance company. We grew in 1997 by increasing our share of the approximately \$25 billion nonstandard auto insurance market and by continuing to grow in the approximately \$89 billion standard and preferred auto insurance market. We work hard and invest heavily in people and process in order to reduce the human trauma and economic costs of auto accidents. Our results reflect the cost of these investments, designed to make us more competitive for all auto insurance.

In 1997, Progressive's organization continued to adapt to the Company's larger size and focus on the customer. Our focus on "Process" became more ingrained and natural, and a number of major accomplishments occurred.

During 1997, we hired and trained over 5,700 people company-wide to help us keep pace with our extraordinary growth. Our net premiums written grew 36% and our total number of auto policyholders increased by 575,000 to 2.5 million. We answered 16 million telephone calls during the year, responding to the policy servicing needs of our customers 24 hours a day, 7 days a week. To maintain our high standards and meet our customers' expectations was a challenge. We identified opportunities to improve this process and made strides in this direction by rolling out the first iteration of our Ownership Workbench, a smart system designed to increase customer service, quality and productivity.

Despite the record increase in new employees, we were also able to improve the timeliness of our Immediate Response(R) claims service and produce an average claim severity that was more favorable than the entire industry. In addition to hiring quality people, we continued to make significant investments in technology to improve the way we respond to customers. We installed new phone switches in our claim branches and developed new workflows to more effectively answer our 25,000 daily claim calls. Also, through our wireless Claims Workbench, we were able to increase the amount of information our claim representatives have available when they meet with customers off-site.

Progressive recognized early on that the Internet would become an increasingly important vehicle for commerce communication. We launched America's first auto insurance web site in April 1995, offering our customers a quick way to find a local agent and to determine whether their vehicle is subject to any federal recall. We continued to lead the way, being the first auto insurer to offer interactive quoting and customer account status in 1996 and the first to conduct direct Internet sales and accept online payments in 1997. Progressive's web site (www.progressive.com) has won several awards, being named one of ComputerWorld magazine's Premier 100 Web Sites and WebMaster magazine's top 50 Internet sites. As our experience with the Internet grows, so does our excitement around how it will benefit our customers and our agents. Plans for the future include enabling agents and customers to conduct more of their transactions online, broadening our online sales offerings, and offering "paperless" alternatives to our customers and agents.

Progressive's strong focus on customers leads to steady growth in market share which, in turn, permits us to reduce the costs of doing business and become even more competitive. Our people's superb response to the challenge of creating and managing growth reaffirms both how committed and how talented they are. Great

people operating with a clear Vision, strong Core Values and creative Strategies will continue to drive Progressive's profitable growth.

Like all shareholders, we want premium growth to translate into current earnings growth and a higher stock price. However, we manage by executing meaningful, long-term strategies that build value which we expect to be reflected in the stock price over five-year periods. Therefore, as an

investment, Progressive stock may be most attractive to investors interested in long-term appreciation. On August 1, 1997, Standard & Poor's recognized our leadership in the auto insurance business and strong historical financial performance by adding Progressive to the S&P 500 Index. I am proud to report that Progressive's total return to shareholders' in 1997, was 78.4%, ranking 28th out of the 500 companies in this index.

To facilitate growth and the execution of our strategies, we expanded the number of local business units to bring us closer to the customer. During 1997, we formed 21 new business units bringing the number of communities/states where our operations are run by a local manager to 47 and bringing the total number of business units to 54. In addition, we expanded our "Policy Team," which is now comprised of 13 people who make Progressive's final management-level decisions. A new role on the Policy Team is the Community Manager Support Process Leader who is responsible for encouraging experimentation, fostering communication among community managers and advocating community manager perspectives on the Policy Team. This Process Leader joins our six other Process Leaders, respectively responsible for Product, Independent Agent Marketing, Consumer Marketing, Ownership (customer service), Technology and Claims, as well as the Chief Financial, Human Resources, Legal, Information and International/Internet Officers, and me, to ensure that we sustain our superior performance in the face of increasingly intense competition and increasingly rapid technological change.

Most community managers report to Process Leaders. Community managers are responsible for reducing claim costs while improving service, managing agent distribution and relationships, direct marketing, and deciding price levels for their territory. During 1997, we concentrated on developing our community managers to help them meet their objectives. We defined the necessary competencies and attributes and designed a Leadership Model showing how these qualities are linked to attaining world-class results. Several community managers participated in a week-long program focused on the dimensions included in the model. The cornerstone of the experience was an assessment tool which provided feedback to community managers and helped them create individual development plans.

Progressive's unique approach to management continues to evolve along with its business strategy. Our management philosophy includes the following:

Total Quality Management dovetails with our Excellence Core Value--doing better than we did before--and empowers Progressive people to change how they function if the change measurably improves customer service or reduces costs, and if it does not disrupt others in the work chain. Because measurement is essential to TQM, we have dramatically improved our ability to measure performance and to control quality.

Teamwork is the way we work. We continue to improve the ways in which we motivate, manage, evaluate and reward teams.

Steady Cost Reduction has been, and continues to be, critical to our strategy. Underwriting expenses were 22.5% of premiums in 1997, compared to 21.6% in 1996 and 35.0% in 1990.

In 1997, we incurred additional expenses to support our infrastructure and to hire and train people in anticipation of our growth. We also introduced our advertising campaign to 13 states, bringing the total number of states where we advertise to 19. In addition, we paid out record profit-sharing bonuses to employees this year. In 1997, 14.4% of total compensation resulted from our Gainsharing program (contingent cash incentive compensation program for all Progressive people). We set our annual Gainsharing target at achieving a combined ratio of 96% over the entire retention period of a policyholder and growth in net premium volume in excess of 15% plus the rate of inflation. Our outstanding financial results caused our payout to exceed our annual target by an amount that had a .5 point effect on the expense ratio. Process Management by top managers eliminates much staff/line friction, fosters cooperation among business units and departments, and requires balancing delicate trade-offs between local autonomy and collective effectiveness.

Thorough Testing of new ideas has replaced our former propensity to seize

perceived opportunities and develop them as fast as possible.

Performance-based Compensation pays our people very well for exceptional performance, makes contingent pay significant to everyone and fosters the achievement of our demanding objectives.

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RESULTS

In 1997, net premiums written increased 36% to \$4,665.1 million, compared to \$3,441.7 million in 1996. We posted an annual underwriting profit for the 25th time in the last 31 years and bettered our 4% underwriting goal with a 6.6% margin in 1997.

Operating income, which excludes net realized gains on security sales and one-time items, is the best measure of how well we manage our insurance operations. Operating income increased to \$336.0 million, or \$4.46, compared to \$309.1 million, or \$4.12 per share, in 1996. Operating income excludes \$98.5 million of net realized gains in 1997, compared to \$7.1 million in 1996. Net income was \$400.0 million, or \$5.31 per share, this year, compared to \$313.7 million, or \$4.14 per share, in 1996. Return on shareholders' equity was 20.9%, compared to 20.5% in 1996.

PROGRESSIVE'S CORE BUSINESS

Ninety-six percent of Progressive's net premiums written is insurance for private passenger automobiles, recreational vehicles and small fleets of commercial vehicles, which we categorize as "core." Core business net premiums written grew 33% to \$4,467.4 million, compared to \$3,367.2 million in 1996. The underwriting profit margin was 6.9%, compared to 8.1% in 1996.

In 1997, we used a new approach which includes rating based partially upon consumer financial responsibility. This approach has been approved by regulators and is in use in the 31 states that represent 80% of our core written premiums. We hope to complete the rollout of this approach into the remaining business units where it can be offered in 1998. We believe our use of financial responsibility in auto insurance rating produces a more accurate distribution of losses among consumers and, therefore, produces more accurate pricing resulting in lower rates for most consumers as compared to our previous approach. In addition, by ensuring more consistent products on a national basis, we are able to analyze the data better and reduce the complexity of our products for our customer service representatives and programmers.

Four years ago, we consolidated our new, unique and superior customer services into a Progressive brand by expanding service in a number of states and testing ways to project the brand to potential customers. We focused managers on empowering people and constantly improving the delivery of around-the-clock, immediate response, information-rich service, designed to delight customers.

We use a combination of television commercials, direct mail and other media to urge consumers to consider Progressive's unique combination of price and service. In 1997, we expanded the number of markets in which we advertise to over 40 media markets reaching parts of 19 states.

Our advertising is largely situational and dramatizes the concerns consumers have in claims and buying experiences with their auto insurance and highlights "what you should expect" as the Progressive difference. Several new commercials were developed in 1997 and will be used in 1998 to further our brand communication. The consumers' choice to buy through our independent agent network or by calling 1 800 AUTO PRO(R) (1-800-288-6776) is supported by our advertising and we are encouraged by its impact on both distributions. In an average 15-minute call, consumers can receive a quote for their particular risk

profile from Progressive as well as the rates that would be charged by up to three other leading auto insurers, including State Farm and Allstate. Our representative also explains the following service improvements, which when considered together, are unique to Progressive:

Assistance after an accident, or other loss, is Progressive's most important service, so we implore our customers to call 1-800-274-4499 immediately after any incident. Twenty four hours a day, 7 days a week, a Progressive person answers the phone, takes the information, authorizes emergency measures and almost always can have a Progressive claim representative meeting with the customer or claimant within a few hours.

Universal acceptance, because consumers abhor being rejected or cancelled. Progressive rarely rejects and never cancels honest customers who pay their premiums in the 45 states where our complete program is operative.

Competitive rates for risks from ultra-preferred to nonstandard in the states with our complete program. As experience makes us more comfortable with pricing standard/preferred risks, we increasingly concentrate on this market which accounted for between 20% and 25% of 1997 core premium volume and is expected to become an increasing percentage of total premium volume.

Many different ways to buy, to accommodate different consumer preferences. More than 30,000 independent insurance agencies (our most important method of distribution) sell Progressive products. In addition, we have joint marketing relationships with national accounts and Progressive's 1 800 AUTO PRO(R) telephone service. In 1997, increased price competitiveness, superior service and greater consumer awareness of the Progressive brand

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helped independent agents regain lost standard and preferred auto market share. The number of independent agencies writing Progressive standard and preferred auto more than doubled, resulting in 126% growth of agent-produced standard and preferred new auto policies. 24 hours a day, 7 days a week service. Consumers want to do business when it's convenient for them, so we operate 24 hours a day, 7 days a week to provide new insurance quotes, handle endorsements and questions concerning current policies, and, most importantly, respond to accidents and other incidents. Our customers depend upon our service, which is supported by a real-time disaster management approach that continuously monitors performance of internal systems, threatening weather patterns and other natural events. This approach allows us to regularly reconfigure our network and place disaster response teams in motion as soon as we hear of an event requiring special resources.

PROGRESSIVE'S DIVERSIFIED BUSINESSES

The United Financial Casualty Company, Professional Liability Group, Midland Financial Group and Motor Carrier business units provide combinations of service and indemnity to businesses and individuals. Their primary products are collateral protection coverage and loan tracking for automobile lenders and financial institutions, directors and officers liability and fidelity coverage for American Bankers Association member community banks, nonstandard auto insurance, and underwriting and claim servicing for state involuntary residual market commercial and personal auto programs. We are the largest provider of collateral protection and D&O coverage to banks and the largest service carrier for the involuntary market, though the market size for each declined in 1997.

On March 7, 1997, Progressive acquired Midland Financial Group, Inc. for about \$50 million. Midland underwrites and markets nonstandard private passenger automobile insurance through approximately 3,700 independent agents across 11 states, primarily in the southern and western United States. During 1997, Progressive was able to effectively raise rates, improve claim handling

and customer service, implement new measures and controls, consolidate offices and introduce objectives, performance evaluations and Gainsharing incentives to all Midland people.

The diversified businesses produced revenues and pre-tax profits of \$248.7 million and \$.7 million, respectively, in 1997, compared to \$117.7 million and \$24.3 million in 1996. During 1997, Midland contributed revenues of \$84.1 million.

INVESTMENTS AND CAPITAL MANAGEMENT

Progressive, like all insurance companies, consists of two distinct enterprises: the operating insurance business and investment management. We recognize the challenge and the opportunity of having two businesses, requiring different expertise, resident in the same company. The success of each bears meaningfully on the results of the other, and the success of the whole.

The financial markets are dynamic, requiring flexibility and responsiveness from our professionals. Our portfolio is a financial institution that provides capital to other enterprises and is a business that lends and invests. We aspire to generate better after-tax portfolio returns than those available from comparable outside management at less cost without losses that curtail underwriting growth. Our approach to risk is conservative. A majority of the investment decisions are derived from "bottom up" rather than "top down" processes. We eschew formula investing. We endeavor to examine as broad a field of opportunity as possible and to take advantage of opportunities that are consistent with our available resources. The examination of every possibility is less important than the quality of our performance at the tasks we undertake.

Our professionals should be broad gauge and of the highest quality, able to compete effectively with their counterparts in other financial institutions. We hire the best raw talent we can find, then train and develop it. We pay above average compensation for good performance and to retain our best people. Stock options align their interests with shareholders. We re-evaluate our compensation approach annually to ensure that it is performance driven but does not motivate counterproductive behavior. We want our professionals to possess financial sophistication, thoroughness, experience and integrity. The exercise of good judgment is our best protection against loss.

We are building long-term business relationships by co-venturing with outside organizations and financial professionals that will enhance our investment program. These relationships, combined with our internal resources, form a virtual investment organization with more experience, expertise and access to opportunity than any organization we could assemble internally.

The Company's rapid growth and high margins produce expanding capital resources that support the operating business or are deployed in financial investments. Our highest priorities are to: manage the Company's capital to support all the insurance we can profitably underwrite, without issuing stock or losing our

investment-grade debt rating; improve our debt cost relative to peer companies; and repurchase stock more cost effectively than a passive strategy.

Our investment processes fall into five broad categories: stocks, bonds, alternative investments, capital management and acquisitions. All require quantitative skills and a knowledge of accounting, financial analysis, economics, financial markets and securities regulation. Common stock and the bond portfolio performance is compared to a sample of other managed portfolios on an annual basis.

Common Stock Investing Our holdings consist of a diversified portfolio of publicly-traded issues. Foreign investments are evaluated on an individual basis. A knowledge of the stock markets and trading, and the analysis of industries, business processes, historical performance and financial structure, in combination with the assessment of management capabilities, are the essential competencies of our stock investing.

Fixed-Income Investing The fixed-income holdings are comprised of investment-grade issues and BB rated securities, which do not exceed 5% of the portfolio. Allocations are made to market sectors, including foreign denominated securities on a fully hedged basis, with consideration for availability, degree of opportunity and diversification. Quantitative analysis of security cash flows, credit analysis, and knowledge of the bond markets, trading, derivatives, options, foreign exchange and risk management are the key skill sets.

Alternative Investing The commitment to alternative investments is influenced by the amount of capital in excess of our anticipated three-year need for additional surplus. These securities can reduce the dilution of our return on equity by producing returns on excess capital superior to the expected long-term return on common stocks. Funds, private equities, mezzanine investments, distressed securities and similar investments comprise this portfolio. These equity-like commitments are anticipated to bear returns that are higher than, and offer some diversification from, common stocks. A knowledge of specific documentary requirements and the ability to conduct detailed due diligence and negotiations are required in addition to competencies relevant to stock and bond investing.

Capital Management We believe that the optimal capital structure is defined by a debt to total capital ratio that maintains our A bond ratings. This structure provides for a low cost of debt capital and the availability of higher leverage to fund extraordinary needs without introducing a volatility to our stock price that would prejudice our multiple. We try to reduce our interest expense by issuing debt when interest rates are low. We repurchase stock on an opportunistic basis to reduce or eliminate the dilution of employee option exercises, improve the return on our stock and distribute excess capital to our shareholders. The required knowledge and skills include: the dynamics of our capital needs, rating agencies, capital markets, financing alternatives, regulatory filings, documentation and hedging.

Contributions of surplus to new operating subsidiaries are evaluated on the basis of the appropriateness of the expected return. Surplus exceeding one third of net premiums written is returned to the holding company when possible. Decisions regarding the underemployed leveraged equity retained in the holding company are driven by estimated growth in operating surplus requirements for three years, our ability to generate high returns on the excess above operating requirements, the possibility of strategic investments and the relative value of our stock in the context of a repurchase.

RISKS

Legislative and Regulatory Risk Insurance laws and regulations change continually. On January 1, 1997, California enacted mandatory insurance laws, requiring proof of insurance when renewing auto registrations. Several other reforms were approved, but, because of the legal process, may not be effective until the future. California passed Proposition 213, which eliminates pain and suffering awards for uninsured motorists, drunk drivers and fleeing felons. An appeal to the Supreme Court is likely. In addition, Louisiana passed its "no pay, no play" bill, forcing uninsured drivers to self insure their first \$10,000 in both bodily injury and property damage; concurrently, companies must roll back rates 10% on the same coverage and offer uninsured motorists the option to elect coverage that waives their right to recover pain and suffering damages at a 20% discount. This case is still under appeal.

Unpredictable Underwriting Margin and Growth Rate Our strategy is to strive to achieve a 4% underwriting profit margin over the entire retention period of an insured. We cannot predict with precision the timing and pace of changes in underwriting margins, in retention nor in the rate of growth. We monitor closely to ensure that rates are adjusted promptly and adequately to obtain 4% margins

over the entire retention period of a policyholder.

Pricing Risk We continue to learn how to price standard and preferred auto insurance, and to experiment

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with new ways to price certain segments. We minimize the risk implicit in new pricing methodology by controlling volume in new programs and changing rates immediately when experience dictates. During 1997, Progressive lowered countrywide auto rates an average of .9%.

Homeowners Insurance This type of insurance has the potential to expose Progressive to catastrophes. Thus, there will be risk if our auto insurance market share objectives require us to offer it. In 1997, we began selling Travelers homeowners insurance to direct customers in Ohio. This effort has yet to produce any material results, but we continue to study the effects on our auto sales. Our current lack of a homeowners product in most states is also risky because many consumers prefer to buy all their insurance from one company. We do not intend to enter the homeowners market at this time, primarily to avoid the risk of disrupting our existing business rather than due to the risks inherent in the homeowners line.

Advertised Brand Consumer advertising and brand awareness require higher performance standards. We continually consider consumers' demands and appreciate their ability to make wise choices. In response, we are always looking for new and innovative ways to improve service at a lower cost.

Competitor Response Other insurers are reacting to Progressive's attempt to change consumers' auto insurance experience, but we cannot predict when and how their response will affect our growth and profitability. We monitor competitors and improve our products and services to assure that our consumer offerings are among the best in the industry. In addition, our people, with their knowledge of our operations along with their skills and talents, are being sought by companies with whom we compete. The property-casualty industry's excessive capitalization, measured by the net premiums written to surplus ratio of .9 to 1, the lowest ratio for the industry in 60 years, means competitors might accept lower returns on equity than they historically received.

THE FUTURE

Progressive is leading a wave of change in the United States' system for dealing with auto accident injuries and property damage. We are reducing auto accident victims' trauma and costs, improving how consumers feel about auto insurance and being rewarded for our leadership and commitment. Success so far encourages us to expand at a pace that tests our ability to provide the service we aspire to deliver.

We begin 1998 as we began all other years--excited, respectful of the challenge implicit in our objectives and strategy, humbled by our failures, proud of having responded to them and confident that our excellent people will continue to achieve superior results.

Much will be required to realize our Vision. At Progressive, it is always as if we are just beginning our business and so we look at a future that is brighter than ever.

We deeply appreciate the customers we are privileged to serve. Thank you for your business, and thanks especially to the more than 30,000 independent insurance agents who chose to do business with Progressive in 1997. We are particularly grateful for our shareholders' continued confidence. To the men and women who make Progressive a great company, thanks for all your contributions in 1997 and the promise you bring to our future.

Joy, Love and Peace

/s/ Peter B. Lewis

Peter B. Lewis
Chairman, President and Chief Executive Officer

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BAD NEWS

One Sunday evening in June, a motorist reported that he and his passengers had suffered minor injuries when they were rear-ended by one of our policyholders. By Monday afternoon, our claim representative had established liability, inspected the damage, and settled all five injury claims. The motorist was thrilled to have been served so promptly. An attorney hoping to represent him wasn't. When he phoned us the next day, we could do no more than break the unhappy news.

IS GOOD NEWS

NO. 6

Linda Burnham, mixed media on lithograph and paper, 1997

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[ARTWORK]

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[ARTWORK]

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LONG DISTANCE TICKLE

NO. 7

As Carolyn Cummings puts it, she was "tickled" by Progressive. No, it's not what you might think. She had just bought a new pickup truck when she saw our "cool television commercial." So she called 1 800 AUTO PRO(R) and talked to one of our insurance counselors. Carolyn was impressed by the information we provided, but what really stuck in her mind was the friendly service: "I could feel your counselor's smile through the phone, and it sounded like she was doing a job she enjoyed." Herself an experienced customer service representative, Carolyn not only bought a policy but applied for a job! "I like to give great customer service," she says, "and Progressive offers a great service." Today, Carolyn is a counselor in the AUTO PRO unit. She's "tickled to be part of this company."

Elena Sisto, casein, watercolor and gouache on paper, 1997

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IMPRESSING A TROOPER

NO. 8

On his way home one evening, a Progressive claim representative happened upon a minor auto accident involving one of our policyholders. As he was inspecting the damage to the vehicle, the police arrived. "Well I guess since you're here, I can leave," joked one of the troopers. Later, the trooper asked if the claim representative wouldn't mind staying until the police investigation was finished. So our representative waited. What did the trooper want? Just some information and a business card. He was so impressed with our Immediate Response(R) claims service that he wanted to become a policyholder!

Jody Guralnick, oil with collage on panel, 1997

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[ARTWORK]

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[ARTWORK]

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How long do you think an insurance company could survive if it informed a prospective client of a competitor who offered a slightly lower rate? Joseph Glose couldn't believe his ears when a Progressive insurance counselor quoted

him our price and then told him about another insurer who could offer a lower rate: "They're in the Yellow Pages. Give them a call." Although Mr. Glose was impressed by our counselor's frankness, he couldn't resist contacting the other firm. But when they said they'd have to call him back with a quote and then never did, he returned to us. "You weren't the lowest," he says, "but I felt that you cared about me as a customer." Progressive has been caring, and in business, for over 60 years. Every day we prove to ourselves that honesty is the best policy.

NO. 9

HONESTY IS THE BEST POLICY

David Humphrey, oil on paper, 1997

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NO. 10

ALL YOU NEED IS LOVE

When Donald Hoffman, an independent insurance agent writing for a competitor of ours, heard that one of his clients was badly injured in an auto accident with a Progressive policyholder, his heart sank. Mr. Hoffman was in Jackson, Michigan; his client was vacationing near Daytona Beach, Florida. There was little he could do in person. Yet he needn't have worried. Progressive's Daytona Beach claim representative Keith Pelkey and office branch manager Paul Love treated Mr. Hoffman's client as if she was one of our own. "The compassion and concern they showed were wonderful," says Mr. Hoffman. "They even came to the hospital to help my customer." Donald Hoffman has since decided to end his relationship with our competitor and to begin representing Progressive. In a crisis, you can count on Progressive to be there.

Amy Sillman, oil and gouache on wood, 1997

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[ARTWORK]

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[ARTWORK]

Join Progressive and see the world? That's what "Jane" did. Nearly three decades ago, Jane joined Progressive straight out of school. She started as an odd-jobs person but progressed to serving the company in almost all areas. Along the way she participated in every company retirement savings plan for which she was

NO. 11

TRAVELS WITH PROGRESSIVE

eligible. Progressive matched her contributions, and Jane, confident in the prospects of a company she served so loyally, invested 90% of her savings in Progressive stock. Today, her total account balance exceeds 16.5 times her original contributions. Thanks to the savings she accumulated during her travels with Progressive, Jane will be traveling the world.

Andy Yoder, watercolor, and pastel on paper, 1997

1997 FINANCIAL REVIEW

[STAR]

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Report of Coopers & Lybrand L.L.P., Independent Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS, THE PROGRESSIVE CORPORATION:

We have audited the accompanying consolidated balance sheets of The Progressive Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of The Progressive Corporation and subsidiaries' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Progressive Corporation and subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Cleveland, Ohio
January 27, 1998

The Progressive Corporation and Subsidiaries

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CONSOLIDATED STATEMENTS OF INCOME

(millions-except per share amounts)

For the years ended December 31,	1997	1996	1995
NET PREMIUMS WRITTEN	\$ 4,665.1 =====	\$ 3,441.7 =====	\$ 2,912.8 =====
REVENUES			
Premiums earned	\$ 4,189.5	\$ 3,199.3	\$ 2,727.2
Investment income	274.9	225.8	199.1
Net realized gains on security sales	98.5	7.1	46.7
Service revenues	45.3	46.2	38.9
Total revenues	----- 4,608.2 -----	----- 3,478.4 -----	----- 3,011.9 -----
EXPENSES			
Losses and loss adjustment expenses	2,967.5	2,236.1	1,943.8
Policy acquisition costs	607.8	482.6	459.6
Other underwriting expenses	336.0	208.5	167.2
Investment expenses	9.9	6.1	8.1
Service expenses	43.9	41.9	30.2
Interest expense	64.6	61.5	57.1

Total expenses	----- 4,029.7 -----	----- 3,036.7 -----	----- 2,666.0 -----
NET INCOME			
Income before income taxes	578.5	441.7	345.9
Provision for income taxes	178.5	128.0	95.4
Net income	----- \$ 400.0 =====	----- \$ 313.7 =====	----- \$ 250.5 =====
COMPUTATION OF EARNINGS PER SHARE			
Net income	\$ 400.0	\$ 313.7	\$ 250.5
Less: Preferred Share dividends	--	(3.5)	(8.4)
Excess Preferred Share liquidation price over cost basis	--	(2.9)	--
Income available to common shareholders	----- \$ 400.0 =====	----- \$ 307.3 =====	----- \$ 242.1 =====
Basic:			
Average shares outstanding	72.0	71.6	71.8
Per share	=====	=====	=====
	\$ 5.56	\$ 4.29	\$ 3.37
	=====	=====	=====
Diluted:			
Average shares outstanding	72.0	71.6	71.8
Net effect of dilutive stock options	3.3	2.6	2.4
Total equivalent shares	----- 75.3 =====	----- 74.2 =====	----- 74.2 =====
Per share	=====	=====	=====
	\$ 5.31	\$ 4.14	\$ 3.26
	=====	=====	=====

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	(millions)	
December 31,	1997	1996
ASSETS		
Investments:		
Available-for-sale:		
Fixed maturities, at market (amortized cost: \$3,836.8 and \$3,384.1)	\$ 3,891.4	\$ 3,409.2
Equity securities, at market:		
Preferred stocks (cost: \$333.9 and \$333.8)	348.8	341.6
Common stocks (cost: \$501.9 and \$458.9)	620.8	540.1
Short-term investments, at amortized cost (market: \$409.4 and \$159.7)	409.4	159.7
Total investments	----- 5,270.4	----- 4,450.6
Cash	23.3	15.4
Accrued investment income	44.3	46.9
Premiums receivable, net of allowance for doubtful accounts of \$32.4 and \$23.2	1,160.8	820.8
Reinsurance recoverables	317.5	310.0
Prepaid reinsurance premiums	79.8	85.8
Deferred acquisition costs	259.6	200.1
Income taxes	116.5	62.1
Property and equipment, net of accumulated depreciation of \$158.3 and \$126.7	260.4	169.9
Other assets	27.0	22.3
Total assets	----- \$ 7,559.6 =====	----- \$ 6,183.9 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unearned premiums	\$ 1,980.1	\$ 1,467.3
Loss and loss adjustment expense reserves	2,146.6	1,800.6
Policy cancellation reserve	34.7	43.3
Accounts payable and accrued expenses	486.4	420.1
Debt	775.9	775.7
Total liabilities	----- 5,423.7	----- 4,507.0
Shareholders' equity:		
Common Shares, \$1.00 par value (authorized 200.0, issued 83.1, including treasury shares of 10.8 and 11.6)	72.3	71.5
Paid-in capital	412.8	381.8
Net unrealized appreciation on investment securities	122.3	74.0

Retained earnings	1,528.5	1,149.6
Total shareholders' equity	2,135.9	1,676.9
Total liabilities and shareholders' equity	\$ 7,559.6	\$ 6,183.9

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(millions-except per share amounts)

For the years ended December 31,	1997	1996	1995
PREFERRED SHARES, NO PAR VALUE			
Balance, Beginning of year	\$ --	\$ 83.6	\$ 85.8
Redemption of shares	--	(77.9)	--
Treasury shares purchased-cost basis	--	(5.7)	(2.2)
Balance, End of year	\$ --	\$ --	\$ 83.6
COMMON SHARES, \$1.00 PAR VALUE			
Balance, Beginning of year	\$ 71.5	\$ 72.1	\$ 71.2
Stock options exercised	.8	.4	.9
Treasury shares purchased	--	(1.0)	--
Balance, End of year	\$ 72.3	\$ 71.5	\$ 72.1
PAID-IN CAPITAL			
Balance, Beginning of year	\$ 381.8	\$ 374.8	\$ 357.1
Stock options exercised	13.3	6.5	9.2
Tax benefits on stock options exercised	17.6	5.9	8.5
Treasury shares purchased	(.2)	(5.4)	--
Other	.3	--	--
Balance, End of year	\$ 412.8	\$ 381.8	\$ 374.8
NET UNREALIZED APPRECIATION (DEPRECIATION) ON INVESTMENT SECURITIES			
Balance, Beginning of year	\$ 74.0	\$ 51.1	\$ (30.7)
Change in net unrealized appreciation (depreciation)	48.3	22.9	81.8
Balance, End of year	\$ 122.3	\$ 74.0	\$ 51.1
RETAINED EARNINGS			
Balance, Beginning of year	\$ 1,149.6	\$ 894.2	\$ 668.5
Net income	400.0	313.7	250.5
Cash dividends on Preferred Shares (93/8% annually)	--	(3.2)	(8.3)
Cash dividends on Common Shares (\$.24, \$.23 and \$.22 per share)	(17.3)	(16.4)	(15.8)
Treasury shares purchased: Common Shares	(2.7)	(35.5)	--
Preferred Shares	--	(.3)	(.1)
Preferred Shares redeemed	--	(2.9)	--
Other, net	(1.1)	--	(.6)
Balance, End of year	\$ 1,528.5	\$ 1,149.6	\$ 894.2
TOTAL SHAREHOLDERS' EQUITY	\$ 2,135.9	\$ 1,676.9	\$ 1,475.8

There are 20.0 million Serial Preferred Shares authorized. In May 1991, the Company sold 4.0 million 93/8% Serial Preferred Shares, Series A; all remaining Preferred Shares were redeemed, at the Company's option, on May 31, 1996, at a cost of \$25 per share, plus accrued and unpaid dividends through the redemption date.

There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	(millions)		
For the years ended December 31,	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 400.0	\$ 313.7	\$ 250.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	36.6	23.8	20.4
Net realized gains on security sales	(98.5)	(7.1)	(46.7)
Changes in:			
Unearned premiums	442.3	257.7	172.9
Loss and loss adjustment expense reserves	204.6	190.1	176.1
Accounts payable and accrued expenses	49.9	50.1	16.5
Policy cancellation reserve	(8.6)	2.5	(6.5)
Prepaid reinsurance premiums	33.3	(15.3)	12.7
Reinsurance recoverables	62.7	28.1	41.6
Premiums receivable	(310.9)	(170.9)	(107.5)
Deferred acquisition costs	(52.7)	(18.2)	(20.3)
Income taxes	(67.8)	(16.3)	.6
Other, net	43.8	14.0	20.3
	-----	-----	-----
Net cash provided by operating activities	734.7	652.2	530.6
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases:			
Held-to-maturity: fixed maturities	--	--	(.2)
Available-for-sale: fixed maturities	(6,764.3)	(4,447.2)	(2,575.5)
equity securities	(658.2)	(725.3)	(763.1)
Sales:			
Available-for-sale: fixed maturities	5,840.0	3,306.3	1,744.9
equity securities	581.7	537.7	593.6
Maturities, paydowns, calls and other:			
Held-to-maturity: fixed maturities	--	--	87.1
Available-for-sale: fixed maturities	578.0	465.7	497.2
equity securities	125.4	62.5	10.4
Net (purchases) sales of short-term investments	(248.6)	143.1	(23.7)
(Receivable) payable on securities	(2.0)	76.3	(52.0)
Purchases of property and equipment	(121.9)	(35.8)	(38.3)
Purchase of subsidiary, net of cash acquired	(48.0)	--	--
	-----	-----	-----
Net cash used in investing activities	(717.9)	(616.7)	(519.6)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of stock options	14.1	6.9	10.1
Tax benefits from exercise of stock options	17.6	5.9	8.5
Redemption of Preferred Shares	--	(80.8)	--
Proceeds from debt	--	99.6	--

Payments of debt	(20.4)	(.4)	(.4)
Dividends paid to shareholders	(17.3)	(19.6)	(24.1)
Acquisition of treasury shares	(2.9)	(47.9)	(2.3)
	-----	-----	-----
Net cash used in financing activities	(8.9)	(36.3)	(8.2)
	-----	-----	-----
Increase (decrease) in cash	7.9	(.8)	2.8
Cash, Beginning of year	15.4	16.2	13.4
	-----	-----	-----
Cash, End of year	\$ 23.3	\$ 15.4	\$ 16.2
	=====	=====	=====

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997, 1996 and 1995

1. REPORTING AND ACCOUNTING POLICIES

Nature of Operations The Progressive Corporation, an insurance holding company formed in 1965, owns 86 subsidiaries and has one mutual insurance company affiliate. The companies provide personal auto-mobile insurance and other specialty property-casualty insurance and related services sold primarily through independent insurance agents in the United States and Canada.

Basis of Consolidation and Reporting The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries and affiliate (the Company). All of the subsidiaries and the affiliate are wholly owned or controlled. All significant intercompany accounts and transactions are eliminated in consolidation. The parent company's investments in subsidiaries exceeded their underlying book value at dates of acquisition by \$17.2 million, of which \$8.9 million remains. In the opinion of management, there is no present indication of diminished value in this amount.

Investments Held-to-maturity: fixed maturity securities are securities which the Company has the positive intent and ability to hold to maturity. The Company has no held-to-maturity securities. In November 1995, the Financial Accounting Standards Board (FASB) issued a Special Report entitled "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." In accordance with the implementation guidance, the Company reclassified its held-to-maturity securities to available-for-sale, and marked the securities to market.

Available-for-sale: fixed maturity securities are securities held for indefinite periods of time, and may be used as a part of the Company's asset/liability strategy or sold in response to changes in interest rates, anticipated prepayments, risk/reward characteristics, liquidity needs or similar economic factors. These securities are carried at market value with the corresponding unrealized appreciation or depreciation, net of deferred income taxes, reflected in shareholders' equity. The asset-backed portfolio is accounted for under the retrospective method; prepayment assumptions are based on market expectations.

Available-for-sale: equity securities include common stocks and nonredeemable preferred stocks and are reported at quoted market values. Changes in the market values of these securities, net of deferred income taxes, are reflected as unrealized appreciation or depreciation in shareholders' equity. Changes in

value due to foreign currency exchange are limited by foreign currency hedges; unhedged amounts are not material and recognized in income in the current period.

Trading securities are securities bought principally for the purpose of selling them in the near term and are reported at market value. Changes in market value are recognized in income in the current period. During the year, the net activity in trading securities was not material to the Company's financial position, cash flows and results of operations. The Company had no trading securities at December 31, 1997 and 1996.

Derivative instruments, as defined by Statement of Financial Accounting Standards (SFAS) 119, "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments," include futures, options, short positions, forward positions, foreign currency forwards and interest rate swap agreements. Derivative instruments held or issued for purposes other than trading include derivative positions used for risk management of the available-for-sale portfolio and hedge positions. Derivative positions used for risk management are evaluated as to their effectiveness to modify the risk characteristics and enhance the yields of the available-for-sale portfolio. Hedges are evaluated on established criteria to determine the effectiveness of their correlation and ability to reduce risk of specific securities or transactions. Those instruments held or issued for risk management purposes are carried at market value in the appropriate available-for-sale portfolio based on the nature of the derivative instrument; changes in value of futures, options, foreign currency forwards and short positions are recorded to income in the current period, and changes in the value of forward positions and interest rate swaps are reflected in shareholders' equity as unrealized appreciation or depreciation, net of deferred income taxes. At disposition, changes in value of forward positions and interest rate swap agreements are recognized in income as "net realized gains or losses on security sales." Those instruments entered into for the purpose of hedging are carried at market value; changes in value follow the recognition of the asset being hedged. Gains or losses on closed hedge positions are recorded as basis adjustments to the cost of the assets hedged and amortized over their expected life. Unamortized amounts are recognized in income at the disposition of the assets hedged. Gains and losses on foreign currency hedges offset the foreign exchange gains and losses on the foreign equity portfolio. The net hedged gain or loss is not material and is recognized into income in the current period. Those instruments held or issued for trading purposes are carried at market value and include derivatives held or issued for the specific purpose of generating profits and all other derivatives not meeting the criteria for derivatives held or issued for other than trading purposes; changes in value are recorded to income in the current period. During the year, the net activity in derivative instruments held or issued for trading purposes was not material to the Company's financial position, cash flows and results of operations; gains or losses during the year were recognized in the available-for-sale portfolio. See Note 2-Investments for further discussion.

Short-term investments include eurodollar deposits, commercial paper and other securities maturing within one year and are reported at amortized cost, which approximates market.

Investment securities are exposed to various risks such as interest rate, market and credit. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value in the near term.

Realized gains and losses on sales of securities are computed based on the first-in first-out method.

Property and Equipment Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using accelerated methods for computers and straight line for all other fixed assets. Insurance Premiums and Receivables Insurance premiums written are earned primarily on a pro rata basis over the period of risk. For products where more than 50 percent cancellations are anticipated, premiums written and earned are reduced, though cancellations have not yet occurred.

The Company provides insurance and related services to individuals, lenders and motor carriers throughout the United States and in Canada, and offers a variety of payment plans to meet individual customer needs. Generally, premiums are collected in advance of providing risk coverage, minimizing the Company's exposure to credit risk.

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The Progressive Corporation and Subsidiaries

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Loss and Loss Adjustment Expense Reserves Loss reserves represent the estimated liability on claims reported to the Company, plus reserves for losses incurred but not yet reported. These estimates are reported net of amounts recoverable from salvage and subrogation. Loss adjustment expense reserves represent the estimated expenses required to settle these claims and losses. The methods of making estimates and establishing these reserves are reviewed regularly, and resulting adjustments are reflected in income currently. Such loss and loss adjustment expense reserves could be susceptible to significant change in the near term.

Reinsurance The Company's reinsurance transactions include premiums written under state-mandated involuntary plans for commercial vehicles (Commercial Auto Insurance Procedures--CAIP), for which the Company retains no indemnity risk (see Note 5--Reinsurance for further discussion). The remaining reinsurance arises from the Company seeking to reduce its loss exposure in its non-auto businesses. Prepaid reinsurance premiums are recognized on a pro rata basis over the period of risk.

Earnings Per Share In 1997, the Company adopted SFAS 128, "Earnings per Share," which requires disclosure of basic and diluted earnings per share, replacing primary and fully diluted earnings per share as previously reported. Per SFAS 128, all prior periods have been restated. Prior to the redemption of the Preferred Shares, net income was reduced by Preferred Share dividends earned during the period and the excess of the fair value over the cost basis of Preferred Shares repurchased for both the basic and diluted earnings per share calculations. Basic earnings per share are computed using the weighted average number of Common Shares outstanding and diluted earnings per share include common stock equivalents, including stock options, assumed outstanding during the period.

Deferred Acquisition Costs Deferred acquisition costs include commissions, premium taxes and other costs incurred in connection with writing business. These costs are deferred and amortized over the period in which the related premiums are earned. The Company considers anticipated investment income in determining the recoverability of these costs. There is no indication that these costs will not be fully recoverable in the near term. The Company does not defer advertising costs.

Service Revenues and Expenses Service revenues are earned on a pro rata basis over the term of the related policies; acquisition expenses are deferred and amortized over the period in which the related revenues are earned.

Supplemental Cash Flow Information Cash includes only bank demand deposits. The Company paid income taxes of \$166.9 million, \$121.5 million and \$75.5 million in 1997, 1996 and 1995, respectively. Total interest paid was \$63.8 million for 1997, \$60.3 million for 1996 and \$56.6 million for 1995.

As discussed above, on December 1, 1995, the Company reclassified \$248.4 million of its held-to-maturity securities to available-for-sale, recognizing \$10.4 million in gross unrealized gains.

Stock Options The Company follows the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," to account for

its stock option activity in the financial statements. The Company granted all options currently outstanding at an exercise price equal to the market price at the date of grant and, therefore, under APB 25, no compensation expense is recorded. The Company follows the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation."

New Accounting Standards In June 1997, the FASB issued SFAS 130, "Reporting Comprehensive Income," which requires transactions that are currently reported directly to shareholders' equity be reported in a financial statement that is displayed as prominently as other financial statements. SFAS 130, which is effective for fiscal years beginning after December 15, 1997, impacts disclosure requirements only. Therefore, SFAS 130 will have no impact on the Company's financial condition, cash flows or results of operations. For 1997, the Company would have reported comprehensive income of \$447.6 million.

In June 1997, the FASB issued SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 supersedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise," and requires companies to report financial and descriptive information about their reportable operating segments. The financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. SFAS 131 requires disclosure only and will have no impact on the Company's financial condition, cash flows or results of operations. This statement is effective for periods beginning after December 15, 1997, with interim information required the year following adoption. The Company is currently evaluating the required level of segment reporting.

In December 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments," which is effective for fiscal years beginning after December 15, 1998. SOP 97-3 provides guidance for determining when companies should recognize a liability for guaranty fund and other insurance-related assessments, how to measure the liability, when offsets can be recovered and disclosures required. Prior to this statement, companies were permitted, but not required, to accrue for these potential assessments. The Company's practice has been to accrue for any potential exposure from known insolvencies. Therefore, this statement should have minimal impact on the Company's financial condition, cash flows or results of operations.

Estimates The Company is required to make estimates and assumptions when preparing its financial statements and accompanying notes in conformity with generally accepted accounting principles (GAAP). Actual results could differ from those estimates.

Reclassifications Certain amounts in the financial statements for prior periods were classified to conform with the 1997 presentation.

2. INVESTMENTS

The components of pretax investment income at December 31 were:

(millions)	1997	1996	1995
Held-to-maturity: fixed maturities	\$ --	\$ --	\$ 15.8

Available-for-sale:fixed maturities	219.1	183.9	140.3
equity securities	24.6	27.7	23.9
Short-term investments	31.2	14.2	19.1
	-----	-----	-----
Investment income	274.9	225.8	199.1
	-----	-----	-----
Gross realized gains:			
Held-to-maturity: fixed maturities	--	--	.8
Available-for-sale:fixed maturities	56.9	23.9	49.0
equity securities	121.4	39.7	32.5
Short-term investments	--	--	.1
Gross realized losses:			
Held-to-maturity: fixed maturities	--	--	(.6)
Available-for-sale:fixed maturities	(36.9)	(29.6)	(22.3)
equity securities	(42.9)	(26.9)	(12.8)
	-----	-----	-----
Net realized gains on security sales	98.5	7.1	46.7
	-----	-----	-----
	\$373.4	\$232.9	\$245.8
	=====	=====	=====

During 1997, the Company sold \$178.4 million (proceeds of \$200.8 million) of non-investment-grade commercial mortgage-backed securities, recognizing a net realized gain of \$22.4 million and accounted for the transaction in accordance with SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

The composition of the investment portfolio at December 31 was:

(millions)	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
1997				
Available-for-sale:				
U.S. government obligations	\$ 918.1	\$ 2.1	\$ (.6)	\$ 919.6
State and local government obligations	1,231.8	32.6	(.2)	1,264.2
Foreign government obligations	57.6	1.0	(.1)	58.5
Corporate debt securities	89.2	.8	--	90.0
Asset-backed securities	1,501.4	23.9	(5.3)	1,520.0
Other debt securities	38.7	.7	(.3)	39.1
	-----	-----	-----	-----
Preferred stocks	3,836.8	61.1	(6.5)	3,891.4
Common stocks	333.9	15.1	(.2)	348.8
Short-term investments	501.9	139.0	(20.1)	620.8
	409.4	--	--	409.4
	-----	-----	-----	-----
	\$ 5,082.0	\$ 215.2	\$ (26.8)	\$ 5,270.4
	=====	=====	=====	=====
1996				
Available-for-sale:				
U.S. government obligations	\$ 830.1	\$ 1.5	\$ (2.5)	\$ 829.1
State and local government obligations	1,314.7	24.0	(7.4)	1,331.3
Foreign government obligations	48.7	2.4	--	51.1
Corporate debt securities	48.6	2.2	--	50.8
Asset-backed securities	1,084.3	10.5	(6.5)	1,088.3
Other debt securities	57.7	.9	--	58.6
	-----	-----	-----	-----
Preferred stocks	3,384.1	41.5	(16.4)	3,409.2
Common stocks	333.8	8.5	(.7)	341.6
	458.9	92.9	(11.7)	540.1
	-----	-----	-----	-----
Short-term investments	159.7	--	--	159.7
	-----	-----	-----	-----
	\$ 4,336.5	\$ 142.9	\$ (28.8)	\$ 4,450.6
	=====	=====	=====	=====

Changes in net unrealized gains (losses) on fixed maturities and equity securities were:

(millions)	1997	1996	1995
Unrealized gains (losses):			
Held-to-maturity:fixed maturities	\$ --	\$ --	\$ (6.2)
Available-for-sale: fixed maturities	\$ 29.5	\$ (18.3)	\$ 86.1
equity securities	44.8	53.7	40.0
Deferred income taxes	(26.0)	(12.5)	(44.3)
	\$ 48.3	\$ 22.9	\$ 81.8

The composition of fixed maturities by maturity at December 31, 1997 was:

(millions)	COST	MARKET VALUE
Less than one year	\$ 375.6	\$ 379.6
One to five years	2,039.7	2,066.6
Five to ten years	1,198.0	1,216.8
Ten years or greater	223.5	228.4
	\$ 3,836.8	\$ 3,891.4

Asset-backed securities are reported based upon their projected cash flows. All other securities which do not have a single maturity date are reported at average maturity.

At December 31, 1997, bonds in the principal amount of \$67.3 million were on deposit with various regulatory agencies to meet statutory requirements. Securities with a market value of \$25.9 million were held at December 31, 1997, by a bankruptcy remote subsidiary and are not available to the general creditors of the Company.

The components of derivative instruments held or issued for purposes other than trading were:

(millions)	market value/ carrying value at December 31,		contract/ notional value at December 31,	
	1997	1996	1997	1996
Forward and future positions:				
Assets	\$.8	\$ (.3)	\$ 13.7	\$ 16.5
Liabilities	(.1)	.8	13.4	34.0
Foreign currency forward and future positions:				
Assets	(.7)	.5	50.9	62.0
Liabilities	1.7	1.0	67.2	145.4
	\$ 1.7	\$ 2.0	\$ 145.2	\$ 257.9

Derivative instruments classified as held or issued for purposes other than trading are used to manage the risks and enhance the yields of the available-for-sale portfolio. This is accomplished by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio or hedged securities. Derivative instruments may also be used for trading purposes. During 1997, net losses of \$.7 million (gross gains of \$9.9 million; gross losses of \$10.6 million) in the trading portfolio were not material to the Company's results of operations and are included in the results of the available-for-sale portfolio. At December 31, 1997, the Company had short trading positions in foreign currency and commodity futures with net market values of \$1.1 million and notional values of \$64.4 million; the average market values for long and short positions in 1997 were \$.5 million and \$.4 million, respectively. At December 31, 1996, the Company did not have any open derivative trading positions.

For all derivative positions, net cash requirements are limited to changes in

market values, which may vary based upon changes in interest rates, currency exchange rates and other factors. Exposure to credit risk is limited to the carrying value; unless otherwise noted, collateral is not required to support the credit risk.

As of December 31, 1997, the Company had open investment funding commitments of \$80.6 million. The Company had no uncollateralized lines or letters of credit as of December 31, 1997 or 1996.

3. STATUTORY FINANCIAL INFORMATION

At December 31, 1997, \$234.3 million of consolidated statutory policyholders' surplus represents net admitted assets of the Company's insurance subsidiaries that are required to meet minimum statutory surplus requirements in the subsidiaries' states of domicile. The subsidiaries may be licensed in states, other than their states of domicile, which may have higher minimum statutory surplus requirements. Generally, the net admitted assets of insurance subsidiaries that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the subsidiaries are licensed.

During 1997, the insurance and other subsidiaries paid aggregate cash dividends of \$108.1 million to the parent company. Based on the dividend laws currently in effect, the insurance subsidiaries may pay aggregate dividends of \$191.9 million in 1998 without prior approval from regulatory authorities.

Statutory policyholders' surplus was \$1,725.3 million and \$1,292.4 million at December 31, 1997 and 1996, respectively. Statutory net income was \$274.7 million, \$277.9 million and \$200.0 million for the years ended December 31, 1997, 1996 and 1995, respectively.

The Company's insurance subsidiaries, as part of their statutory filings, are required to disclose their risk-based capital (RBC) requirements. The National Association of Insurance Commissioners developed the RBC program to enable regulators to take appropriate and timely regulatory actions with respect to insurers that show signs of weak or deteriorating financial condition. RBC is a series of dynamic surplus-related formulas which contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks.

4. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the loss and loss adjustment expense reserves, prepared in accordance with GAAP, is summarized as follows:

(millions)	1997	1996	1995
Balance at January 1	\$ 1,800.6	\$ 1,610.5	\$ 1,434.4
Less reinsurance recoverables on unpaid losses	267.7	296.1	334.2
Net balance at January 1	1,532.9	1,314.4	1,100.2
Net reserves of subsidiary purchased	82.2	--	--
Incurred related to:			
Current year	3,070.8	2,341.9	2,000.4
Prior years	(103.3)	(105.8)	(56.6)
Total incurred	2,967.5	2,236.1	1,943.8
Paid related to:			
Current year	1,971.5	1,424.7	1,204.3
Prior years	743.6	592.9	525.3

Total paid	----- 2,715.1	----- 2,017.6	----- 1,729.6
Net balance at December 31	----- 1,867.5	----- 1,532.9	----- 1,314.4
Plus reinsurance recoverables on unpaid losses	----- 279.1	----- 267.7	----- 296.1
Balance at December 31	----- \$ 2,146.6 =====	----- \$ 1,800.6 =====	----- \$ 1,610.5 =====

Because the Company is primarily an insurer of motor vehicles, it has limited exposure for environmental, product and general liability claims. The Company has established reserves for these exposures, in amounts which it believes to be adequate based on information currently known by it. The Company does not believe that these claims will have a material impact on the Company's liquidity, financial condition, cash flows or results of operations.

The Company writes auto insurance in the coastal states, which could be exposed to natural catastrophes, such as hurricanes. Although the occurrence of a major catastrophe could have a significant impact on the Company's quarterly results, the Company believes such an event would not be so material as to disrupt the overall normal operations of the Company. The Company is unable to predict if any such events will occur in the near term.

5. REINSURANCE

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

As of December 31, 1997 and 1996, 44% and 52%, respectively, of the "prepaid reinsurance premiums" and 60% and 68%, respectively, of the "reinsurance recoverables" relate to CAIP, for which the Company retains no indemnity risk.

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The effect of reinsurance on premiums written and earned as of December 31 is as follows:

(millions)	1997		1996		1995	
	WRITTEN	EARNED	WRITTEN	EARNED	WRITTEN	EARNED
Direct premiums	\$4,825.2	\$4,382.9	\$3,638.4	\$3,380.7	\$3,068.9	\$2,895.9
Assumed	--	--	3.8	3.8	.1	.1
Ceded	(160.1)	(193.4)	(200.5)	(185.2)	(156.2)	(168.8)
Net premiums	----- \$4,665.1	----- \$4,189.5	----- \$3,441.7	----- \$3,199.3	----- \$2,912.8	----- \$2,727.2

Losses and loss adjustment expenses are net of reinsurance ceded of \$150.8 million in 1997, \$117.3 million in 1996 and \$104.1 million in 1995.

6. INCOME TAXES

Significant components of the Company's income tax provision were as follows:

(millions)	1997	1996	1995
Current tax provision	\$ 241.6	\$ 163.9	\$ 104.9
Deferred tax benefit	(63.1)	(35.9)	(9.5)
Total income tax provision	\$ 178.5	\$ 128.0	\$ 95.4

The provision for income taxes in the accompanying consolidated statements of income differs from the statutory rate as follows:

(millions)	1997		1996		1995	
Income before income taxes	\$ 578.5		\$ 441.7		\$ 345.9	
Tax at statutory rate	\$ 202.5	35%	\$ 154.6	35%	\$ 121.1	35%
Tax effect of:						
Exempt interest income	(19.6)	(3)	(21.1)	(5)	(21.9)	(6)
Dividends received deduction	(7.0)	(1)	(7.7)	(2)	(5.7)	(2)
Other items, net	2.6	--	2.2	1	1.9	1
	\$ 178.5	31%	\$ 128.0	29%	\$ 95.4	28%

Deferred income taxes reflect the impact for financial statement reporting purposes of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 1997 and 1996, the components of the net deferred tax assets were as follows:

(millions)	1997	1996
Deferred tax assets:		
Unearned premium reserve	\$ 132.1	\$ 96.7
Non-deductible accruals	37.0	38.8
Derivative instruments	6.9	2.8
Capitalized expenditures	12.7	8.3
Loss reserves	93.8	63.5
Other	12.3	2.8
Deferred tax liabilities:		
Deferred acquisition costs	(88.7)	(70.0)
Unrealized gains	(66.1)	(40.1)
Net deferred tax assets	\$ 140.0	\$ 102.8

The Company is able to demonstrate that the benefit of its deferred tax assets is fully realizable.

7. EMPLOYEE BENEFIT PLANS

Retirement Plans The Company has a two-tiered Retirement Security Program. The first tier is a defined contribution pension plan covering all employees who meet requirements as to age and length of service. Contributions vary from 1% to 5% of annual eligible compensation up to the Social Security wage base, based on years of eligible service. Company contributions were \$5.1 million in 1997, \$4.2 million in 1996 and \$3.6 million in 1995.

The second tier is a long-term savings plan under which the Company matches, into a Company stock account, amounts contributed to the plan by an employee up to a maximum of 3% of the employee's eligible compensation. Company contributions were \$7.3 million in 1997, \$5.8 million in 1996 and \$4.4 million 1995.

The Company has a defined benefit pension plan which covered employees hired before January 1, 1989, who met requirements as to age and length of service. This plan and future benefit accruals were frozen on December 31, 1993 and the Company recognized a \$1.5 million gain; the benefits accruals through the date the plan was frozen were based on years of service and career average compensation up to the Social Security tax base. As of December 31, 1997, the Company had a pension asset of \$2.0 million, compared to pension liabilities of \$1.2 million and \$1.5 million in 1996 and 1995, respectively. The Company recognized income of \$.1 million, \$0 and \$.2 million in 1997, 1996 and 1995, respectively. The Company's funding policy is to contribute annually the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. There is no past service liability requiring funding by the Company.

Postemployment Benefits The Company provides various postemployment benefits to former or inactive employees who meet eligibility requirements, their beneficiaries and covered dependents. Postemployment benefits include salary continuation and disability-related benefits including workers' compensation and, if elected, continuation of health care benefits. The Company's liability was \$1.5 million at December 31, 1997 and 1996.

Postretirement Benefits The Company provides postretirement health and life insurance benefits to all employees who met requirements as to age and length of service at December 31, 1988. The Company recognized expenses of \$.2 million in 1997, \$.4 million in 1996 and \$.3 million in 1995. The Company's funding policy is to contribute annually the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to services to date, but also for those expected to be earned in the future.

Deferred Compensation The Company maintains The Progressive Corporation Executive Deferred Compensation Plan (Deferral Plan), which permits eligible executives to defer receipt of some or all of their annual bonuses or other incentive awards. These deferred amounts are deemed invested in one or more investment funds, including Common Shares of the Company, offered under the Deferral Plan. All distributions from the Deferral Plan will be made in cash, except that distributions representing amounts deemed invested in Common Shares will be made in Common Shares. The Company reserved 300,000 Common Shares for issuance under the Deferral Plan. The Company established an irrevocable grantor trust to provide a source of funds to assist the Company in meeting its liabilities under the Deferral Plan. At December 31, 1997 and 1996, the trust held assets of \$6.4 million and \$2.6 million, respectively, of which \$1.4 million and \$.7 million were held in Common Shares, to cover its liabilities.

Incentive Compensation Plans The Company's 1989 Incentive Plan and 1995 Incentive Plan provide for the granting of stock options and other stock-based awards to key employees of the Company. The 1989 Incentive Plan has 6,500,000 shares authorized and the 1995 Incentive Plan has 5,000,000 shares authorized. Outside of the Incentive Plans, the Company registered 1,425,000 Common Shares relating to stock options granted to key employees of the Company. The nonqualified stock options granted are for periods up to ten years, become exercisable at various dates not earlier than six months after the date of grant, and remain exercisable for specified periods thereafter. All options granted have an exercise price equal to the market value of the Common Shares on the date of grant.

A summary of all stock option activity during the three years ended December 31 follows:

OPTIONS OUTSTANDING	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Beginning of year	5,109,390	\$ 28.09	4,943,324	\$ 23.76	5,263,822	\$ 19.49
Add (deduct):						
Granted	726,889	69.82	852,989	47.52	888,725	38.27
Exercised	(758,580)	17.44	(454,348)	14.89	(861,802)	11.54
Cancelled	(108,735)	41.07	(232,575)	32.95	(347,421)	26.51
End of year	4,968,964	\$ 35.52	5,109,390	\$ 28.09	4,943,324	\$ 23.76
Exercisable, end of year	1,497,050	\$ 15.53	1,561,428	\$ 15.75	984,099	\$ 12.61
Available, end of year	5,054,407		5,672,561		6,292,975	

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The following options were outstanding or exercisable as of December 31, 1997:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
\$ 9 - 20	1,440,741	3.15 years	\$ 14.74	1,440,741	\$14.74
21 - 40	1,959,620	6.12 years	33.14	39,370	30.63
41 - 60	838,487	7.97 years	47.09	14,912	45.09
61 - 80	706,377	8.99 years	68.64	2,027	65.88
81 - 120	23,739	9.03 years	101.72	--	--
\$ 9 - 120	4,968,964			1,497,050	

During 1996, the Company adopted the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 requires a fair-value based method of accounting for stock-based compensation. To calculate the fair value of the options awarded, the Company elected to use the Black-Scholes pricing model which produced a value of 43.2% for 1997 awards, 41.4% for 1996 awards and 42.8% for 1995 awards. The following assumptions were used to derive the ratio: a 7-year option term; an annualized volatility rate of .255 for 1997, .246 for 1996 and .275 for 1995; a risk-free rate of return of 6.63% for 1997, 6.69% for 1996 and 6.53% for 1995; and a dividend yield of .25% for 1997 and .5% for both 1996 and 1995. The Company elected to account for terminations when they occur rather than include an attrition factor into its model.

If compensation cost had been measured based on the fair-value based accounting method under SFAS 123, the following would have been disclosed for December 31:

(millions-except per share amounts)	1997	1996	1995
PRO FORMA			
Net income	\$ 393.5	\$ 310.3	\$ 249.1
Earnings per share			
Basic	\$ 5.46	\$ 4.24	\$ 3.35
Diluted	5.22	4.09	3.24

The effect of applying SFAS 123 in the current year is not representative of the effect on income for future years since each subsequent year will reflect expense for additional years' vesting.

The amounts charged to income for incentive compensation plans, including

executive cash bonus programs for key members of management and a gainsharing program for all other employees, were \$85.8 million in 1997, \$45.3 million in 1996 and \$33.9 million in 1995.

8. DEBT

During 1997, bank borrowings of \$1.2 million were outstanding for three days at an average annual interest rate of 5.8%. Debt includes amounts the Company has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes.

Debt at December 31 consisted of:

(millions)	1997		1996	
	COST	MARKET VALUE	COST	MARKET VALUE
7.30% Notes, due 2006 (issued: \$100.0, May 1996)	\$ 99.7	\$ 105.3	\$ 99.6	\$ 101.7
6.60% Notes, due 2004 (issued: \$200.0, January 1994)	198.9	200.7	198.8	197.1
7% Notes, due 2013 (issued: \$150.0, October 1993)	148.4	154.4	148.3	144.3
8 3/4% Notes, due 1999 (issued: \$30.0, May 1989)	29.7	30.9	29.5	31.6
10% Notes, due 2000 (issued: \$150.0, December 1988)	149.6	164.6	149.6	167.8
10 1/8% Subordinated Notes, due 2000 (issued: \$150.0, December 1988)	149.6	164.6	149.5	168.4
Other debt	--	--	.4	.4
	\$ 775.9	\$ 820.5	\$ 775.7	\$ 811.3

All debt is noncallable with interest payable semiannually.

In May 1990, the Company entered into a revolving credit arrangement with National City Bank, which is reviewed by the bank annually. Under this agreement, the Company had the right to borrow up to \$50.0 million. In February 1994, the Company reduced this revolving credit arrangement to \$20.0 million and, in May 1997, further reduced it to \$10.0 million. By selecting from available credit options, the Company may elect to pay interest at rates related to the London interbank offered rate, the bank's base rate or at a money market rate. A commitment fee is payable on any unused portion of the committed amount at the rate of .125 percent per annum. The Company had no borrowings under this arrangement at December 31, 1997 or 1996.

As of December 31, 1997, the Company was in compliance with its debt covenants.

Aggregate principal payments on debt outstanding at December 31, 1997, are \$0 for 1998, \$30.0 million for 1999, \$300.0 million for 2000, \$0 for 2001 and 2002 and \$450.0 million thereafter.

9. SEGMENT INFORMATION

The operating segments of the Company are classified into Insurance and Service. Expense allocations are based on assumptions and estimates; stated segment operating results would change if different methods were applied. The Company does not allocate assets to segments.

For the years ended December 31,	1997		1996		1995	
	REVENUES	PRETAX PROFIT (LOSS)	REVENUES	PRETAX PROFIT (LOSS)	REVENUES	PRETAX PROFIT (LOSS)

Insurance operations	\$ 4,189.5	\$ 278.2	\$ 3,199.3	\$ 272.1	\$ 2,727.2	\$ 156.6
Service operations	45.3	1.4	46.2	4.3	38.9	8.7
	-----	-----	-----	-----	-----	-----
Total operations	4,234.8	279.6	3,245.5	276.4	2,766.1	165.3
Total investment income	373.4	373.4	232.9	232.9	245.8	245.8
Interest expense and other costs	--	(74.5)	--	(67.6)	--	(65.2)
	-----	-----	-----	-----	-----	-----
	\$ 4,608.2	\$ 578.5	\$ 3,478.4	\$ 441.7	\$ 3,011.9	\$ 345.9
	=====	=====	=====	=====	=====	=====

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Information about specific valuation techniques and related fair value detail is provided in Note 1--Reporting and Accounting Policies, Note 2 -- Investments and Note 8-- Debt. Pursuant to SFAS 119, the cost and market value of the financial instruments as of December 31 are summarized as follows:

(millions)	1997		1996	
	COST	MARKET VALUE	COST	MARKET VALUE
Investments:				
Available-for-sale: fixed maturities	\$3,836.8	\$3,891.4	\$3,384.1	\$3,409.2
preferred stocks	333.9	348.8	333.8	341.6
common stocks	501.9	620.8	458.9	540.1
Short-term investments	409.4	409.4	159.7	159.7
Debt	(775.9)	(820.5)	(775.7)	(811.3)

11. LITIGATION

The Company is named as defendant in various lawsuits generally relating to its insurance operations. Numerous legal actions arise from claims made under insurance policies issued by the subsidiaries or in connection with previous reinsurance agreements. These actions were considered by the Company in establishing its loss and loss adjustment expense reserves. The Company believes that the ultimate disposition of these and other pending lawsuits will not materially impact the Company's financial position, cash flows or results of operations.

12. CONTRACTUAL COMMITMENTS

The Company has operating lease commitments and service agreements with terms greater than one year for equipment, office space and telecommunications services, some with options to renew at the end of the contract periods. The minimum commitments under such noncancelable leases and service contracts at December 31, 1997 are as follows (in millions): 1998--\$36.2; 1999--\$21.6; 2000--\$13.2; 2001--\$6.6; 2002--\$3.8; and thereafter--\$1.1. Total expense incurred by the Company for such purposes for 1997, 1996 and 1995 was \$83.3 million, \$57.5 million and \$51.3 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The consolidated financial statements and the related notes on pages 36 through 48, together with the supplemental information on pages 53 through 59, should be read in conjunction with the following discussion of the consolidated financial condition and results of operations.

Financial Condition The Progressive Corporation is a holding company and does not have any revenue producing operations of its own. It receives cash through

borrowings, equity sales, subsidiary dividends and other transactions, and may use the proceeds to contribute to the capital of its insurance subsidiaries in order to support premium growth, to repurchase its Common Shares and other outstanding securities, to retire its outstanding indebtedness, and for other business purposes. During 1997, the Company repurchased 30,193 of its Common Shares at a total cost of \$2.9 million to offset obligations under various employee benefit plans.

During the three-year period ended December 31, 1997, the Company repurchased 1.0 million of its Common Shares at a total cost of \$44.8 million (average \$43.37 per share), .3 million of its 9 3/8% Serial Preferred Shares, Series A, at a total cost of \$8.3 million (average \$25.62 per share) and redeemed its remaining Preferred Shares at a total cost of \$82.1 million (\$25.00 per share). The Company also sold \$100.0 million of Notes. During the same period, The Progressive Corporation received \$50.8 million from its subsidiaries, net of capital contributions made to these subsidiaries. The regulatory restrictions on subsidiary dividends are described in Note 3 to the financial statements.

The Company has substantial capital resources and is unaware of any trends, events or circumstances that are reasonably likely to affect its capital resources in a material way. The Company also has available a \$10.0 million revolving credit agreement. With its 27% debt to capital ratio, management believes the Company has sufficient borrowing capacity and other capital resources to support current and anticipated growth.

The Company's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. For the three years ended December 31, 1997, operations generated a positive cash flow of \$1,917.5 million, and cash flow is expected to be positive in both the short-term and reasonably foreseeable future. The Company's substantial investment portfolio is highly liquid, consisting almost entirely of readily marketable securities.

In March 1997, the Company acquired Midland Financial Group, Inc. by purchasing all of Midland's outstanding stock for about \$50 million in cash. Midland underwrites and markets nonstandard private passenger automobile insurance through approximately 3,700 independent agents across 11 states, primarily in the southern and western United States. During 1997, Midland wrote \$66.1 million of net premiums written.

Total capital expenditures for the three years ended December 31, 1997, aggregated \$196.0 million. During 1997, the Company made substantial investments in property and equipment to support its infrastructure. In December 1997, the Company purchased approximately 72 acres in Tampa, Florida to construct a three-building regional call center. It is estimated that, when completed, this facility will consist of approximately 307,000 square feet of space. The cost of the project is currently estimated at \$42.0 million and \$8.3 million has been paid as of December 31, 1997. The project is scheduled to be completed by the end of 1998. In addition, in November 1997, the Company purchased 91 acres in Mayfield Village, Ohio to construct an office complex, near the site of its current corporate headquarters. This office complex is part of a five-year cooperative effort with Mayfield Village to develop over 300 acres -- Progressive would serve as the anchor corporate user with additional business users and recreational facilities on the site. The Company plans to construct three buildings containing a total of approximately 485,000 square feet, in 1998, and could build up to three additional buildings, containing about 500,000 square feet in total, in the future. The first phase of this project is estimated to cost \$63.5 million. As of December 31, 1997, \$5.3 million has been paid. The construction projects will be funded through operating cash flows or the issuance of new debt securities.

In July 1995, the Company began converting its computer systems to be year 2000 compliant (e.g. to recognize the difference between '99 and '00 as one year instead of negative 99 years). The Company has evaluated internal production systems, hardware and software products, facilities implications, and interactions with business partners in relation to year 2000 issues. As of December 31, 1997, the Company has completed approximately 70% of its efforts to bring the production systems in compliance, with substantially all production

systems expected to be compliant by the end of 1998. The total cost to modify these existing production systems, which include both internal and external costs of programming, coding and testing, is estimated to be \$6.4 million, of which \$3.1 million has been expensed as of December 31, 1997. The Company is also in the process of replacing some of its systems during 1998 with new systems which, in addition to being year 2000 compliant, will add increased functionality to the Company. The total cost of these systems, which include both internal and external costs, is estimated to be \$4.8 million, and the projects are expected to be substantially complete by the end of 1998. As of December 31, 1997, \$2.4 million has been expensed for these systems. All costs are being funded through operating cash flow. The Company continually evaluates computer hardware and software upgrades and, therefore, many of the costs to replace existing items with year 2000 compliant upgrades are not likely to be incremental costs to the Company. It is estimated that the majority of these upgrades will be completed in 1998. During 1998, the Company will continue to contact its business partners (e.g. agents, banks, credit bureaus, motor vehicle departments, rating agencies, etc.) to determine their status of compliance and to assess the impact of noncompliance to the Company. The Company believes that it is taking the necessary measures to mitigate issues that may arise relating to the year 2000. During 1998, the Company will develop contingency plans relating to year 2000 compliance issues, either internal or external, that cannot be guaranteed to be timely completed. To the extent any additional issues arise, the Company will evaluate the impact on its financial condition, cash flows and results of operations and, if material, make the necessary disclosures.

The Progressive Corporation and Subsidiaries

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Investments The Company invests in fixed-maturity, equity and short-term securities. The Company's investment strategy recognizes its need to maintain capital adequate to support its insurance operations. The Company evaluates the risk/reward trade-offs of investment opportunities, measuring their effects on stability, diversity, overall quality and liquidity of the investment portfolio.

The majority of the portfolio is invested in high-grade, fixed-maturity securities, of which short- and intermediate-term securities represented \$4,024.9 million, or 76.4%, at the end of 1997, compared to \$3,275.6 million, or 73.6%, at the end of 1996. Long-term investment-grade securities, including greater than 10-year expected principal paydowns, were \$143.4 million, or 2.7%, at the end of 1997, compared to \$187.5 million, or 4.2%, at the end of 1996. Non-investment-grade fixed-maturity securities were \$132.5 million, or 2.5%, at the end of 1997, compared \$105.8 million, or 2.4%, at the end of 1996, and offer the Company higher returns and added diversification without a significant adverse effect on the stability and quality of the investment portfolio as a whole. Non-investment-grade securities may involve greater risks often related to creditworthiness, solvency and relative liquidity of the secondary trading market. The duration of the fixed-income portfolio was 3.3 years at December 31, 1997, compared to 3.2 years at December 31, 1996.

A portion of the investment portfolio was invested in marketable equity securities. Common stocks represented \$620.8 million, or 11.8% of the portfolio, at the end of 1997, compared to \$540.1 million, or 12.1%, a year earlier. Foreign equities, which may include stock index futures and foreign currency forwards, comprised \$106.0 million of the common stock portfolio at the end of 1997, and \$149.5 million at the end of 1996. As of December 31, 1997, the Company's Japanese equity holdings represented 1.5% of the common stock portfolio. The remainder of the equity portfolio of \$348.8 million, or 6.6%, at the end of 1997, compared to \$341.6 million, or 7.7%, at the end of 1996, was comprised of over 80% of fixed-rate preferred stocks with mechanisms that are expected to provide an opportunity to liquidate at par.

As of December 31, 1997, the Company's portfolio had \$188.4 million in unrealized gains, compared to \$114.1 million a year earlier. This increase in

value was the result of increased stock prices as the S&P 500 index rose from 740.7 to 970.4 and decreased interest rate levels as evidenced by the .3% decrease in the 3-year treasury note.

The weighted average fully taxable equivalent book yield of the portfolio was 6.6%, 6.7% and 6.9% for the years ended December 31, 1997, 1996 and 1995, respectively.

As of December 31, 1997, the Company held \$1,520.0 million of asset-backed securities, which represented 28.8% of the total investment portfolio. The portfolio included collateralized mortgage obligations (CMO) and commercial mortgage-backed obligations (CMB) totaling \$283.2 million and \$776.7 million, respectively. The remainder of the asset-backed portfolio was invested primarily in auto loan and other asset-backed securities. As of December 31, 1997, the CMO portfolio included busted planned amortization class bonds and sequential bonds representing 94.1% of the CMO portfolio (\$266.4 million) with an average life of 3.0 years, and planned amortization class bonds representing 5.9% of the CMO portfolio (\$16.8 million) with an average life of .5 years. At December 31, 1997, the CMO portfolio had a weighted average Moody's or Standard & Poor's rating of AAA and the CMB portfolio had an average life of 7.4 years and a weighted average Moody's or Standard & Poor's rating of AA. At December 31, 1997, the CMO and CMB portfolios had unrealized gains of \$1.6 million and \$14.0 million, respectively. The single largest unrealized loss in any individual CMO security was \$.2 million and in any CMB security was \$1.1 million, at December 31, 1997. The CMB portfolio includes \$149.6 million of CMB interest-only certificates, which had an average life of 6.9 years and a weighted average Moody's or Standard & Poor's rating of AAA at December 31, 1997. Both the CMO and CMB portfolios are highly liquid with readily available quotes and contain no residual interests. During 1997, the Company sold \$178.4 million (proceeds of \$200.8 million) of non-investment-grade CMB securities to a third-party purchaser. The purchaser subsequently transferred the securities to a trust as collateral in a resecuritized debt offering. The transaction was accounted for as a sale under Statement of Financial Accounting Standards (SFAS) 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," resulting in a net gain of \$22.4 million. A bankruptcy remote subsidiary of the Company acquired \$22.8 million (market value of \$25.9 million) of the resecuritized debt. This portion of the transaction was not accounted for as a sale in accordance with SFAS 125.

Investments in the Company's portfolio have varying degrees of risk. The primary market risk exposure to the fixed-income portfolio is interest rate risk, which is limited by managing duration to a defined range of 1.8 to 5 years. The distribution of maturities and convexity are monitored on a regular basis. Common stocks and similar investments, which generally have greater risk and volatility of market value, are limited to a target of 15%, with a range of 0 to 25%. Market values, along with industry and sector concentrations of common stocks and similar investments, are monitored daily. Exposure to foreign currency exchange risk is limited by Company restrictions and is monitored regularly. Exposures are evaluated individually and as a whole, considering the effects of cross correlation. For the quantitative market risk disclosures, see page 54. The Company regularly examines its portfolio for evidence of impairment. In such cases, changes in market value are evaluated to determine the extent to which such changes are attributable to: (i) interest rates, (ii) market-related factors other than interest rates and (iii) financial conditions, business prospects and other fundamental factors specific to the issuer. Declines attributable to issuer fundamentals are reviewed in further detail. Available evidence is considered to estimate the realizable value of the investment. When a security in the Company's investment portfolio has a decline in market value which is other than temporary, the Company is required by generally accepted accounting principles (GAAP) to reduce the carrying value of such security to its net realizable value.

Derivative instruments are primarily used to manage the risks and enhance the returns of the available-for-sale portfolio. This is accomplished

by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio or hedged securities. Derivative instruments may also be used for trading purposes. During 1997, net activity in the trading portfolio was not material to the Company's financial position, cash flows and results of operations. Net cash requirements of derivative instruments are limited to changes in market values which may vary based upon changes in interest rates and other factors. Exposure to credit risk is limited to the carrying value; collateral is not required to support the credit risk. The Company has stringent restrictions on the amount of open positions in the trading portfolios, limiting exposure to levels management deems acceptable. At December 31, 1997, trading positions had a net market value of \$1.1 million; at December 31, 1996, there were no trading positions.

Results of Operations Operating income, which excludes net realized gains and losses from security sales and one-time items, was \$336.0 million, or \$4.46 per share, in 1997, \$309.1 million, or \$4.12 per share, in 1996 and \$220.1 million, or \$2.85 per share, in 1995. The GAAP combined ratio was 93.4 in 1997, 91.5 in 1996 and 94.3 in 1995.

Direct premiums written increased 33% to \$4,825.2 million in 1997, compared to \$3,638.4 million in 1996 and \$3,068.9 million in 1995. Net premiums written increased 36% to \$4,665.1 million in 1997, compared to \$3,441.7 million in 1996 and \$2,912.8 million in 1995. The difference between direct and net premiums written is largely attributable to premiums written under state-mandated involuntary Commercial Auto Insurance Procedures (CAIP), for which the Company retains no indemnity risk, of \$78.4 million in 1997, \$99.5 million in 1996 and \$105.4 million in 1995. The Company provided policy and claim processing services to 27 state CAIPs in 1997 and 1996, compared to 28 in 1995. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 31% in 1997, compared to 17% in 1996 and 24% in 1995.

In the Company's core business units, which write insurance for private passenger automobiles, recreational vehicles and small fleets of commercial vehicles, net premiums written grew 33%, 19% and 21% in 1997, 1996 and 1995, respectively, reflecting an increase in unit sales driven by the Company's competitive rates. The Company decreased rates an average of .9% in 1997, compared to rate increases of 2.5% and 6.5% in 1996 and 1995, respectively. The Company continues to write, through multiple distribution methods, standard and preferred risks, which represented between 20% and 25% of total 1997 core business volume. In 1997, the Company used rating criteria based partially upon consumer financial responsibility. This approach has been approved by numerous regulators and is in use in the 31 states that represent 80% of the core business units' volume; the Company expects to complete rollout of this approach into the remaining states where it can be offered in 1998. The Company believes that its use of financial responsibility in auto insurance rating produces a more accurate distribution of losses among consumers and, therefore, produces more accurate pricing resulting in lower rates for most consumers. In addition, in order to encourage writing more standard and preferred risks and to improve customer retention, the Company in 1996 adjusted its contingent cash incentive compensation program for employees to reflect the increase in value created by adding new customers. The Company believes that growing the numbers of policyholders, particularly standard and preferred risks with their higher retention rates, builds intrinsic value because renewals are more profitable than first year business. The drive to add customers faster resulted in more spending to promote the Progressive brand and to hire and develop more claim adjusters and customer service representatives, and the Company expects this to continue at least in the near term. These costs, along with lower margins on first year business, are likely to bring profit margins more in line with the Company's objective of achieving a 4% underwriting profit margin over the entire retention period of an insured. In 1997, the core business units generated an underwriting profit margin of 7%, compared to 8% in 1996 and 5% in 1995.

Claim costs, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. These costs include a loss estimate for future assignments and assessments, based on

current business, under state-mandated involuntary automobile programs. Claims costs are influenced by inflation and loss severity and frequency, the impact of which is mitigated by adequate pricing. Increases in the rate of inflation increase loss payments, which are made after premiums are established. Accordingly, anticipated rates of inflation are taken into account when the Company establishes premium rates and loss reserves. Claim costs, expressed as a percentage of premiums earned, were 71% in 1997, compared to 70% in 1996 and 71% in 1995.

The Company writes directors and officers and other professional liability coverage for community banks and credit unions and, therefore, could potentially be exposed to liability for errors made by these institutions relating to the year 2000 conversion. To minimize its risk, in October 1997, the Company began including year 2000 exclusions in all new and renewal policies for commercial banks (representing approximately 70% of all policies written since that date) which have multi-year terms that extend beyond December 31, 1999. The Company is not currently aware of any other company in the industry that is including such exclusion provisions or increasing their premiums to cover potential exposure on year 2000 compliance issues. As a regulated industry, financial institutions are under pressure from government regulatory agencies and other interested parties to ensure they achieve readiness for the year 2000. The Company is monitoring its customers' compliance efforts and believes that substantially all such customers are pursuing plans to achieve year 2000 compliance. It is currently unknown whether the financial institutions will be able to completely avoid errors relating to year 2000 compliance and the Company is unable to predict to what extent such financial institutions will incur losses as a result of noncompliance and whether their directors and officers will be subject to individual liability for such noncompliance. At December 31, 1997, approximately 200 professional liability policies, or about 17% of all policies, do not contain year 2000 exclusion provisions and extend into

the year 2000. In the event of a claim, applicable factual and coverage issues would have to be resolved. Based on information currently available and management's best estimate, the Company does not believe that it will incur any costs that will have a material impact on the Company's financial condition, cash flows or results of operations.

Because the Company is primarily an insurer of motor vehicles, it has limited exposure for environmental, product and general liability claims. The Company has established reserves for these exposures, in amounts which it believes to be adequate based on information currently known by it. Management does not believe that these claims will have a material impact on the Company's liquidity, financial condition, cash flows or results of operations.

Policy acquisition and other underwriting expenses as a percentage of premiums earned were 23% in 1997, compared to 22% in 1996 and 23% in 1995. In 1997, the Company incurred additional expenses to support its infrastructure and to hire and train people in anticipation of growth. The Company also introduced its advertising campaign to 13 states during 1997, bringing the total number of states where the Company advertises to 19 (40 markets).

Recurring investment income (interest and dividends) increased 22% to \$274.9 million in 1997, compared to \$225.8 million in 1996 and \$199.1 million in 1995, primarily due to an increase in the size of the investment portfolio. Net realized gains on security sales were \$98.5 million in 1997, \$7.1 million in 1996 and \$46.7 million in 1995. Investment expenses were \$9.9 million in 1997, compared to \$6.1 million in 1996 and \$8.1 million in 1995; in 1997, the Company purchased a new portfolio management system and incurred expenses related to the sale of the commercial mortgage-backed securities.

Safe Harbor statement under the Private Securities Litigation Reform Act of 1995: Except for historical information, the matters discussed in this annual report are forward-looking statements that are subject to certain risks and uncertainties that could cause the actual results to differ materially from those projected, including acceptance of the products, pricing competition, market conditions and other risks detailed from time to time in the Company's SEC reports. The Company assumes no obligation to update the information in this annual report.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSES (LAE) DEVELOPMENT
(not covered by report of independent accountants)

(millions)											
For the years ended December 31,	1987	1988	1989	1990	1991	1992	1993	1994(3)	1995	1996	1997
Loss and LAE reserves(1)	\$ 471.0	\$ 651.0	\$ 748.6	\$ 791.6	\$ 861.5	\$ 956.4	\$1,012.4	\$1,098.7	\$1,314.4	\$1,532.9	\$1,867.5
Re-estimated reserves as of:											
One year later	446.6	610.3	685.4	748.8	810.0	857.9	869.9	1,042.1	1,208.6	1,429.6	
Two years later	422.2	573.4	677.9	726.5	771.9	765.5	837.8	991.7	1,149.5		
Three years later	402.4	581.3	668.6	712.7	718.7	737.4	811.3	961.2			
Four years later	403.9	575.1	667.1	683.7	700.1	725.2	794.6				
Five years later	399.6	578.4	654.7	666.3	695.1	717.3					
Six years later	400.2	582.2	647.1	664.8	692.6						
Seven years later	408.5	574.3	645.7	664.5							
Eight years later	408.1	574.4	645.4								
Nine years later	407.8	575.0									
Ten years later	408.5										
Cumulative redundancy	\$ 62.5	\$ 76.0	\$ 103.2	\$ 127.1	\$ 168.9	\$ 239.1	\$ 217.8	\$ 137.5	\$ 164.9	\$ 103.3	
Percentage(2)	13.3	11.7	13.8	16.1	19.6	25.0	21.5	12.5	12.6	6.7	

The chart represents the development of the property-casualty loss and LAE reserves for 1987 through 1996. The reserves are re-estimated based on experience as of the end of each succeeding year and are increased or decreased as more information becomes known about the frequency and severity of claims for individual years. The cumulative redundancy represents the aggregate change in the estimates over all prior years.

- (1) Represents loss and LAE reserves net of reinsurance recoverables on unpaid losses at the balance sheet date.
- (2) Cumulative redundancy / loss and LAE reserves.
- (3) In 1994, based on a review of its total loss reserves, the Company eliminated its \$71.0 million "supplemental reserve."

DIRECT PREMIUMS WRITTEN BY STATE
(not covered by report of independent accountants)

(millions)	1997		1996		1995		1994		1993	
Florida	\$ 663.0	13.7%	\$ 467.4	12.9%	\$ 421.9	13.7%	\$ 369.9	14.0%	\$ 265.6	13.5%
Texas	509.4	10.6	349.9	9.6	313.2	10.2	246.4	9.3	146.6	7.4
New York	446.3	9.2	358.0	9.8	225.6	7.4	195.2	7.4	170.4	8.7

Ohio	404.3	8.4	340.8	9.4	284.1	9.3	232.0	8.8	175.9	8.9
California	291.7	6.0	171.6	4.7	126.6	4.1	126.8	4.8	80.2	4.1
Georgia	261.9	5.4	212.1	5.8	155.1	5.1	129.7	4.9	120.0	6.1
Pennsylvania	248.3	5.1	201.3	5.5	184.9	6.0	161.2	6.1	113.0	5.8
All other	2,000.3	41.6	1,537.3	42.3	1,357.5	44.2	1,183.9	44.7	894.7	45.5
Total	\$ 4,825.2	100.0%	\$ 3,638.4	100.0%	\$ 3,068.9	100.0%	\$ 2,645.1	100.0%	\$ 1,966.4	100.0%

The Progressive Corporation and Subsidiaries

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QUANTITATIVE MARKET RISK DISCLOSURES
(not covered by report of independent accountants)

Quantitative market risk disclosures are only presented for market risk categories when risk is considered material. Materiality is determined based on the fair value of the financial instruments at December 31, 1997, and the potential for near term losses from reasonably possible near term changes in market rates or prices.

OTHER THAN TRADING FINANCIAL INSTRUMENTS

Financial instruments subject to interest rate risk as of December 31, 1997 were:

(millions)	market value				
	-200 bps CHANGE	-100 bps CHANGE	ACTUAL	+100 bps CHANGE	+200 bps CHANGE
U.S. government obligations	\$ 1,000.9	\$ 959.2	\$ 919.6	\$ 881.2	\$ 846.9
State and local government obligations	1,322.5	1,297.4	1,264.2	1,230.0	1,197.0
Asset-backed securities	1,635.7	1,581.4	1,520.1	1,471.7	1,414.9
Other debt securities	197.1	192.4	187.6	183.1	178.7
Preferred stocks	374.3	361.2	348.8	336.9	325.4
Short-term investments	409.4	409.4	409.4	409.4	409.4
Forward positions-liabilities	(2.2)	(1.1)	(0.1)	.8	1.7
	\$ 4,937.7	\$ 4,799.9	\$ 4,649.6	\$ 4,513.1	\$ 4,374.0

Exposure to risk is represented in terms of changes in fair value due to selected hypothetical movements in market rates. Bonds and preferred stocks are individually priced to yield to the worst case scenario. State and local government obligations, including lease deals and super sinkers, are assumed to hold their prepayment patterns. Asset-backed securities are priced assuming deal specific prepayment scenarios, considering the deal structure, prepayment penalties, yield maintenance agreements and the underlying collateral. Over 80% of the preferred stocks have mechanisms that are expected to provide an opportunity to liquidate at par.

Financial instruments subject to equity market risk as of December 31, 1997 were:

(millions)	MARKET VALUE	HYPOTHETICAL MARKET CHANGES	
		+10%	-10%
Common stocks	\$ 620.8	\$ 675.8	\$ 565.8

The model represents the estimated value of the Company's common stock portfolio given a + (-) 10% change in the market, based on the common stock portfolio's weighted average beta of .84. The beta is derived from recent historical experience, using the S&P 500 as the market surrogate. The historical relationship of the common stock portfolio's beta to the S&P 500 is not necessarily indicative of future correlation, as individual company or industry factors may effect price movement. Betas are not available for all securities. In such cases, the change in market value reflects a direct + (-) 10% change; the number of securities without betas is less than 25%. The common stock portfolio includes stock index futures with a market value of \$.8 million.

Financial instruments subject to foreign currency risk as of December 31, 1997 were:

(millions)	MARKET VALUE	NOTIONAL VALUE	HYPOTHETICAL GAIN (LOSS)
Canadian debt investments	\$ 58.5	N/A	\$ 5.8
Foreign equity investments	121.0	N/A	12.1
Foreign currency forwards-assets	(0.7)	50.9	5.1
Foreign currency forwards-liabilities	1.7	(67.2)	(6.7)
	-----		-----
	\$ 180.5		\$ 16.3
	=====		=====

N/A = not applicable; notional value pertains only to derivative instruments.

The Progressive Corporation and Subsidiaries

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The foreign equity portfolio, which may include stock index futures, foreign currency forwards and foreign preferred stocks, is comprised of numerous currencies, none of which are individually material. Therefore, sensitivity results are presented by class of financial instrument. The model calculates a gain or loss in market value if the U.S. dollar depreciates by 10% to the respective currency. The model does not attempt to reflect the correlation of multiple currencies to changes in the U.S. dollar. At December 31, 1997, the Company did not have any cross currency exposures.

TRADING FINANCIAL INSTRUMENTS

At December 31, 1997, the Company had short trading positions with a market value of \$1.1 million. Exposure to loss from open trading positions is not material individually or in the aggregate. The Company did not have any trading securities as of December 31, 1997.

QUARTERLY FINANCIAL AND COMMON SHARE DATA

(not covered by report of independent accountants)

(millions-except per share amounts)

QUARTER	OPERATING REVENUES	NET INCOME		OPERATING INCOME(1)		STOCK PRICE(4)			DIVIDENDS PER SHARE
		TOTAL (2)	PER SHARE (3)	TOTAL	PER SHARE (3)	HIGH-LOW	CLOSE	RATE OF RETURN(5)	
1997									
1	\$ 905.7	\$ 76.5	\$ 1.02	\$ 78.6	\$ 1.05	\$ 73 5/8 - 63 7/8	\$ 63 7/8		\$.060
2	1,020.9	102.1	1.36	82.8	1.10	87 3/8 - 61 1/2	87		.060
3	1,090.1	116.2	1.54	89.3	1.18	111 7/8 - 86 1/2	107 1/8		.060

4	1,218.1	105.3	1.39	85.3	1.13	120 7/8 - 99	119 7/8	.060
	\$ 4,234.8	\$ 400.0	\$ 5.31	\$ 336.0	\$ 4.46	\$120 7/8 - 61 1/2	\$119 7/8 78.4%	\$.240
1996								
1	\$ 741.4	\$ 63.3	\$.82	\$ 60.2	\$.78	\$ 51 1/4 - 43 1/2	\$ 44 5/8	\$.055
2	794.9	78.4	1.01	78.5	1.05	48 7/8 - 40 3/8	46 1/4	.055
3	840.3	80.3	1.08	82.5	1.11	58 1/2 - 43 1/8	57 1/4	.060
4	868.9	91.7	1.23	87.9	1.18	72 1/4 - 55 3/8	67 3/8	.060
	\$ 3,245.5	\$ 313.7	\$ 4.14	\$ 309.1	\$ 4.12	\$ 72 1/4 - 40 3/8	\$ 67 3/8 38.5%	\$.230
1995								
1	\$ 633.6	\$ 60.7	\$.79	\$ 50.7	\$.66	\$ 42 1/8 - 34 3/4	\$ 40 5/8	\$.055
2	687.4	60.8	.79	46.4	.60	41 7/8 - 37 1/8	38 3/8	.055
3	719.0	62.5	.81	59.0	.77	48 - 37 3/4	44 3/4	.055
4	726.1	66.5	.86	64.0	.83	49 1/2 - 41 1/2	48 7/8	.055
	\$ 2,766.1	\$ 250.5	\$ 3.26	\$ 220.1	\$ 2.85	\$ 49 1/2 - 34 3/4	\$ 48 7/8 40.4%	\$.220

- (1) Represents net income less realized gains and losses on security sales and one-time items.
- (2) The sum may not equal the total due to rounding in the individual periods. Each period is properly stated.
- (3) Presented on a diluted basis. The sum may not equal the total because the average equivalent shares differ in the periods. In 1997, the Company adopted SFAS 128, "Earnings Per Share," and, as a result, restated prior periods per share amounts, if applicable. See Note 1-Reporting and Accounting Policies for further discussion.
- (4) Prices as reported on the consolidated transaction reporting system. The Company's Common Shares are listed on the New York Stock Exchange.
- (5) Represents annual rate of return, including quarterly dividend reinvestment.

The Progressive Corporation and Subsidiaries

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TEN YEAR SUMMARY-FINANCIAL HIGHLIGHTS
(not covered by report of independent accountants)

(millions-except per share amounts and number of people employed)

	1997	1996
INSURANCE COMPANIES SELECTED FINANCIAL INFORMATION AND OPERATING STATISTICS-STATUTORY BASIS		
Reserves:		
Loss and loss adjustment expense(1)	\$ 1,867.5	\$ 1,532.9
Unearned premiums	1,901.9	1,382.9
Policyholders' surplus(1)	1,725.3	1,292.4
Ratios:		
Net premiums written to policyholders' surplus	2.7	2.7
Loss and loss adjustment expense reserves to policyholders' surplus	1.1	1.2
Loss and loss adjustment expense	71.1	70.2
Underwriting expense	20.7	19.8
Statutory combined ratio	91.8	90.0
SELECTED CONSOLIDATED FINANCIAL INFORMATION-GAAP BASIS		
Total revenues	\$ 4,608.2	\$ 3,478.4
Total assets	7,559.6	6,183.9
Total shareholders' equity(2)	2,135.9	1,676.9
Common Shares outstanding	72.3	71.5
Common Share price		
High	\$120 7/8	\$72 1/4

Low	61 1/2	40 3/8
Close(3)	119 7/8	67 3/8
Market capitalization	\$ 8,667.0	\$ 4,817.3
Book value per Common Share(2)	\$ 29.54	\$ 23.45
Return on average common shareholders' equity(4)	20.9%	20.5%
Debt outstanding	\$ 775.9	\$ 775.7
Ratio of debt to capital	27%	32%
GAAP underwriting margin(2)	6.6	8.5
Number of people employed	14,126	9,557

- (1) During 1994, the Company began accruing salvage and subrogation recoverables.
- (2) In 1994, the \$71.0 million "supplemental reserve" was eliminated, increasing book value per share \$.65, underwriting profit margin 3.2% and shareholders' equity \$46.2 million.
- (3) Represents the closing price at December 31.
- (4) Net income minus preferred share dividends / average common shareholders' equity.

All share and per share amounts were adjusted for the December 1992, 3 for 1 stock split.

The Progressive Corporation and Subsidiaries

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1995	1994	1993	1992	1991	1990	1989	1988
\$ 1,314.4	\$ 1,100.2	\$ 1,053.7	\$ 994.7	\$ 901.7	\$ 827.4	\$ 787.7	\$ 685.5
1,140.4	954.8	688.9	538.5	513.6	474.1	467.6	505.0
1,055.1	945.1	701.9	658.3	676.7	636.7	578.1	495.0
2.8	2.6	2.6	2.2	2.0	1.9	2.0	2.6
1.2	1.2	1.5	1.5	1.3	1.3	1.4	1.4
71.6	64.2	62.6	68.3	65.7	62.1	65.9	62.9
21.4	22.4	25.4	29.8	33.5	31.1	31.4	33.2
-----	-----	-----	-----	-----	-----	-----	-----
93.0	86.6	88.0	98.1	99.2	93.2	97.3	96.1
\$ 3,011.9	\$ 2,415.3	\$ 1,954.8	\$ 1,738.9	\$ 1,493.1	\$ 1,376.2	\$ 1,392.7	\$ 1,355.8
5,352.5	4,675.1	4,011.3	3,440.9	3,317.2	2,912.4	2,643.7	2,316.3
1,475.8	1,151.9	997.9	629.0	465.7	408.5	435.2	417.2
72.1	71.2	72.1	67.1	63.3	69.3	76.2	80.7
\$ 49 1/2	\$ 40 1/2	\$ 46 1/8	\$ 29 3/8	\$ 20 5/8	\$ 18 3/4	\$ 14 1/2	\$ 10 3/4
34 3/4	27 3/4	26 5/8	14 3/4	15	11	7 1/2	7 1/4
48 7/8	35	40 1/2	29 1/8	18	17 1/8	127/8	7 5/8
\$ 3,523.9	\$ 2,492.0	\$ 2,920.1	\$ 1,954.3	\$ 1,139.4	\$ 1,186.8	\$ 981.1	\$ 615.3
\$ 19.31	\$ 14.97	\$ 12.62	\$ 7.94	\$ 5.83	\$ 5.89	\$ 5.71	\$ 5.17
19.6%	27.4%	36.0%	34.7%	6.7%	21.5%	17.4%	25.9%
\$ 675.9	\$ 675.6	\$ 477.1	\$ 568.5	\$ 644.0	\$ 644.4	\$ 645.9	\$ 479.2
31%	37%	32%	47%	58%	61%	60%	53%
5.7	11.5	10.7	3.5	(3.7)	1.0	(1.2)	2.9
8,025	7,544	6,101	5,591	6,918	6,370	6,049	5,854

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TEN YEAR SUMMARY-GAAP CONSOLIDATED OPERATING RESULTS
(not covered by report of independent accountants)

(millions-except per share amounts)

	1997	1996
Direct premiums written:		
Personal lines	\$ 4,355.9	\$ 3,165.4
Commercial lines	469.3	473.0
	-----	-----
Total direct premiums written	4,825.2	3,638.4
Reinsurance assumed	--	3.8
Reinsurance ceded	(160.1)	(200.5)
	-----	-----
Net premiums written	4,665.1	3,441.7
Net change in unearned premiums reserve(1)	(475.6)	(242.4)
	-----	-----
Premiums earned	4,189.5	3,199.3
	-----	-----
Expenses:		
Losses and loss adjustment expenses(2)	2,967.5	2,236.1
Policy acquisition costs	607.8	482.6
Other underwriting expenses	336.0	208.5
	-----	-----
Total underwriting expenses	3,911.3	2,927.2
Underwriting profit (loss) before taxes	278.2	272.1
Provision (benefit) for income taxes	97.4	95.2
	-----	-----
Underwriting profit (loss) after taxes	180.8	176.9
Service operations profit (loss) after taxes	.9	2.8
	-----	-----
Investment income after taxes	181.7	179.7
Net realized gains (losses) on security sales after taxes	205.3	175.6
Interest expense after taxes	64.0	4.6
Proposition 103 reserve reduction after taxes	(42.0)	(40.0)
Non-recurring items after taxes	--	--
Other expenses after taxes(3)	--	--
	-----	-----
Income before tax adjustments and cumulative effect of accounting change	181.7	179.7
Tax adjustments(4)	205.3	175.6
Cumulative effect of accounting change(5)	64.0	4.6
	-----	-----
Net income	400.0	313.7
	-----	-----
Per share(6)		
Net income(2)	\$ 5.31	\$ 4.14
Dividends	.240	.230
Average equivalent shares		
Basic	72.0	71.6
Diluted	75.3	74.2

(1) Amount represents change in unearned premiums reserve less change in prepaid reinsurance premiums.

(2) In 1994, the "supplemental reserve" was eliminated, resulting in a one-time decrease to losses and loss adjustment expenses of \$71.0 million, or \$.62 per share.

(3) Reflects investment expenses after taxes and other tax adjustments.

(4) 1991 reflects a deferred tax asset write-down and 1990 reflects a fresh start tax benefit.

(5) Reflects adoption of SFAS 109, "Accounting for Income Taxes."

(6) Presented on a diluted basis. In 1997, the Company adopted SFAS 128, "Earnings Per Share," and, as a result, restated prior periods per share amounts, if applicable. See Note 1-Reporting and Accounting Policies for further discussion.

All share and per share amounts were adjusted for the December 1992, 3 for 1 stock split.

The Progressive Corporation and Subsidiaries

1995	1994	1993	1992	1991	1990	1989	1988
\$ 2,644.6	\$ 2,181.7	\$ 1,548.9	\$ 1,214.6	\$ 1,047.4	\$ 876.0	\$ 800.1	\$ 817.0
424.3	463.4	417.5	422.2	489.4	482.8	487.0	521.0
-----	-----	-----	-----	-----	-----	-----	-----
3,068.9	2,645.1	1,966.4	1,636.8	1,536.8	1,358.8	1,287.1	1,338.0
.1	2.9	9.2	4.3	.1	.1	7.2	9.4
(156.2)	(190.8)	(156.4)	(189.9)	(212.3)	(162.6)	(134.0)	(72.4)
-----	-----	-----	-----	-----	-----	-----	-----
2,912.8	2,457.2	1,819.2	1,451.2	1,324.6	1,196.3	1,160.3	1,275.0
(185.6)	(266.1)	(150.5)	(25.1)	(37.7)	(5.1)	36.2	(59.6)
-----	-----	-----	-----	-----	-----	-----	-----
2,727.2	2,191.1	1,668.7	1,426.1	1,286.9	1,191.2	1,196.5	1,215.4
-----	-----	-----	-----	-----	-----	-----	-----
1,943.8	1,397.3	1,028.0	930.9	858.0	762.9	799.3	752.0
459.6	391.5	311.6	304.1	313.7	292.7	296.7	321.3
167.2	150.8	151.3	141.5	162.1	123.7	114.9	106.6
-----	-----	-----	-----	-----	-----	-----	-----
2,570.6	1,939.6	1,490.9	1,376.5	1,333.8	1,179.3	1,210.9	1,179.9
156.6	251.5	177.8	49.6	(46.9)	11.9	(14.4)	35.5
54.8	88.0	62.2	16.9	(15.9)	4.0	(2.9)	10.0
-----	-----	-----	-----	-----	-----	-----	-----
101.8	163.5	115.6	32.7	(31.0)	7.9	(11.5)	25.5
5.6	6.5	4.4	(2.8)	(1.4)	2.8	2.5	(1.3)
-----	-----	-----	-----	-----	-----	-----	-----
107.4	170.0	120.0	29.9	(32.4)	10.7	(9.0)	24.2
156.2	131.2	107.1	110.4	121.1	126.4	135.3	91.3
30.4	15.5	70.1	9.6	4.9	(8.4)	(.4)	12.3
(37.1)	(35.9)	(25.8)	(29.4)	(31.6)	(32.0)	(32.5)	(10.5)
--	--	--	70.0	--	--	--	--
--	--	(2.6)	(42.6)	--	--	--	--
(6.4)	(6.5)	(1.5)	(8.3)	(14.9)	(13.2)	(15.4)	(9.2)
-----	-----	-----	-----	-----	-----	-----	-----
250.5	274.3	267.3	139.6	47.1	83.5	78.0	108.1
--	--	--	--	(14.2)	9.9	--	--
--	--	--	14.2	--	--	--	--
-----	-----	-----	-----	-----	-----	-----	-----
\$ 250.5	\$ 274.3	\$ 267.3	\$ 153.8	\$ 32.9	\$ 93.4	\$ 78.0	\$ 108.1
-----	-----	-----	-----	-----	-----	-----	-----
\$ 3.26	\$ 3.59	\$ 3.59	\$ 2.08	\$.41	\$ 1.20	\$.94	\$ 1.23
.220	.210	.200	.191	.172	.160	.147	.133
-----	-----	-----	-----	-----	-----	-----	-----
71.8	71.6	69.3	60.7	65.4	72.3	79.5	84.0
74.2	74.0	71.8	70.9	66.6	81.9	88.8	90.9

DIRECTORS

Milton N. Allen(1), (2)
Director,
various corporations

B. Charles Ames(1)
Principal,
Clayton, Dubilier & Rice, Inc.
(investment banking)

Charles A. Davis(1)
Limited Partner,
Goldman Sachs Group L.P.
(investment banking)

Stephen R. Hardis(1), (2)
Chairman of the Board and Chief
Executive Officer,
Eaton Corporation
(manufacturing)

Janet Hill(3)
Vice President,
Alexander & Associates, Inc.
(management consulting) and
President,
Staubach Alexander Hill, LLC
(commercial real estate consulting)

Peter B. Lewis(2)
Chairman of the Board, President
and Chief Executive Officer

Norman S. Matthews(3)
Consultant,
formerly President,
Federated Department Stores, Inc.
(retailing)

POLICY TEAM

Alan R. Bauer
Charles B. Chokel
Allan W. Ditchfield
W. Thomas Forrester
William H. Graves
Moir A. Lardakis
Daniel R. Lewis
Peter B. Lewis
Robert J. McMillan
Glenn M. Renwick
David M. Schneider
Tiona M. Thompson
Robert T. Williams

GENERAL AND
COMMUNITY MANAGERS

Jeffrey W. Adler
Juan C. Andrade
Mark H. Arnell
John A. Barbagallo
Russell H. Beaty
Jose R. Benitez
Charles C. Boucherle
Alan D. Brannan
Gerald E. Combs
William J. Conner
James C. Daus
John M. Davies
Brian C. Domeck
Brian J. Dwyer
Steven B. Gellen
James F. Gerstner
Meryl S. Golden
Robin A. Harbage
Thomas H. Hollyer
Richard A. Hutchinson

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the offices of
The Progressive Corporation, 6671 Beta Drive, Mayfield Village, Ohio
44143 on April 24, 1998, at 10:00 a.m. There were 4,093 shareholders
of record on December 31, 1997.

PRINCIPAL OFFICE

The principal office of The Progressive Corporation is at 6300
Wilson Mills Road, Mayfield Village, Ohio 44143
World Wide Web address: <http://www.progressive.com>

TOLL-FREE TELEPHONE NUMBERS

For assistance after an accident or to report a loss, 24 hours a
day, 7 days a week, call: 1-800-274-4499

For Progressive's smart new way to shop for auto insurance,
available 24 hours a day, 7 days a week, call: 1 800 AUTO PRO (R)
(1-800-288-6776)

For 24 Hour Policy Service, call: 1-800-888-7764

COUNSEL

Baker & Hostetler, Cleveland, Ohio

TRANSFER AGENT AND REGISTRAR

If you have questions about a specific stock ownership account,
write or call: Corporate Trust Customer Service, National City Bank,
1900 East Ninth Street, Cleveland, Ohio 44114. Phone: 1-800-622-6757

COMMON SHARES

The Progressive Corporation's Common Shares (symbol PGR) are traded
on the New York Stock Exchange. Dividends are customarily paid on
the last day of each quarter.

Donald B. Shackelford(3)
Chairman,
State Savings Bank
(savings bank)

Dr. Paul B. Sigler(3)
Professor, Yale University
and Investigator,
Howard Hughes Medical Institute
(medical research and education)

CORPORATE OFFICERS

Peter B. Lewis, Chairman,
President and
Chief Executive Officer

David M. Schneider, Secretary

Charles B. Chokel, Treasurer

(1) Audit Committee member
(2) Executive Committee member
(3) Executive Compensation
Committee member

Steven W. Jones
Thomas A. King
Jeffrey J. Knauff
James L. Lloyd
Timothy M. Madden
Eric W. Neely
Mark D. Niehaus
Brian J. Passell
Anthony P. Pavia, Jr.
Victor Politzi
David L. Pratt
Michael J. Randall
Chris C. Rebillot
Gerald A. Rett
Robert J. Rose
David L. Roush
John P. Sauerland
Michael D. Sieger
Brian A. Silva
David J. Skove
Michele A. Strub-Heer
Julia Clark Sweeney
Gregory J. Trapp
Richard H. Watts
Jeffrey G. West
Gerald I. Wilson
David W. Young
Scott W. Ziegler

INTERIM REPORTING The Progressive Corporation no longer distributes quarterly shareholders' reports. To hear the text of the latest earnings release, receive key financial information for the past several quarters, receive dividend and other information, or request copies of public documents, shareholders can call 1-800-879-PROG. This toll-free shareholder services line is available 24 hours a day, 7 days a week. Such information is also available from the Company's inter-net site: <http://www.progressive.com>

INVESTOR RELATIONS

Any shareholder wishing to receive public financial information on the Company may write or call: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143. Phone: 440-446-2851

(C) 1998 The Progressive Corporation
Design: Nesnadny + Schwartz, Cleveland + New York + Toronto
Printing: Fortran Printing, Cleveland
[Recycle Logo]
Printed on Recycled Paper

[PROGRESSIVE CORPORATION LOGO]

The Progressive Corporation
6300 Wilson Mills Road
Mayfield Village, Ohio 44143
www.progressive.com
440.461.5000

Exhibit 21

SUBSIDIARIES OF THE PROGRESSIVE CORPORATION

Name of Subsidiary -----	Jurisdiction of Incorporation -----
Airy Insurance Center, Inc.	Pennsylvania
Allied Insurance Agency, Inc.	Ohio
Dealer Direct Financial Services, Inc.	Texas
Express Quote Services, Inc.	Florida
Garden Sun Insurance Services, Inc.	Hawaii
Gold Key Insurance Agency	California
Greenberg Financial Insurance Services, Inc.	California
Halcyon Insurance Company	Ohio
Husky Sun Insurance Services, Inc.	Washington
Insurance Confirmation Services, Inc.	Delaware
Lakeside Insurance Agency, Inc.	Ohio
Marathon Insurance Company	California
Maryland Auto Insurance Solutions, Inc.	Maryland
Midland Financial Group, Inc.	Tennessee
Agents Financial Services - Tennessee, Inc.	Tennessee
Agents Financial Services - Arizona, Inc.	Arizona
Agents Financial Services - Illinois, Inc. (90% owned)	Illinois
Agents Financial Services, Inc. (40% owned)	Florida
Agents Financial Services - Pacific N.W., Inc.	Oregon
Midland Financial Services - Texas, Inc.	Texas
AutoSurance of America, Inc.	Arizona
Delta Claims Services, Inc.	Tennessee
Midland Financial Services, Inc.	Louisiana
Midland Risk Insurance Company	Tennessee
Specialty Risk Insurance	
Company	Tennessee
Midland Risk Services - Texas, Inc.	Texas
Midland Risk Services, Inc.	Tennessee
Midland Risk Services - Arizona, Inc.	Arizona
Midland Risk Services - Nevada, Inc.	Nevada
Midland Risk Insurance Services - California, Inc.	California
Midland Risk Services - Illinois, Inc. (85% owned)	Illinois
Midland Risk Services of Louisiana, Inc.	Louisiana
Midland Risk Services - Pacific N.W., Inc.	Oregon
Midland Risk Services - Tennessee, Inc.	Tennessee
Mountain Laurel Assurance Company	Pennsylvania
Mountainside Insurance Agency, Inc.	Colorado
National Continental Insurance Company	New York
Pacific Motor Club	California
PCIC Canada Holdings, Ltd.	Canada
Progressive Casualty Insurance Company of Canada	Canada
Progn Agency, Inc.	New York
Progressive Adjusting Company, Inc.	Ohio
Progressive American Insurance Company	Florida
Bayside Underwriters Insurance Agency, Inc.	Florida
Progressive Gulf Insurance Company	Mississippi
Progressive Classic Insurance Company	Wisconsin

Progressive American Life Insurance Company	Ohio
Progressive Life Insurance, Ltd.	Turks & Caicos Islands
Progressive Auto Pro Insurance Company	Florida
Progressive Bayside Insurance Company	Florida

Progressive Casualty Insurance Company	Ohio
PC Investment Company	Delaware
Progressive Specialty Insurance Company	Ohio
Progressive Consumers Insurance Company	Florida
Progressive DirecTrac Service Corp.	Texas
Progressive Express Insurance Company	Florida
Progressive Hawaii Insurance Corp.	Hawaii
Progressive Insurance Agency, Inc.	Ohio
Progressive International Holdings Corp.	Delaware
Progressive Investment Company, Inc.	Delaware
RRM Holdings, Inc.	Ohio
Progressive Max Insurance Company	Ohio
Progressive Michigan Insurance Company	Michigan
Progressive Mountain Insurance Company	Colorado
Progressive Northeastern Insurance Company	New York
Progressive Northern Insurance Company	Wisconsin
Progressive Premier Insurance Company of Illinois	Illinois
Progressive Universal Insurance Company of Illinois	Illinois
Progressive Northwestern Insurance Company	Washington
Progressive Paloverde Insurance Company	Arizona
Progressive Partners, Inc.	New York
Progressive Preferred Insurance Company	Ohio
Progressive Premium Budget, Inc.	Ohio
Progressive Resources Services Company	Ohio
Progressive Security Insurance Company	Louisiana
Progressive Southeastern Insurance Company	Florida
Progressive West Insurance Company	California
Silver Key Insurance Agency, Inc.	Nevada
Tampa Insurance Services, Inc.	Florida
The Paradyme Corporation	Ohio
United Financial Insurance Agency, Inc.	Ohio
United Financial Insurance Agency, Inc.	Washington
The Progressive Agency, Inc.	Virginia
United Financial Adjusting Company	Ohio
Progressive Vehicle Inspection Services, Inc. (50.1% owned)	California
United Financial Casualty Company	Missouri
Village Transport Corp.	Delaware
Wilson Mills Land Co.	Ohio

Except as indicated, each subsidiary is wholly owned by its parent.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 24th day of March 1998.

Signature _____ Position(s) with
The Progressive Corporation

/s/ Peter B. Lewis

Peter B. Lewis

Chairman, President, Chief Executive Officer
and Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 20th day of March, 1998.

Position(s) with

Signature

The Progressive Corporation

/s/ Jeffrey W. Basch

Jeffrey W. Basch

Chief Accounting Officer

3

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shralow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of March, 1998.

Signature

Position(s) with
The Progressive Corporation

/s/ Charles B. Chokel

Charles B. Chokel

Chief Financial Officer

4

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shralow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 20th day of March, 1998.

Signature _____ Position(s) with
The Progressive Corporation

/s/ Milton N. Allen

Milton N. Allen

Director

5

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of March, 1998.

Signature _____ Position(s) with
The Progressive Corporation

/s/ B. Charles Ames

B. Charles Ames

Director

6

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in

connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 20th day of March, 1998.

Signature	Position(s) with
- -----	The Progressive Corporation

/s/ Stephen R. Hardis

Stephen R. Hardis

Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shralow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 20th day of March, 1998.

Signature	Position(s) with
- -----	The Progressive Corporation

/s/ Norman S. Matthews

Norman S. Matthews

Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint

Peter B. Lewis, David M. Schneider, Dane A. Shralow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 20th day of March, 1998.

Signature	Position(s) with
- -----	The Progressive Corporation

/s/ Donald B. Shackelford

Donald B. Shackelford

Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shralow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 20th day of March, 1998.

Signature	Position(s) with
- -----	The Progressive Corporation

/s/ Paul B. Sigler

Paul B. Sigler

Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 23rd day of March, 1998.

Signature _____ Position(s) with
The Progressive Corporation

/s/ Janet Hill

Janet M. Hill

Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1997, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of March, 1998.

Signature _____ Position(s) with
The Progressive Corporation

/s/ Charles A. Davis

Charles A. Davis

Director

<ARTICLE> 7

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

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<CUMULATIVE-DEFICIENCY>	(103,300)	

<ARTICLE> 7

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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JAN-01-1997

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<FN>

<F1>Represents basic and diluted earnings per share as required by SFAS 128, "Earnings per Share," which replaces primary and fully diluted earnings per

share as previously reported.
</FN>

<ARTICLE> 7

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<PAYMENTS-PRIOR>		0

0

<RESERVE-CLOSE> 0

<CUMULATIVE-DEFICIENCY> 0

<FN>

<F1>Represents basic and diluted earnings per share as required by SFAS 128, "Earnings per Share," which replaces primary and fully diluted earnings per

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</FN>

<ARTICLE> 7

<LEGEND>

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<RESTATED>

<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS	
<FISCAL-YEAR-END>		DEC-31-1997
<PERIOD-START>		JAN-01-1997
<PERIOD-END>		MAR-31-1997
<DEBT-HELD-FOR-SALE>		3,589,200
<DEBT-CARRYING-VALUE>		0
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<DEFERRED-ACQUISITION>		230,300
<TOTAL-ASSETS>		6,704,800
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<UNEARNED-PREMIUMS>		1,671,300
<POLICY-OTHER>		0
<POLICY-HOLDER-FUNDS>		0
<NOTES-PAYABLE>		775,800
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		71,800
<OTHER-SE>		1,669,300
<TOTAL-LIABILITY-AND-EQUITY>		6,704,800
<PREMIUMS>		894,300
<INVESTMENT-INCOME>		62,600
<INVESTMENT-GAINS>		(3,300)
<OTHER-INCOME>		11,400
<BENEFITS>		635,200
<UNDERWRITING-AMORTIZATION>		128,600
<UNDERWRITING-OTHER>		65,800
<INCOME-PRETAX>		108,100
<INCOME-TAX>		31,600
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<CHANGES>		0
<NET-INCOME>		76,500
<EPS-PRIMARY>		1.07<F1>
<EPS-DILUTED>		1.02<F1>
<RESERVE-OPEN>		0
<PROVISION-CURRENT>		0
<PROVISION-PRIOR>		0
<PAYMENTS-CURRENT>		0
<PAYMENTS-PRIOR>		0
<RESERVE-CLOSE>		0

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<CUMULATIVE-DEFICIENCY> 0

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<PERIOD-TYPE>	YEAR	
<FISCAL-YEAR-END>	DEC-31-1996	
<PERIOD-START>	JAN-01-1996	
<PERIOD-END>	DEC-31-1996	
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<DEBT-MARKET-VALUE>	0	
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<MORTGAGE>	0	
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<CASH>	15,400	
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<TOTAL-ASSETS>	6,183,900	
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<NOTES-PAYABLE>	775,700	
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<PREFERRED>	0	
<COMMON>	71,500	
<OTHER-SE>	1,605,400	
<TOTAL-LIABILITY-AND-EQUITY>	6,183,900	
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<INVESTMENT-GAINS>	7,100	
<OTHER-INCOME>	46,200	
<BENEFITS>	2,236,100	
<UNDERWRITING-AMORTIZATION>	482,600	
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<INCOME-PRETAX>	441,700	
<INCOME-TAX>	128,000	
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<EPS-DILUTED>	4.14<F1>	
<RESERVE-OPEN>	1,314,400	
<PROVISION-CURRENT>	2,341,900	
<PROVISION-PRIOR>	(105,800)	
<PAYMENTS-CURRENT>		
	1,424,700	
<PAYMENTS-PRIOR>	592,900	
<RESERVE-CLOSE>	1,532,900	
<CUMULATIVE-DEFICIENCY>	(105,800)	
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<LEGEND>

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<MULTIPLIER> 1,000

<PERIOD-TYPE>	9-MOS	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-START>		JAN-01-1996
<PERIOD-END>		SEP-30-1996
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<MORTGAGE>		0
<REAL-ESTATE>		0
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<UNEARNED-PREMIUMS>		1,449,400
<POLICY-OTHER>		0
<POLICY-HOLDER-FUNDS>		0
<NOTES-PAYABLE>		775,600
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		71,400
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<TOTAL-LIABILITY-AND-EQUITY>		5,987,200
<PREMIUMS>		2,344,000
<INVESTMENT-INCOME>		158,600
<INVESTMENT-GAINS>		1,200
<OTHER-INCOME>		32,600
<BENEFITS>		1,636,700
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<UNDERWRITING-OTHER>		153,900
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<INCOME-TAX>		88,100
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<EPS-DILUTED>		2.91<F1>
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<PROVISION-CURRENT>		0
<PROVISION-PRIOR>		0
<PAYMENTS-CURRENT>		0
<PAYMENTS-PRIOR>		0
<RESERVE-CLOSE>		0

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<CUMULATIVE-DEFICIENCY> 0

<FN>

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<MULTIPLIER> 1,000

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<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-START>		JAN-01-1996
<PERIOD-END>		JUN-30-1996
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<DEBT-CARRYING-VALUE>		0
<DEBT-MARKET-VALUE>		0
<EQUITIES>		680,100
<MORTGAGE>		0
<REAL-ESTATE>		0
<TOTAL-INVEST>		4,069,000
<CASH>		11,200
<RECOVER-REINSURE>		315,800
<DEFERRED-ACQUISITION>		193,900
<TOTAL-ASSETS>		5,793,700
<POLICY-LOSSES>		1,693,300
<UNEARNED-PREMIUMS>		1,399,400
<POLICY-OTHER>		0
<POLICY-HOLDER-FUNDS>		0
<NOTES-PAYABLE>		775,600
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		71,300
<OTHER-SE>		1,388,200
<TOTAL-LIABILITY-AND-EQUITY>		5,793,700
<PREMIUMS>		1,516,500
<INVESTMENT-INCOME>		103,000
<INVESTMENT-GAINS>		4,700
<OTHER-INCOME>		19,800
<BENEFITS>		1,064,100
<UNDERWRITING-AMORTIZATION>		239,500
<UNDERWRITING-OTHER>		92,200
<INCOME-PRETAX>		197,300
<INCOME-TAX>		55,500
<INCOME-CONTINUING>		141,800
<DISCONTINUED>		0
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<NET-INCOME>		141,800
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<EPS-DILUTED>		1.83<F1>
<RESERVE-OPEN>		0
<PROVISION-CURRENT>		0
<PROVISION-PRIOR>		0
<PAYMENTS-CURRENT>		0
<PAYMENTS-PRIOR>		0
<RESERVE-CLOSE>		0

0

<CUMULATIVE-DEFICIENCY> 0

<FN>

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<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-START>		JAN-01-1996
<PERIOD-END>		MAR-31-1996
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<DEBT-MARKET-VALUE>		0
<EQUITIES>		698,500
<MORTGAGE>		0
<REAL-ESTATE>		0
<TOTAL-INVEST>		4,067,400
<CASH>		13,900
<RECOVER-REINSURE>		333,700
<DEFERRED-ACQUISITION>		186,200
<TOTAL-ASSETS>		5,686,700
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<UNEARNED-PREMIUMS>		1,295,800
<POLICY-OTHER>		0
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<NOTES-PAYABLE>		675,900
<PREFERRED-MANDATORY>		0
<PREFERRED>		78,400
<COMMON>		72,200
<OTHER-SE>		1,356,000
<TOTAL-LIABILITY-AND-EQUITY>		5,686,700
<PREMIUMS>		732,000
<INVESTMENT-INCOME>		50,900
<INVESTMENT-GAINS>		4,900
<OTHER-INCOME>		9,400
<BENEFITS>		525,400
<UNDERWRITING-AMORTIZATION>		120,100
<UNDERWRITING-OTHER>		41,000
<INCOME-PRETAX>		87,100
<INCOME-TAX>		23,800
<INCOME-CONTINUING>		63,300
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		63,300
<EPS-PRIMARY>		.85<F1>
<EPS-DILUTED>		.82<F1>
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<PROVISION-CURRENT>		0
<PROVISION-PRIOR>		0
<PAYMENTS-CURRENT>		0
<PAYMENTS-PRIOR>		0
<RESERVE-CLOSE>		0

0

<CUMULATIVE-DEFICIENCY> 0

<FN>

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<LEGEND>

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<PERIOD-TYPE>	YEAR	
<FISCAL-YEAR-END>	DEC-31-1995	
<PERIOD-START>	JAN-01-1995	
<PERIOD-END>	DEC-31-1995	
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<DEBT-CARRYING-VALUE>	0	
<DEBT-MARKET-VALUE>	0	
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<MORTGAGE>	0	
<REAL-ESTATE>	0	
<TOTAL-INVEST>	3,768,000	
<CASH>	16,200	
<RECOVER-REINSURE>	338,100	
<DEFERRED-ACQUISITION>	181,900	
<TOTAL-ASSETS>	5,352,500	
<POLICY-LOSSES>	1,610,500	
<UNEARNED-PREMIUMS>	1,209,600	
<POLICY-OTHER>	0	
<POLICY-HOLDER-FUNDS>	0	
<NOTES-PAYABLE>	675,900	
<PREFERRED-MANDATORY>	0	
<PREFERRED>	83,600	
<COMMON>	72,100	
<OTHER-SE>	1,320,100	
<TOTAL-LIABILITY-AND-EQUITY>	5,352,500	
<PREMIUMS>	2,727,200	
<INVESTMENT-INCOME>	191,000	
<INVESTMENT-GAINS>	46,700	
<OTHER-INCOME>	38,900	
<BENEFITS>	1,943,800	
<UNDERWRITING-AMORTIZATION>	459,600	
<UNDERWRITING-OTHER>	167,200	
<INCOME-PRETAX>	345,900	
<INCOME-TAX>	95,400	
<INCOME-CONTINUING>	250,500	
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<PROVISION-PRIOR>	(56,600)	
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	1,204,500	
<PAYMENTS-PRIOR>	525,300	
<RESERVE-CLOSE>	1,314,400	
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</FN>