**TABLE OF CONTENTS**



---

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

**FORM 10-K**

(Mark One)

[X] **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2000

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.

[X] 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, 2001: $6,007,223,974

The number of the registrant's Common Shares, $1.00 par value, outstanding as of February 28, 2001: 73,683,916

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 2000 are incorporated by reference in Parts I, II and IV hereof. Portions of the registrant's Proxy Statement dated March 15, 2001, for the Annual Meeting of Shareholders to be held on April 20, 2001, are incorporated by reference in Part III hereof.

[Table of Contents](#)

**INTRODUCTION**

The Progressive Corporation and subsidiaries' (collectively, the "Company") 2000 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 15, 2001, for the Annual Meeting of Shareholders to be held on April 20, 2001 (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 insurance organization began business in 1937. The Progressive Corporation, an insurance holding company formed in 1965, has 76 subsidiaries and 2 mutual insurance company affiliates. The Progressive Corporation's insurance subsidiaries and affiliates provide personal automobile insurance and other specialty property-casualty insurance and related services throughout the United States. 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.

(b) Financial Information About Industry Segments

Incorporated by reference from Note 8, Segment Information, on page 38 of the Company's Annual Report to Shareholders, which is included as Exhibit 13 to this Annual Report on Form 10-K.

(c) Narrative Description of Business

The Company offers a number of personal and commercial property-casualty insurance products related to motor vehicles. Net premiums written were $6,196.1 million in 2000, compared to $6,124.7 million in 1999 and $5,299.7 million in 1998. The underwriting loss was 4.4% in 2000, compared to underwriting profit of 1.7% in 1999 and 8.4% in 1998.

**Personal Lines**

Of the approximately 220 United States insurance company groups writing private passenger auto insurance, the Company ranked fourth in size for 1999 based on volume and estimates that it held this position for 2000. For 2000, the estimated industry premiums written, which include personal auto insurance in the United States, were $121.9 billion, and Progressive's share of this market was approximately 4.6%, compared to $118.6 billion and 4.8%, respectively, in 1999, and $117.3 billion and 4.2% in 1998. 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.

The Company's Personal Lines segment writes insurance for private passenger automobiles and recreation vehicles. This business frequently offers more than one program in a single state, with each targeted to a specific market segment. Personal Lines accounted for 91% of total net premiums written in 2000 compared to 93% in both 1999 and 1998. The Company's strategy is to build towards becoming a low-cost provider of a full line of auto insurance products and related services, distributed through whichever channel the customer prefers.

Private passenger automobile insurance is comprised of preferred, standard and nonstandard automobile risks. Standard and preferred automobile risks accounted for 54%, 47% and 35% of the Company's total Personal Lines premiums in 2000, 1999 and 1998, respectively. The Company's goal is to compete successfully in the standard and preferred market, which comprises about 80% of the United States' personal automobile insurance market.



Table of Contents

Nonstandard automobile insurance accounts for the remaining private passenger automobile insurance written by the Company. The size of the nonstandard automobile insurance market changes with the insurance environment and is estimated currently to be about 20% of the United States' personal automobile insurance market. Volume potential is influenced by the actions of direct competitors, writers of standard and preferred automobile insurance and state-mandated involuntary plans. Approximately 390 nonstandard insurance companies, many of which are part of an affiliated group, compete for this business. The Company is a leading writer in the nonstandard auto market.

The Company's specialty Personal Lines products include insurance for motorcycles, recreation vehicles, mobile homes, watercraft, snowmobiles and similar items. The Company'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 one of the largest participants in the specialty personal lines market. Progressive has been the market share leader in the motorcycle product since 1998.

The Company launched a homeowners product in Arizona in March 2000. The Company expanded this product into Michigan in October 2000 and into Maryland and Texas in the first quarter of 2001. The Company is initially selling its homeowners insurance through a select number of independent agents. The Company recognizes that many consumers and agents prefer the convenience of placing their home and auto insurance with the same company. To minimize the overall exposure, the Company is reinsuring this product line through a 75% quota share agreement under which the Company has a 25% net retention.

The Personal Lines business is generated either by an Agent or written directly by the Company. The Agent channel includes business written by the Company's network of more than 30,000 Independent Insurance Agencies, located throughout the United States, and through Strategic Alliance business relationships. The Independent Insurance Agencies have the authority to bind the Company to specified insurance coverages within prescribed underwriting guidelines, subject to compliance with certain Company-mandated procedures. 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 Agencies 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 Strategic Alliances channel includes alliances with other insurance companies, financial institutions, employers and national brokerage agencies. In 2000, the total net premiums written through Independent Agents and Strategic Alliance agency relationships represented 77% of the Personal Lines volume, compared to 83% in 1999 and 89% in 1998. Direct business includes business written through 1-800-AUTO-PRO®, the Internet (progressive.com) and the Strategic Alliance business unit on behalf of affinity groups. Net premiums written in the Direct business were 23%, 17% and 11% of the Personal Lines volume in 2000, 1999 and 1998, respectively.

Auto insurance differs greatly by community because regulations and legal decisions vary by state and because traffic, law enforcement, cultural attitudes, insurance agents, medical services and auto repair services vary by community. The Company's organization enables it to meet varied local conditions under a cohesive set of policies and procedures designed to provide consistency and control. The Company's business is organized into business areas: Agent, Direct (which includes the Internet business) and Claims Resolution. The Agent, Direct and Claims Resolution business areas are managed at a local level and structured into six regions, while Internet is managed at a national level. Each business has a business leader and a product team, with local managers at the state or regional level. Processing (such as customer service calls, direct sales calls and claims processing) is performed at seven regional sites in Albany, New York; Austin, Texas; Cleveland, Ohio; Colorado Springs, Colorado; Sacramento, California; Tampa, Florida; and Tempe, Arizona.

The Company's executive officer team, which sets policy and makes key strategic decisions, includes the Chief Executive Officer, Chief Financial Officer, Chief Legal Officer, Chief Information Officer, Chief Human Resources Officer and Chief Communications Officer. The Company's four Business Leaders (Agent, Direct, Internet and Claims Resolution) are also part of the executive team. The Business Leaders are challenged to develop and manage product offerings and customer service processes tailored to the unique requirements of customers who discover and select Progressive through different distribution modes.



Table of Contents

**Other Businesses**

The Company's other lines of business include the Commercial Vehicle business unit, United Financial Casualty Company (UFCC), Professional Liability Group (PLG) and Motor Carrier business unit, which are organized by customer group and headquartered in Cleveland, Ohio. These businesses accounted for approximately 7% of total revenue in 2000. The choice of distribution channel is driven by each customer group's buying preference and service needs. Distribution channels include independent agents, financial institutions, vehicle dealers and company-employed sales forces. 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. Most of these businesses operate in markets that are declining in size.

The Commercial Vehicle business unit provides monoline insurance which covers automobiles and trucks owned by small businesses for primary liability, physical damage and other supplementary insurance coverages. Based on the Company's analysis of this market, the Company competes for this business on a nationwide basis with approximately 150 other companies. The Company estimates that it is one of the largest monoline commercial auto carriers.

UFCC primarily 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 offered is collateral protection insurance 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 loan institutions, 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 and various other reinsurance entities. The program is sponsored by the American Bankers Association. Additionally, the Company provides similar coverages for credit unions and savings and loan institutions. The risk and premium on these coverages are also reinsured by various reinsurance entities. PLG represented less than one-half percent of the Company's total 2000 net premiums written.

The Motor Carrier business unit primarily processes business for Commercial Auto Insurance Procedures (CAIP), which are state supervised plans serving the involuntary markets. The Motor Carrier business unit processes CAIP business in 26 states. As a CAIP servicing carrier, this business unit processes over 50% of the premiums in the CAIP market and assumes no indemnity risk. It competes with 2 other providers nationwide.

**Competitive Factors**

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 markets and price 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 expenses. 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, claim adjusting and strong brand recognition are also important factors in the Company's competitive strategy.

**Licenses**

The Company operates under licenses issued by various insurance authorities. These 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**

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. 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 insurance subsidiaries and affiliates are domiciled in the states of Arizona, California, Colorado, Illinois, 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 statutory 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 and operations to monitor financial stability of the insurers and to ensure 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 these 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 which are not insurable in the voluntary market. These "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 in those states.

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 premiums written 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 use of non-public consumer information, insurance rate development, rate determination and the ability of insurers to cancel or renew insurance policies, reflecting concerns about consumer privacy, coverage, availability, prices and alleged discriminatory pricing.

In 1999, Congress passed the Gramm-Leach-Bliley Act of 1999 ("GLB"), which among other things places new requirements on financial institutions, including insurance companies, designed to protect the "nonpublic personal information" of consumers. GLB requires each financial institution to provide to its customers a copy of the institution's privacy policy at the commencement and at least annually during the term of the customer relationship. Subject to certain exceptions, GLB prohibits a financial institution from disclosing to nonaffiliated third parties any nonpublic personal information pertaining to its consumers, unless the financial institution first provides to its consumers a copy of its privacy policy and gives the consumers an opportunity to "opt out" of such disclosures. Various states have enacted or are expected to enact privacy legislation or regulations which may impose additional requirements. The Company is undertaking efforts to comply with such laws and regulations.

In some states, the automobile insurance industry has been under pressure in past 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 price automobile insurance adequately 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.

The Company files statutory-based financial statements with state insurance departments in all states in which the Company is licensed. On January 1, 2001, significant changes to the statutory basis of accounting became effective. The cumulative effect of these changes, known as the Codification guidance, will be recorded as a direct adjustment to statutory surplus. The effect of adoption is expected to increase statutory surplus by approximately $300 million; the Company expects that statutory surplus after adoption will continue to be in excess of the regulatory risk-based capital requirements.

**Statutory Accounting Principles**

The Company'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 variable 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, but are charged directly against statutory surplus under SAP. These assets consist primarily of premium receivables that are outstanding 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 current 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.

5. Costs for computer software developed or obtained for internal use are capitalized and amortized over their useful life, rather then expensed as incurred, as required by SAP.

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

**Investments**

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 $6,983.3 million at December 31, 2000, compared to $6,427.7 million at December 31, 1999. 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 $402.1 million in 2000, compared to $387.9 million in 1999 and $306.2 million in 1998. See Management's Discussion and Analysis of Financial Condition and Results of Operations, on pages 42 through 46 of the Company's Annual Report.

**Employees**

The number of employees, excluding temporary employees, at December 31, 2000, was 19,490.

**Liability for Property-Casualty Losses and Loss Adjustment Expenses**

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 middle 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 2000, 1999 and 1998 on a GAAP basis.



Table of Contents

**RECONCILIATION OF NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES**

| (millions) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Balance at January 1 | $ 2,416.2 | $ 2,188.6 | $ 2,146.6 |
| Less reinsurance recoverables on unpaid losses | 216.0 | 242.8 | 279.1 |
| Net balance at January 1 | 2,200.2 | 1,945.8 | 1,867.5 |
| Incurred related to: | | | |
| Current year | 5,203.6 | 4,286.2 | 3,560.5 |
| Prior years | 75.8 | (29.8) | (184.2) |
| Total incurred | 5,279.4 | 4,256.4 | 3,376.3 |
| Paid related to: | | | |
| Current year | 3,447.7 | 2,919.2 | 2,376.0 |
| Prior years | 1,246.6 | 1,082.8 | 922.0 |
| Total paid | 4,694.3 | 4,002.0 | 3,298.0 |
| Net balance at December 31 | 2,785.3 | 2,200.2 | 1,945.8 |
| Plus reinsurance recoverable on unpaid losses | 201.1 | 216.0 | 242.8 |
| Balance at December 31 | $ 2,986.4 | $ 2,416.2 | $ 2,188.6 |

The reconciliation above shows $75.8 million of adverse development, which emerged during 2000, in the 2000 liability and a positive emergence of $29.8 million shown in the 1999 liability, based on information known as of December 31, 2000 and December 31, 1999, respectively. Prior to 2000, the Company's reserves developed conservatively. Beginning in 1999 and continuing throughout 2000, the Company experienced an increase in severity trends which led to adverse development on prior accident years in 2000, as compared to 1999 and 1998.

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.



Table of Contents

**ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSES DEVELOPMENT (millions)**

| YEAR ENDED | 1990 | 1991 | 1992 | 1993 | 1994[3] | 1995 |
|---|---|---|---|---|---|---|
| LIABILITY FOR UNPAID LOSSES AND LAE[1] | $ 791.6 | $ 861.5 | $ 956.4 | $ 1,012.4 | $ 1,098.7 | $ 1,314.4 |
| PAID (CUMULATIVE) AS OF: | | | | | | |
| One year later | 322.4 | 353.4 | 366.8 | 417.0 | 525.3 | 593.0 |
| Two years later | 490.8 | 518.8 | 520.0 | 589.8 | 706.4 | 838.9 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Three years later | 570.4 | 583.2 | 598.2 | 664.1 | 810.6 | 960.1 |
| Four years later | 600.0 | 617.6 | 632.8 | 709.9 | 857.1 | 1,057.1 |
| Five years later | 613.6 | 635.8 | 658.6 | 729.8 | 892.7 | 1,092.5 |
| Six years later | 624.7 | 651.2 | 669.7 | 742.2 | 909.7 | — |
| Seven years later | 631.1 | 656.2 | 676.0 | 752.8 | — | — |
| Eight years later | 634.7 | 659.7 | 682.3 | — | — | — |
| Nine years later | 638.6 | 662.8 | — | — | — | — |
| Ten years later | 640.8 | — | — | — | — | — |
| LIABILITY RE-ESTIMATED AS OF: | | | | | | |
| One year later | 748.8 | 810.0 | 857.9 | 869.9 | 1,042.1 | 1,208.6 |
| Two years later | 726.5 | 771.9 | 765.5 | 837.8 | 991.7 | 1,149.5 |
| Three years later | 712.7 | 718.7 | 737.4 | 811.3 | 961.2 | 1,118.6 |
| Four years later | 683.7 | 700.1 | 725.2 | 794.6 | 940.6 | 1,137.7 |
| Five years later | 666.3 | 695.1 | 717.3 | 782.9 | 945.5 | 1,153.3 |
| Six years later | 664.8 | 692.6 | 711.1 | 780.1 | 952.7 | — |
| Seven years later | 664.5 | 688.2 | 709.2 | 788.6 | — | — |
| Eight years later | 661.4 | 687.9 | 714.6 | — | — | — |
| Nine years later | 660.4 | 690.3 | — | — | — | — |
| Ten years later | 665.9 | — | — | — | — | — |
| CUMULATIVE REDUNDANCY (DEFICIENCY) | $ 125.7 | $ 171.2 | $ 241.8 | $ 223.8 | $ 146.0 | $ 161.1 |
| PERCENTAGE² | 15.9 | 19.9 | 25.3 | 22.1 | 13.3 | 12.3 |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| YEAR ENDED | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| LIABILITY FOR UNPAID LOSSES AND LAE¹ | $ 1,532.9 | $ 1,867.5 | $ 1,945.8 | $ 2,200.2 | $ 2,785.3 |
| PAID (CUMULATIVE) AS OF: | | | | | |
| One year later | 743.6 | 922.0 | 1,082.8 | 1,246.5 | |
| Two years later | 1,034.5 | 1,289.6 | 1,487.9 | | |
| Three years later | 1,266.1 | 1,474.9 | — | | |
| Four years later | 1,351.1 | — | — | | |
| Five years later | — | — | — | | |
| Six years later | — | — | — | | |
| Seven years later | — | — | — | | |
| Eight years later | — | — | — | | |
| Nine years later | — | — | — | | |
| Ten years later | — | — | — | | |
| LIABILITY RE-ESTIMATED AS OF: | | | | | |
| One year later | 1,429.6 | 1,683.3 | 1,916.0 | 2,276.0 | |
| Two years later | 1,364.5 | 1,668.5 | 1,910.6 | | |
| Three years later | 1,432.3 | 1,673.1 | — | | |
| Four years later | 1,451.0 | — | — | | |
| Five years later | — | — | — | | |
| Six years later | — | — | — | | |
| Seven years later | — | — | — | | |
| Eight years later | — | — | — | | |
| Nine years later | — | — | — | | |
| Ten years later | — | — | — | | |
| CUMULATIVE REDUNDANCY (DEFICIENCY) | $ 81.9 | $ 194.4 | $ 35.2 | $ (75.8) | |
| PERCENTAGE² | 5.3 | 10.4 | 1.8 | (3.4) | |

¹ Represents loss and LAE reserves net of reinsurance recoverables on unpaid losses at the balance sheet date.
² Cumulative redundancy/(deficiency) ÷ 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.”

The above table presents the development of balance sheet liabilities for 1990 through 1999. 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. This liability represents the estimated amount of losses and LAE for claims that are unpaid at the balance sheet date, including losses that had been incurred but not reported.

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, 2000 the companies had paid $662.8 million of the currently estimated $690.3 million of losses and LAE that had been incurred through the end of 1991; thus an estimated $27.5 million of losses incurred through 1991 remain unpaid as of the current financial statement date.



Table of Contents

The “Cumulative Redundancy/(Deficiency)” represents the aggregate change in the estimates over all prior years. For example, the 1990 liability has developed conservatively by $125.7 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/(deficiency)” amount includes the effects of all changes in amounts during the current year for prior periods. For example, the amount of the development related to losses settled in 1993, but incurred in 1990, will be included in the “cumulative redundancy/deficiency” amount for years 1990, 1991 and 1992. 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 development 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 2000 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. The Company ceased writing new business in Canada in 1999.



Table of Contents

## ITEM 2. PROPERTIES

The Company’s corporate office complex is located on a 42-acre parcel in Mayfield Village, Ohio. This complex contains approximately 624,800 square feet and is owned by a subsidiary.

The Company also owns seven other buildings in suburbs adjoining the corporate office complex (excluding the buildings described in the following paragraph), four buildings in Tampa, Florida, and a building in each of the following cities: Tempe, Arizona; Ft. Lauderdale, Florida; Albany, New York; Tigard, Oregon; Plymouth Meeting, Pennsylvania; and Austin, Texas. Four of these buildings are partially leased to non-affiliates. In total, these buildings contain approximately 1,450,000 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 and are not segregated by industry segment. In addition, the Company owns two buildings in Tampa, Florida that are currently for sale, which are partially leased to non-affiliates.

The Company has constructed a corporate office complex in Mayfield Village, Ohio, near the site of its corporate headquarters, containing a total of approximately 732,300 square feet, and a parking garage, at an estimated cost of $129.0 million. As of December 31, 2000, $119.1 million has been paid. The first building was completed in May 1999. The next two buildings were completed in the first quarter of 2000. The parking garage and fourth building were completed in the fourth quarter of 2000. The fifth building was completed in the first quarter of 2001. The construction project is being funded through operating cash flows.

The Company leases approximately 435,800 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 395 claim offices, consisting of approximately 1,975,000 square feet, at various locations throughout the United States. These leases are generally short-term to medium-term leases of standard commercial office space.

As the Company continues to grow, it expects that it will need 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 7, Litigation, on page 37 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 in Part III 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 |
|---|---|---|---|---|---|
| 2000 | 1 | $ 85.75 | $ 45.00 | $ 76.06 | $ .065 |
| | 2 | 100.00 | 60.00 | 74.00 | .065 |
| | 3 | 85.38 | 62.25 | 81.88 | .070 |
| | 4 | 111.00 | 69.63 | 103.63 | .070 |
| | | $ 111.00 | $ 45.00 | $ 103.63 | $ .270 |
| 1999 | 1 | $ 174.25 | $ 115.44 | $ 143.50 | $ .065 |
| | 2 | 152.13 | 127.38 | 145.00 | .065 |
| | 3 | 144.94 | 81.50 | 81.69 | .065 |
| | 4 | 97.63 | 68.50 | 73.13 | .065 |
| | | $ 174.25 | $ 68.50 | $ 73.13 | $ .260 |

The closing price of the Company's Common Shares on February 28, 2001 was $99.00.

(b) Holders

There were 3,733 shareholders of record on February 28, 2001.

(c) Dividends

Statutory policyholders' surplus was $2,177.0 million and $2,258.9 million at December 31, 2000 and 1999, 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, 2000, $285.0 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 to the corporate parent of $171.0 million in 2001 out of statutory policyholders' surplus, without prior approval from regulatory authorities.

(d) Repurchases

In April 1996, the Board of Directors authorized the repurchase of up to 6,000,000 Common Shares. The Company may purchase its shares from time to time, in the open market or otherwise, when opportunities exist to buy at attractive prices or for purposes which are otherwise in the best interest of the Company. There have been 751,992 shares repurchased under this authorization as of December 31, 2000.





### ITEM 6. SELECTED FINANCIAL DATA

(millions — except per share amounts)

| | For the years ended December 31, 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| Total revenues | $ 6,771.0 | $ 6,124.2 | $ 5,292.4 | $ 4,608.2 | $ 3,478.4 |
| Operating income | 55.4 | 266.7 | 449.3 | 336.0 | 309.1 |
| Net income | 46.1 | 295.2 | 456.7 | 400.0 | 313.7 |
| Per share: | | | | | |
| Operating income[1] | .75 | 3.58 | 6.01 | 4.46 | 4.12 |

| | | | | | |
|---|---|---|---|---|---|
| Net income[1] | .62 | 3.96 | 6.11 | 5.31 | 4.14 |
| Dividends | .270 | .260 | .250 | .240 | .230 |
| Total assets | 10,051.6 | 9,704.7 | 8,463.1 | 7,559.6 | 6,183.9 |
| Debt outstanding | 748.8 | 1,048.6 | 776.6 | 775.9 | 775.7 |

[1] 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.



Table of Contents

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

Incorporated by reference from Management’s Discussion and Analysis of Financial Condition and Results of Operations on pages 42 through 46 of the Company’s 2000 Annual Report.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The quantitative and qualitative disclosures about market risk are incorporated by reference from the “Investments” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 above. Additional information is incorporated by reference from the Company’s Annual Report on pages 52 and 53.

**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 Annual Report, pages 26 through 41 and pages 47 through 55.

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

None.



Table of Contents

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information relating to all of the directors and the individuals who have been nominated for election as directors at the 2001 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.

Information relating to executive officers of the Registrant and its subsidiaries follows. 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 | 67 | Chairman of the Board; President prior to January 2001; Chief Executive Officer during 2000 and prior to January 1999; Chief Executive Officer — Insurance Operations during 1999; President, Chairman of the Board and Chief Executive Officer of Progressive Casualty Insurance Company, the principal subsidiary of the Registrant prior to March 2000 |
| Glenn M. Renwick | 45 | President and Chief Executive Officer since January 2001; Chief Executive Officer —Insurance Operations during 2000; Chief Information Officer from January 1998 to March 2000; Consumer Marketing Process Leader from March 1996 to December 1997; Director of Consumer Marketing prior to March 1996; President, Chairman of the Board and Chief Executive Officer of Progressive Casualty Insurance Company, the principal subsidiary of the Registrant since March 2000 |
| Alan R. Bauer | 48 | Internet Business Leader since January 1999; International/Internet Officer from December 1996 to December 1998; Independent Agent Marketing Process Leader from March 1996 to December 1996; West Division President prior to March 1996 |
| Jeffrey W. Basch | 42 | Vice President since December 1999; Chief Accounting Officer |

| | | |
|---|---|---|
| Charles E. Jarrett | 43 | Secretary of the Registrant since February 2001; Chief Legal Officer since November 2000; Partner at Baker & Hostetler LLP, which is the principal outside law firm of the Registrant, prior to November 2000 |
| W. Thomas Forrester | 52 | Chief Financial Officer and Treasurer since January 1999; Ownership Process Leader from March 1996 to December 1998; Central States Division President prior to April 1996 |
| Thomas A. King | 41 | Vice President since December 1999; Corporate Controller since March 1998; General Manager of Minnesota and Wisconsin prior to March 1998 |
| Moira A. Lardakis | 49 | Chief Communications Officer since January 1999; Community Manager Support Process Leader during 1998; General Manager of Ohio Business Unit from March 1996 to December 1997; Ohio Division President prior to March 1996 |
| Brian J. Passell | 44 | Claims Business Leader since January 1999; General Manager of Pennsylvania from March 1996 to December 1998; New York Division Claim Manager prior to March 1996 |
| Tiona M. Thompson | 50 | Chief Human Resources Officer |



Table of Contents

| Name | Age | Offices Held and Last Five Years' Business Experience |
|---|---|---|
| Raymond M. Voelker | 37 | Chief Information Officer since April 2000; Information Technology Executive — Claims and Infrastructure Technologies from December 1999 to March 2000; Claims Technology Executive from January 1999 to November 1999; Information Systems Executive — Call Center Technology from September 1997 to December 1998; Information Systems Executive — Operations prior to September 1997 |
| Richard H. Watts | 46 | Direct Business Leader since January 2000; General Manager of Northeast Ohio prior to January 2000 |
| Robert T. Williams | 44 | Agent Business Leader since April 2000; Chief Pricing/Product Officer from January 1999 to March 2000; Product Process Leader during 1998; General Manager of New York Business Unit from March 1996 to December 1997; New York Division President prior to April 1996; Manager of Special Lines prior to March 1997 |

*Update on Former Executive Officer.* Effective March 19, 2001, Charles B. Chokel, the Company's former Executive Vice-President and Chief Investments and Capital Officer, accepted a position with another company.

*Section 16(a) Beneficial Ownership Reporting Compliance.* The February 4, 1999, purchase of 500 shares by James E. Bennett III was reported in a Form 4 filed on August 2, 2000.

### ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the section of the Proxy Statement entitled “Executive Compensation,” pages 11 through 23.

### 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 8 through 10.

### 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 5 and 6.



Table of Contents

## 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 — For the Years Ended December 31, 2000, 1999 and 1998
Consolidated Balance Sheets — December 31, 2000 and 1999
Consolidated Statements of Changes in Shareholders' Equity — For the Years Ended December 31, 2000, 1999 and 1998
Consolidated Statements of Cash Flows — For the Years Ended December 31, 2000, 1999 and 1998
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





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 33 through 37. Management contracts and compensatory plans and arrangements are identified in the Exhibit Index as Exhibit Nos. (10)(C) through (10)(U).

(b) Reports on Form 8-K

On December 21, 2000, the Registrant filed a Current Report on Form 8-K, dated December 15, 2000, reporting certain changes in the senior management of the Registrant.

(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 24 through 32.





**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 29, 2001 | BY: /s/ Glenn M. Renwick |
| | Glenn M. Renwick<br>Director, President<br>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<br>Peter B. Lewis | Director, Chairman of the Board | March 29, 2001 |
| /s/ Glenn M. Renwick<br>Glenn M. Renwick | Director, President and Chief Executive Officer | March 29, 2001 |
| /s/ W. Thomas Forrester<br>W. Thomas Forrester | Treasurer and Chief Financial Officer | March 29, 2001 |
| /s/ Jeffrey W. Basch<br>Jeffrey W. Basch | Vice President and Chief Accounting Officer | March 29, 2001 |

| | | |
|---|---|---|
| * | Director | March 29, 2001 |
| Milton N. Allen | | |
| * | Director | March 29, 2001 |
| B. Charles Ames | | |
| * | Director | March 29, 2001 |
| James E. Bennett III | | |
| * | Director | March 29, 2001 |
| Charles A. Davis | | |



Table of Contents

| | | |
|---|---|---|
| * | Director | March 29, 2001 |
| Stephen R. Hardis | | |
| * | Director | March 29, 2001 |
| Janet Hill | | |
| * | Director | March 29, 2001 |
| Jeffrey D. Kelly | | |
| * | Director | March 29, 2001 |
| Norman S. Matthews | | |
| * | Director | March 29, 2001 |
| Donald B. Shackelford | | |

* CHARLES E. JARRETT, 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/ Charles E. Jarrett<br>Charles E. Jarrett<br>Attorney-in-fact | March 29, 2001 |



Table of Contents

**ANNUAL REPORT ON FORM 10-K**

**ITEM 14(d)**

**FINANCIAL STATEMENT SCHEDULES**

**YEAR ENDED DECEMBER 31, 2000**

**THE PROGRESSIVE CORPORATION**

**MAYFIELD VILLAGE, OHIO**



Table of Contents

**REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES**

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

Our audits of the consolidated financial statements referred to in our report dated January 24, 2001 appearing in the 2000 Annual Report to Shareholders of The Progressive Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 14(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

**PRICEWATERHOUSECOOPERS LLP**

Cleveland, Ohio
January 24, 2001



Table of Contents

## CONSENT OF INDEPENDENT ACCOUNTANTS

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

We hereby consent to the incorporation by reference in the Registration Statement on:

| Form | Filing No. | Filing Date |
|---|---|---|
| S-8 | 333-41238 | July 12, 2000 |
| S-8 | 333-51613 | May 1, 1998 |
| S-8 | 333-25197 | April 15, 1997 |
| S-8 | 33-57121 | December 29, 1994 |
| S-8 | 33-64210 | June 10, 1993 |
| S-8 | 33-51034 | August 20, 1992 |
| S-8 | 33-46944 | April 3, 1992 |
| S-8 | 33-38793 | February 4, 1991 |
| S-8 | 33-38107 | December 6, 1990 |
| S-8 | 33-37707 | November 9, 1990 |
| S-8 | 33-33240 | January 31, 1990 |
| S-8 | 33-16509 | August 14, 1987 |

of The Progressive Corporation of our report dated January 24, 2001 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 24, 2001 relating to the financial statement schedules, which appears in this Form 10-K.

**PRICEWATERHOUSECOOPERS LLP**

Cleveland, Ohio
March 28, 2001



Table of Contents

**SCHEDULE I — SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES**

*THE PROGRESSIVE CORPORATION AND SUBSIDIARIES*

(millions)

| | December 31, 2000 | | |
|---|---|---|---|
| Type of Investment | Cost | Market Value | Amount At Which Shown In The Balance Sheet |
| Fixed Maturities: | | | |
| Available-for-sale: | | | |
| United States Government and government agencies and authorities | $ 447.8 | $ 450.7 | $ 450.7 |
| States, municipalities and political subdivisions | 1,006.8 | 1,025.4 | 1,025.4 |
| Asset-backed securities | 2,187.1 | 2,204.5 | 2,204.5 |
| Foreign government obligations | 39.0 | 38.8 | 38.8 |
| Corporate and other debt securities | 1,052.3 | 1,055.8 | 1,055.8 |
| Redeemable preferred stock | 8.9 | 8.9 | 8.9 |
| Total fixed maturities | 4,741.9 | 4,784.1 | 4,784.1 |
| Equity securities: | | | |
| Common stocks: | | | |

| | | | |
|---|---|---|---|
| Public utilities | 10.1 | 10.5 | 10.5 |
| Banks, trust and insurance companies | 337.7 | 372.4 | 372.4 |
| Industrial, miscellaneous and all other | 793.5 | 815.8 | 815.8 |
| Nonredeemable preferred stocks | 806.3 | 813.7 | 813.7 |
| Total equity securities | 1,947.6 | 2,012.4 | 2,012.4 |
| Short-term investments | 186.8 | 186.8 | 186.8 |
| Total investments | $ 6,876.3 | $ 6,983.3 | $ 6,983.3 |

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, 2000.



Table of Contents

**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**CONDENSED STATEMENTS OF INCOME**

*THE PROGRESSIVE CORPORATION (PARENT COMPANY)*

(millions)

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2000** | **1999** | **1998** |
| Revenues | | | |
| Dividends from subsidiaries* | $ 167.0 | $ 95.4 | $ 151.0 |
| Intercompany investment income* | 43.0 | 41.2 | 25.9 |
| | 210.0 | 136.6 | 176.9 |
| Expenses | | | |
| Interest expense | 80.4 | 79.5 | 64.5 |
| Other operating costs and expenses | 1.3 | .6 | 5.2 |
| | 81.7 | 80.1 | 69.7 |
| Operating income and income before income taxes and other items below | 128.3 | 56.5 | 107.2 |
| Income tax benefit | (13.9) | (14.2) | (16.2) |
| Income before equity in undistributed earnings of subsidiaries | 142.2 | 70.7 | 123.4 |
| Equity in undistributed net income (loss) of consolidated subsidiaries* | (96.1) | 224.5 | 333.3 |
| Net income | $ 46.1 | $ 295.2 | $ 456.7 |

* Eliminated in consolidation.

See notes to condensed financial statements.



Table of Contents

**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)**

**CONDENSED BALANCE SHEETS**

*THE PROGRESSIVE CORPORATION (PARENT COMPANY)*

(millions)

| | December 31, | |
|---|---|---|
| | 2000 | 1999 |
| ASSETS | | |
| Investment in non-consolidated affiliates | $ .4 | $ .4 |
| Investment in subsidiaries* | 3,085.2 | 3,076.0 |
| Receivable from subsidiary* | 550.9 | 745.7 |
| Intercompany receivable* | 21.3 | — |
| Income taxes | — | 12.9 |
| Other assets | 16.4 | 18.5 |
| TOTAL ASSETS | $ 3,674.2 | $ 3,853.5 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts payable and accrued expenses | $ 42.1 | $ 39.3 |
| Intercompany payable* | — | 20.5 |
| Income taxes payable | 20.8 | — |
| Debt | 741.5 | 1,040.9 |
| Total liabilities | 804.4 | 1,100.7 |
| Shareholders' equity: | | |
| Common Shares, $1.00 par value, authorized 300.0 shares, issued 83.1, including treasury shares of 9.6 and 10.0 | 73.5 | 73.1 |
| Paid-in capital | 511.2 | 481.6 |
| Accumulated other comprehensive income: | | |
| Net unrealized appreciation (depreciation) of investment in equity securities of consolidated subsidiaries | 69.5 | (3.4) |
| Other | (4.8) | (9.0) |
| Retained earnings | 2,220.4 | 2,210.5 |
| Total shareholders' equity | 2,869.8 | 2,752.8 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 3,674.2 | $ 3,853.5 |

* Eliminated in consolidation.

See notes to condensed financial statements.



Table of Contents

**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)**

**CONDENSED STATEMENTS OF CASH FLOWS**

*THE PROGRESSIVE CORPORATION (PARENT COMPANY)*

(millions)

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | $ 46.1 | $ 295.2 | $ 456.7 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Equity in income of consolidated subsidiaries | (70.9) | (319.9) | (484.3) |
| Changes in: | | | |
| Intercompany receivable or payable | (41.8) | 30.4 | (37.8) |
| Accounts payable and accrued expenses | 2.8 | 6.4 | 9.3 |
| Income taxes | 33.7 | 6.8 | 9.2 |
| Tax benefits from exercise of stock options | 11.3 | 20.4 | 25.6 |
| Other, net | 1.9 | 2.5 | (6.1) |
| Net cash provided by (used in) operating activities | (16.9) | 41.8 | (27.4) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |

| | | | |
|---|---|---|---|
| Additional investments in equity securities of consolidated subsidiaries | (28.3) | (90.2) | (124.1) |
| Dividends received from consolidated subsidiaries | 167.0 | 95.4 | 151.0 |
| Net cash provided by investing activities | 138.7 | 5.2 | 26.9 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from exercise of stock options | 18.6 | 12.6 | 11.5 |
| Proceeds from Debt | — | 293.7 | — |
| Payments of Debt | (300.0) | (30.0) | — |
| Receivable from subsidiary | 194.8 | (304.6) | 48.3 |
| Dividends paid to shareholders | (19.8) | (19.0) | (18.1) |
| Acquisition of treasury shares | (17.8) | (.6) | (42.6) |
| Other, net | 2.4 | .9 | 1.4 |
| Net cash provided by (used in) financing activities | (121.8) | (47.0) | .5 |
| Change in cash | — | — | — |
| Cash, beginning of year | — | — | — |
| Cash, end of year | $ — | $ — | $ — |

See notes to condensed financial statements.



Table of Contents

**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 2000 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 $13.8 million in 2000, and $116.5 million and $235.9 million in 1999 and 1998, respectively. Total interest paid was $81.1 million for 2000 and $72.4 million for 1999 and $63.8 million in 1998.

DEBT — Debt at December 31 consisted of:

| | 2000 | | 1999 | |
|---|---|---|---|---|
| **(millions)** | **Cost** | **Market Value** | **Cost** | **Market Value** |
| 6 5/8% Senior Notes due 2029 (issued: $300.0, March 1999) | $ 293.8 | $ 257.4 | $ 293.7 | $ 254.1 |
| 7.30% Notes due 2006 (issued: $100.0, May 1996) | 99.7 | 102.4 | 99.7 | 98.0 |
| 6.60% Notes due 2004 (issued: $200.0, January 1994) | 199.4 | 200.3 | 199.3 | 193.7 |
| 7% Notes due 2013 (issued: $150.0, October 1993) | 148.6 | 144.6 | 148.5 | 138.8 |
| 10% Notes due 2000 (issued: $150.0, December 1988) | — | — | 149.9 | 154.3 |
| 10 1/8% Subordinated Notes due 2000 (issued: $150.0, December 1988) | — | — | 149.8 | 154.5 |
| | $ 741.5 | $ 704.7 | $ 1,040.9 | $ 993.4 |

Debt includes amounts the Registrant has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes. Market values are obtained from publicly quoted sources.

All debt is noncallable, except for the 6 5/8% Senior Notes which may be redeemed all or in part at any time, subject to a “make whole” provision; interest is 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 has the right to borrow up 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. During 2000, the Company borrowed $2.5 million for one day at an average interest rate of 7%. The Registrant had no borrowings under this arrangement at December 31, 2000 and 1999.

Aggregate principal payments on debt outstanding at December 31, 2000 are $0 for 2001, 2002, and 2003, $200.0 for 2004 and $0 for 2005, and $550.0 million thereafter.

Table of Contents

**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)**

*NOTES TO CONDENSED FINANCIAL STATEMENTS*

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 or Payable 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 available-for-sale securities of the subsidiaries. These amounts were:

| (millions) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Unrealized gains (losses): | | | |
| Available-for-sale: fixed maturities | $ 160.4 | $ (165.6) | $ (7.2) |
| equity securities | (48.0) | (14.1) | (6.9) |
| Deferred income taxes | (39.5) | 63.0 | 5.1 |
| | $ 72.9 | $ (116.7) | $ (9.0) |

OTHER MATTERS —The information relating to incentive compensation plans is incorporated by reference from Note 6, Employee Benefit Plans, “Incentive Compensation Plans” on pages 36 and 37 of the Registrant’s 2000 Annual Report.

RECLASSIFICATIONS —Certain amounts in the financial statements for prior periods were classified to conform with the 2000 presentation.



Table of Contents

**SCHEDULE III — SUPPLEMENTARY INSURANCE INFORMATION**

*THE PROGRESSIVE CORPORATION AND SUBSIDIARIES*

(millions)

[Additional columns below]

| Segment | Deferred policy acquisition costs(1) | Future policy benefits, losses, claims and loss expenses(1) | Unearned premiums(1) | Other policy claims and benefits payable(1) | Premium revenue |
|---|---|---|---|---|---|
| Year ended December 31, 2000: | | | | | |
| Personal Lines | | | | | $ 5,864.0 |
| Other | | | | | 484.4 |
| Total | $ 309.9 | $ 2,986.4 | $ 2,636.5 | $ — | $ 6,348.4 |
| Year ended December 31, 1999: | | | | | |
| Personal Lines | | | | | $ 5,294.1 |
| Other | | | | | 389.5 |
| Total | $ 343.4 | $ 2,416.2 | $ 2,781.4 | $ — | $ 5,683.6 |
| Year ended December 31, 1998: | | | | | |
| Personal Lines | | | | | $ 4,580.7 |
| Other | | | | | 367.3 |
| Total | $ 299.1 | $ 2,188.6 | $ 2,329.7 | $ — | $ 4,948.0 |

[Continued from above table, first column(s) repeated]

| Segment | Investment income(1)(2) | Benefits, claims, losses and settlement expenses | Amortization of deferred policy acquisition costs | Other operating expenses | Net premiums written |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Year ended December 31, 2000: | | | | | |
| Personal Lines | | $ 4,933.9 | $ 720.7 | $ 514.1 | $ 5,651.5 |
| Other | | 345.5 | 67.3 | 45.2 | 544.6 |
| Total | $ 385.2 | $ 5,279.4 | $ 788.0 | $ 559.3 | $ 6,196.1 |
| Year ended December 31, 1999: | | | | | |
| Personal Lines | | $ 4,002.7 | $ 691.4 | $ 536.8 | $ 5,702.4 |
| Other | | 253.7 | 53.6 | 47.0 | 422.3 |
| Total | $ 340.7 | $ 4,256.4 | $ 745.0 | $ 583.8 | $ 6,124.7 |
| Year ended December 31, 1998: | | | | | |
| Personal Lines | | $ 3,164.4 | $ 610.6 | $ 444.2 | $ 4,922.3 |
| Other | | 211.9 | 49.3 | 51.6 | 377.4 |
| Total | $ 294.8 | $ 3,376.3 | $ 659.9 | $ 495.8 | $ 5,299.7 |

(1) The Company does not allocate assets or investment income to operating segments.
(2) Excluding investment expenses of $9.1 million in 2000, $9.5 million in 1999 and $7.4 million in 1998.



Table of Contents

**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, 2000 | | | | | |
| Premiums earned: | | | | | |
| Property and liability | $ 6,547.0 | $ 198.6 | $ — | $ 6,348.4 | — |
| December 31, 1999 | | | | | |
| Premiums earned: | | | | | |
| Property and liability | $ 5,853.5 | $ 169.9 | $ — | $ 5,683.6 | — |
| December 31, 1998 | | | | | |
| Premiums earned: | | | | | |
| Property and liability | $ 5,100.5 | $ 152.5 | $ — | $ 4,948.0 | — |



Table of Contents

**SCHEDULE VI -SUPPLEMENTAL INFORMATION CONCERNING PROPERTY —CASUALTY INSURANCE OPERATIONS**

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

| | Losses and Loss Adjustment Expenses Incurred Related to | | Paid Losses and Loss Adjustment Expenses |
|---|---|---|---|
| Year Ended | Current Year | Prior Years | |

| | | | | | | |
|---|---|---|---|---|---|---|
| December 31, 2000 | $ | 5,203.6 | $ | 75.8 | $ | 4,694.3 |
| December 31, 1999 | $ | 4,286.2 | $ | (29.8) | $ | 4,002.0 |
| December 31, 1998 | $ | 3,560.5 | $ | (184.2) | $ | 3,298.0 |

Pursuant to Rule 12-18 of Regulation S-X. See Schedule III, page 30, for the additional information required in Schedule VI.





**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 |
|---|---|---|---|
| (3)(i) | 3(A) | Amended Articles of Incorporation, as amended, of The Progressive Corporation | Registration Statement No. 333-51613 (Filed with SEC on May 1, 1998; see Exhibit 4(C) therein) |
| (3)(ii) | 3(B) | Code of Regulations of Progressive | Registration Statement No. 333-41238 (Filed with SEC on July 12, 2000; see Exhibit 4(d) 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 30, 2000; see Exhibit 4(A) 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 30, 2000; see Exhibit 4(B) 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 30, 2000; see Exhibit 4(C) 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 30, 2000; see Exhibit 4(D) therein) |
| (4) | 4(E) | $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) | Annual Report on Form 10-K (Filed with SEC on March 27, 1998; see Exhibit 4(F) 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 |
|---|---|---|---|
| (4) | 4(F) | 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) | Registration Statement No. 333-48935 (Filed with SEC on March 31, 1998; see Exhibit 4.1 therein) |
| (4) | 4(G) | Form of 7% Notes due 2013 issued in the aggregate principal amount of $150,000,000 under the 1993 Senior Indenture | Annual Report on Form 10-K (Filed with SEC on March 27, 1999; see Exhibit 4(H) therein) |
| (4) | 4(H) | 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 30, 2000; see Exhibit 4(H) therein) |

| | | | |
|---|---|---|---|
| (4) | 4(I) | First Supplemental Indenture dated March 15, 1996 between Progressive 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(J) | Form of 7.30% Notes due 2006, issued in the aggregate principal amount of $100,000,000 under the 1993 Senior Indenture, as amended and supplemented | Contained in Exhibit Binder |
| (4) | 4(K) | Second Supplemental Indenture dated February 26, 1999 between Progressive and State Street Bank and Trust Company, as Trustee, supplementing and amending the 1993 Senior Indenture | Current Report on Form 8-K (Filed with SEC on February 26, 1999; see Exhibit 4.4 therein) |
| (4) | 4(L) | Form of 6 5/8% Senior Notes due 2029, issued in the aggregate principal amount of $300,000,000 under the 1993 Senior Indenture, as amended and supplemented | Current Report on Form 8-K (Filed with SEC on February 26, 1999; see Exhibit 4.5 therein) |



Table of Contents

**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)(i) | 10(A) | Construction Agreement dated April 6, 1998 between Progressive Casualty Insurance Company and the Whiting-Turner Construction Company for the Corporate Office Complex in Mayfield Village, Ohio | Quarterly Report on Form 10-Q (Filed with SEC on August 14, 1998; see Exhibit 10 therein) |
| (10)(i) | 10(B) | Development Agreement by and between G.P. Ohio, L.L.C. (as “Developer”) and Progressive Casualty Insurance Company (as “Progressive”) | Annual Report on Form 10-K (filed with SEC on March 30, 2000; see Exhibit 10(C) therein) |
| (10)(ii) | 10(C) | Aircraft Purchase Agreement | Annual Report on Form 10-K (filed with SEC on March 30, 2000; see Exhibit 10(D) therein) |
| (10)(ii) | 10(D) | Aircraft Management Agreement | Annual Report on Form 10-K (filed with SEC on March 30, 2000; see Exhibit 10(E) therein) |
| (10)(iii) | 10(E) | The Progressive Corporation 1999 Gainsharing Plan | Annual Report on Form 10-K (filed with SEC on March 27, 1999; see Exhibit 10(D) therein) |
| (10)(iii) | 10(F) | The Progressive Corporation 2000 Gainsharing Plan | Annual Report on Form 10-K (filed with SEC on March 30, 2000; see Exhibit 10(H) therein) |
| (10)(iii) | 10(G) | The Progressive Corporation 2001 Gainsharing Plan | Contained in Exhibit Binder |
| (10)(iii) | 10(H) | The Progressive Corporation 1999 Executive Bonus Plan (as amended on February 14, 2001) | Contained in Exhibit Binder |
| (10)(iii) | 10(I) | The Progressive Corporation Directors Deferral Plan (Amendment and Restatement), as further amended on October 25, 1996 | Contained in Exhibit Binder |



Table of Contents

**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(J) | 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 27, 1999; see Exhibit 10(H) therein) |
| (10)(iii) | 10(K) | The Progressive Corporation 1998 Directors’ Stock Option Plan | Annual Report on Form 10-K/A-No. 1 (Filed with SEC on March 30, 1998; see Exhibit 10(H) therein) |

| | | | |
|---|---|---|---|
| (10)(iii) | 10(L) | The Progressive Corporation 1990 Directors' Stock Option Plan (Amended and Restated as of April 24, 1992 and as further amended on July 1, 1992) | Annual Report on Form 10-K (Filed with SEC on March 27, 1998; see Exhibit 10(I) therein) |
| (10)(iii) | 10(M) | Separation Agreement and General Release dated February 23, 2001 between Progressive Casualty Insurance Company and Charles B. Chokel | Contained in Exhibit Binder |
| (10)(iii) | 10(N) | The Progressive Corporation 1995 Incentive Plan | Annual Report on Form 10-K (filed with SEC on March 30, 2000; see Exhibit 10(P) therein |
| (10)(iii) | 10(O) | The Progressive Corporation Executive Deferred Compensation Plan (Amended and Restated as of January 1, 1997), as further amended December 1, 1997 | Annual Report on Form 10-K (Filed with SEC on March 27, 1998; see Exhibit 10(M) therein) |
| (10)(iii) | 10(P) | Third Amendment to The Progressive Corporation Executive Deferred Compensation Plan dated December 1, 1998 | Annual Report on Form 10-K (Filed with SEC on March 27, 1999; see Exhibit 10(O) therein) |
| (10)(iii) | 10(Q) | The Progressive Corporation Executive Deferred Compensation Trust (December 1, 1998 Amendment and Restatement) | Annual Report on Form 10-K (Filed with SEC on March 27, 1999; see Exhibit 10(P) therein) |



Table of Contents

**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(R) | Form of Non-Qualified Stock Option Agreement under The Progressive Corporation 1989 Incentive Plan (single award) | Contained in Exhibit Binder |
| (10)(iii) | 10(S) | Form of Non-Qualified Stock Option Agreement under The Progressive Corporation 1989 Incentive Plan (multiple awards) | Contained in Exhibit Binder |
| (10)(iii) | 10(T) | Form of Objective-Based Non-Qualified Stock Option Agreement under The Progressive Corporation 1995 Incentive Plan | Contained in Exhibit Binder |
| (10)(iii) | 10(U) | The Progressive Corporation 1999 Information Services Incentive Plan | Annual Report on Form 10-K (filed with SEC on March 27, 1999; see Exhibit 10(S) therein) |
| (11) | 11 | Computation of Earnings Per Share | Contained in Exhibit Binder |
| (13) | 13 | The Progressive Corporation 2000 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 23 of this Annual Report on Form 10-K |
| (24) | 24 | Powers of Attorney | Contained in Exhibit Binder |

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

Exhibit 4(J)

(FACE OF SECURITY)

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

REGISTERED REGISTERED

NO. R-001 $100,000,000

CUSIP No. 743315 AH 6

SEE REVERSE FOR CERTAIN DEFINITIONS

THE PROGRESSIVE CORPORATION

7.30% NOTE DUE 2006

THE PROGRESSIVE CORPORATION, an Ohio corporation (the "Issuer"), for value received, hereby promises to pay to CEDE & Co., c/o The Depository Trust Company, 55 Water Street, New York, New York 10041 or registered assigns, at the office or agency of the Issuer at the office of the Trustee in Boston, Massachusetts, the principal sum of ONE HUNDRED MILLION DOLLARS ($100,000,000) on June 1, 2006, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest semiannually on June 1 and December 1 of each year, commencing on December 1, 1996, on said principal sum at said office or agency, in like coin or currency, at the rate per annum specified in the title of this Note, from the June 1 or the December 1, as the case may be, next preceding the date of this Note to which interest has been paid, unless the date hereof is a date to which interest has been paid, in which case from the date of this Note, or unless no interest has been paid on the Notes, in which case from May 28, 1996, until payment of said principal sum has been made or duly provided for; provided, that payment of interest may be made at the option of the Issuer by check mailed to the address of the person entitled thereto as such address shall appear on the Security Register. Notwithstanding the foregoing, if the date hereof is after the fifteenth day of May or November, as the case may be, and before the following June 1 or December 1, this Note shall bear interest from such June 1 or December 1; provided, that if the Issuer shall default in the payment of interest due on such June 1 or December 1, then this Note shall bear interest from the next preceding June 1 or December 1, to which interest has been paid or, if no interest has been paid on this Note, from May 28, 1996. The interest so payable on any June 1 or December 1 will, subject to certain exceptions provided in the Indenture referred to on the reverse hereof, be paid to the person in whose name this Note is registered at the close of business on May 15 or November 15, as the case may be, next preceding such June 1 or December 1.



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

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

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

THE PROGRESSIVE CORPORATION

[CORPORATE SEAL]

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

Charles B. Chokel
Treasurer

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

Dated: May 28, 1996

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

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

STATE STREET BANK AND TRUST COMPANY
as Trustee

By:____________________

Authorized Signatory



(BACK OF SECURITY)

THE PROGRESSIVE CORPORATION

7.30% NOTE DUE 2006

This Note is one of a duly authorized issue of debentures, notes, bonds or other evidences of indebtedness of the Issuer (hereinafter called the "Securities") of the series hereinafter specified, all issued or to be issued under and pursuant to an indenture dated as of September 15, 1993, as heretofore supplemented and amended (herein called the "Indenture"), between the Issuer and State Street Bank and Trust Company, as Trustee (herein called the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the Holders of the Securities. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any) and may otherwise vary as in the Indenture provided. This Note is one of a series designated as the 7.30% Notes Due 2006 of the Issuer, limited in aggregate principal amount to $100,000,000.

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

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

Holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Note and any Note which may be issued in



exchange or substitution herefor, irrespective of whether or not any notation thereof is made upon this Note or such other Note.

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

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

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

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

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

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

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



ABBREVIATIONS

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

TEN COM - as tenants in common

TEN ENT - as tenants by the entireties

CUST - Custodian

JT TEN - as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT - Uniform Gifts to Minors Act

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

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

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

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

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE-

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

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

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

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

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

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

Dated: ___________________                    _______________________

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

Exhibit 10(G)

# THE PROGRESSIVE CORPORATION
## 2001 GAINSHARING PLAN

1. The Progressive Corporation and its subsidiaries (collectively "Progressive" or the "Company") have adopted The Progressive Corporation 2001 Gainsharing Plan (the "Plan") as part of their overall compensation program. The Plan is performance-based and is administered under the direction of the Executive Compensation Committee of the Board of Directors of The Progressive Corporation (the "Committee").

2. Plan participants for each Plan year shall be selected by the Committee from those officers and regular employees of Progressive who are assigned primarily to the Core Business (as defined below), another operating business unit or a corporate support function. The gainsharing opportunity, if any, for those executive officers who participate in The Progressive Corporation 1999 Executive Bonus Plan will be provided by and be a component of that plan.

3. Annual Gainsharing Payments under the Plan will be determined by application of the following formula:

   Annual Gainsharing Payment = Paid Earnings x Target Percentage x Performance Factor

4. Paid Earnings for any Plan year means the following items paid to a participant during the Plan year: (a) regular, vacation, sick, holiday, funeral and overtime pay, (b) lump sum merit adjustments based on performance and (c) retroactive payments of any of the foregoing items relating to the same Plan year.

   For purposes of the Plan, Paid Earnings shall not include any short-term or long-term disability payments made to the participant, the earnings replacement component of any worker's compensation award or any other bonus or incentive compensation awards.

   Notwithstanding the foregoing, if the sum of the regular, vacation, sick, holiday and funeral pay received by a participant during a Plan year exceeds his/her salary range maximum for that Plan year, then his/her Paid Earnings for that Plan year shall equal his/her salary range maximum, plus any of the following items received by such participant during that Plan year: (a) overtime pay, (b) retroactive payments of regular, vacation, sick, holiday, overtime and funeral pay and (c) lump sum merit adjustments.



5. Target Percentages vary by position. Target Percentages for Plan participants typically are as follows:

| POSITION | TARGET % |
|---|---|
| Senior Executives, General Managers and Senior Process Leaders/Managers | 40 - 135% |
| Top Managers | 30 - 45% |
| Senior Managers | 20 - 25% |
| Middle Managers | 10 - 20% |
| Senior Professionals and Managers | 9 - 15% |
| Professionals and Supervisors | 4 - 8% |

Target Percentages will be established within the above ranges by, and may be changed with the approval of (a) the Chief Executive Officer, (b) the Chief Human Resource Officer and (c) the Chief Financial Officer of The Progressive Corporation (collectively, the "Designated Executives"). Target Percentages also may be changed from year to year by the Designated Executives.

6. The Performance Factor

A. General

The Performance Factor shall consist of one or more Profitability and Growth Components, as described below ("Performance Components"). The Performance Components may be weighted to reflect the nature of the individual participant's assigned responsibilities. The weighting factors may differ among participants and will be determined, and may be changed from year to year, by or under the direction of the Committee.

B. Profitability and Growth Components

The Profitability and Growth Components measure the overall operating performance of Progressive's Core Business (including both the Agent Business Segment and Direct Business Segment, but excluding Midland Financial Group, Inc.), or a designated Business Segment or Sub-Unit thereof, for the Plan year for which an Annual Gainsharing Payment is to be made. For purposes of computing a Performance Score for these Components, operating performance results are measured by one or more Performance Matrices, as established by or under the direction of the Committee for the Plan year, which assign a Profitability and Growth Performance Score to various combinations of profitability (as measured by the Gainsharing Combined Ratio) and growth (based on year-to-year change in Net Earned Premiums) outcomes.

For 2001, and for each Plan year thereafter until otherwise determined by the Committee, separate Performance Scores will be determined, and separate Gainsharing Matrices will be used, for the Agent Business Segment, the Direct Business Segment and



the Internet Sub-Unit. For purposes hereof, the Agent Business Segment includes Agent Auto (excluding Strategic Alliances Auto), Special Lines (all sources) and Commercial Vehicle (all sources), and the Direct Business Segment includes Auto Pro (including Strategic Alliances Auto) and Internet. For purposes of this Plan, Midland Financial Group, Inc. results are excluded from both the Agent and Direct Business Segments and, thus, from Core Business results. Net operating gains/losses from other Core products (such as Homeowner's insurance and Autograph) will be apportioned among the Agent and Direct Business Segments in accordance with the respective amount(s) of net earned premiums generated by such products in such Business Segments and the apportioned gains/losses will be included in the calculation of the Gainsharing Combined Ratio.

The Gainsharing Combined Ratio will be separately determined for each of the Agent Business Segment, the Direct Business Segment and the Internet Sub-Unit, using the GAAP combined ratio as the measure of profitability. The Gainsharing Combined Ratio of each such Business Segment or Sub-Unit will then be matched with growth in Net Earned Premiums for such Business Segment or Sub-Unit, using the applicable Gainsharing Matrix to determine a Performance Score.

C. Component Weighting

For most participants, the Performance Factor will be determined solely by the performance results for the Core Business, consisting of both the Agent and Direct Business Segments. The Performance Score for each of the Agent and

Direct Business Segments will be separately determined, as described above, by application of the appropriate Gainsharing Matrix. The resulting Performance Scores for the Agent and Direct Business Segments will then be weighted (based on the Net Earned Premiums generated by each such Business Segment during the Plan year), the weighted Performance Scores will be combined and the arithmetic mean of such combined scores will equal the Performance Score for the Core Business.

As noted above, for most participants, the Performance Factor will be the Performance Score for the Core Business. For certain employees designated by the Committee, however, the Performance Factor will be based on the Performance Scores for both the Core Business, as a whole, and their assigned Business Segment. Generally, for these employees, the Performance Factor will be based 50% on the Core Business Performance Score and 50% on their assigned Business Segment's Performance Score. However, for those employees assigned principally to the Internet Sub-Unit, the Performance Factor will be based 50% on the Core Business Performance Score, 25% on the Direct Business Performance Score and 25% on the Internet Performance Score. With respect to those IT Business Leaders selected by the Designated Executives, the Performance Factor will be based 75% on the Core Business Performance Score and 25% on their assigned Business Segment Performance Score.

The Performance Score for each Performance Component will be multiplied by the assigned weighting factor to produce a Weighted Performance Score. The sum of the Weighted Performance Scores equals the Performance Factor. The final Performance Factor can vary from 0 to 2.0, based on actual performance versus the pre-established objectives.



7. Subject to Paragraph 8 below, no later than December 31 of each Plan year, each participant will receive an initial payment in respect of his or her Annual Gainsharing Payment for that Plan year equal to 75% of an amount calculated on the basis of Paid Earnings for the first 11 months of the Plan year, one month of estimated earnings, performance data through the first 11 months of the Plan year (estimated, if necessary) and one month of forecasted operating results. No later than February 15 of the following year, each participant shall receive the balance of his or her Annual Gainsharing Payment, if any, for such Plan year, based on his or her Paid Earnings and performance data for the entire Plan year.

   Any Plan participant who is then eligible to participate in The Progressive Corporation Executive Deferred Compensation Plan ("Deferral Plan") may elect to defer all or a portion of the Annual Gainsharing Payment otherwise payable to him/her under this Plan, subject to and in accordance with the terms of the Deferral Plan.

8. Unless otherwise determined by the Committee or as provided at Paragraph 10 hereof, in order to be entitled to receive any portion of an Annual Gainsharing Payment for any Plan year, the participant must be assigned to the Core Business or a participating business unit or support function on December 1 of such Plan year and employed by Progressive on the payment date for that portion of the Annual Gainsharing Payment. Annual Gainsharing Payments will be net of any legally required deductions for federal, state and local taxes and other items.

9. The right to any Annual Gainsharing Payment hereunder may not be transferred, assigned or encumbered by any participant. Nothing herein shall prevent any participant's interest hereunder from being subject to involuntary attachment, levy or other legal process.

10. The Plan shall be administered by or under the direction of the Committee. The Committee shall have the authority to adopt, alter and repeal such rules, guidelines, procedures and practices governing the Plan as it shall, from time to time, in its sole discretion, deem advisable.

    The Committee shall have full authority to determine the manner in which the Plan will operate, to interpret the provisions of the Plan and to make all determinations hereunder. All such interpretations and determinations shall be final and binding on Progressive, all Plan participants and all other parties. No such interpretation or determination shall be relied on as a precedent for any similar action or decision.

Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions thereof, waive any of the requirements specified herein and make determinations hereunder and to select, establish, change or modify Performance Components and their respective weighting factors, performance targets and Target Percentages) may be exercised by the Designated Executives. In the event of a dispute or conflict, the determination of the Committee will govern.

11. The Plan may be terminated, amended or revised, in whole or in part, at any time and from time to time by the Committee, in its sole discretion.

12. The Plan will be unfunded and all payments due under the Plan shall be made from Progressive's general assets.



13. Nothing in the Plan shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties or compensation.

14. Progressive shall have the unrestricted right to set off against or recover out of any Annual Gainsharing Payment or other sums owed to any participant under the Plan any amounts owed by such participant to Progressive.

15. This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable to participants by or due from Progressive. Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 2000 Gainsharing Plan, as heretofore in effect (the "Prior Plan"), which is and shall be deemed to be terminated as of December 31, 2000 (the "Termination Date"); provided, that any bonuses or other sums earned and payable under the Prior Plan with respect to any Plan year ended on or prior to the Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder.

16. This Plan is adopted, and is to be effective, as of January 1, 2001. This Plan shall be effective for 2001 and for each calendar year thereafter unless and until terminated by the Committee.

17. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

Exhibit 10(H)

THE PROGRESSIVE CORPORATION

1999 EXECUTIVE BONUS PLAN

(AS AMENDED ON FEBRUARY 14, 2001)

1. The Progressive Corporation and its subsidiaries ("Progressive") have designed an executive compensation program consisting of three components: salary, annual bonus and equity-based incentives in the form of non-qualified stock options. These components have been structured to reflect the market for executive compensation and to promote both the achievement of corporate goals and performance that is in the long-term interest of shareholders. The annual bonus component of this program is performance-based and focuses on current results.

2. The 1999 Executive Bonus Plan, as amended (the "Plan") provides the annual bonus component of Progressive's executive compensation program for Plan participants. The Plan shall be administered by or under the direction of the Executive Compensation Committee (the "Committee") of the Board of Directors. Executive officers of Progressive may be selected by the Committee to participate in the Plan for one or more Plan years. Plan years shall coincide with Progressive's fiscal years.

3. Subject to the following sentence, the amount of the annual bonus earned by any participant under the Plan for any Plan year ("Annual Bonus") will be determined by application of the following formula:

   Annual Bonus = Paid Salary x Target Percentage x Performance Factor

   The Annual Bonus payable to any participant with respect to any Plan year shall not exceed $3,000,000.00.

4. The salary rate of each Plan participant for any Plan year shall be established by the Committee no later than ninety (90) days after commencement of such Plan year. For purposes of the Plan, "salary" and "Paid Salary" shall include regular, vacation, sick, holiday and funeral pay received by the participant during the Plan year for work or services performed by the participant as an officer or employee of Progressive, but shall not include any (a) short-term or long-term disability payments, (b) lump sum merit adjustments, (c) discretionary or other bonus or incentive payments or (d) the earnings replacement component of any worker's compensation award.

5. The Target Percentages for the participants in the Plan shall be determined by the Committee, but will not exceed 150% for any participant. Target Percentages may vary among Plan participants and may be changed from year to year by the Committee.

6. The Performance Factor

   A. General

   The Performance Factor shall consist of one or more of the following components: a Core Business Profitability and Growth Component, a Business Segment Performance Component, a Cost Structure Improvement Component and an Investment Performance Component (the "Bonus Components"). An appropriate combination of Bonus Components will be designated for each participant, and the designated Bonus



   Components will be weighted, based on such participant's assigned responsibilities, as determined by the Committee.

   The relative weighting of the Bonus Components may vary among Plan participants and may be changed from year to year by the Committee.

For purposes of computing the amount of the Annual Bonus for any Plan year, the performance score achieved for each of the designated Bonus Components will be multiplied by the applicable weighting factor to produce a Weighted Performance Score. The sum of the Weighted Performance Scores will equal the Performance Factor. The Performance Factor will equal 1.0 if specified performance goals are met, and can vary from 0 to 2.0, based on actual performance versus the pre-established objectives.

Actual performance results achieved for any Plan year, as used to calculate the performance score achieved for each of the applicable Bonus Components, must be certified by the Committee prior to payment of the Annual Bonus.

B. Core Business Profitability and Growth Component

The Core Business Profitability and Growth Component measures overalloperating performance of Progressive's Personal Lines segment excluding Midland Financial Group, Inc.) and commercial vehicle insurance business unit (collectively, the "Core Business") for the Plan year for which an Annual Bonus payment is to be made. For purposes of computing a Performance Score for this Component, operating performance results are measured by a Gainsharing Matrix, as established by or under the direction of the Committee for the Plan year, which assigns a Profitability and Growth Performance Score to various combinations of profitability (as measured by the Gainsharing Combined Ratio) and growth (based on year-to-year change in Net Written Premium) outcomes.

The Gainsharing Combined Ratio is determined for the Core Business as follows:

1. Each year, a target combined ratio is established by or under the direction of the Committee for all products within the Core Business, determined to yield an average policy life target combined ratio of 96.

2. A weighted target combined ratio is calculated based on the various target combined ratios for the constituent product categories, which are weighted on the basis of the Net Earned Premium generated by each such product category for the Plan year.

3. The actual GAAP combined ratio achieved for the Plan year is subtracted from the weighted target combined ratio to determine the extent to which performance is over or under target. This result, whether positive or negative, is subtracted from the average policy life combined ratio target of 96 to determine the Gainsharing Combined Ratio.

The Gainsharing Combined Ratio is then matched with growth in Net Written Premium using the Gainsharing Matrix to determine a Core Business Profitability and Growth Performance Score.



C. Business Segment Performance Component

The Business Segment Performance Component measures the performance of a designated Business Segment (as defined below) in terms of any one or more of the following criteria selected by the Committee: profitability (measured by the combined ratio, weighted combined ratio, return on equity or return on revenue), growth (measured by net written premium, earned premium or revenues) or operating effectiveness (measured by systems availability or timeliness of response). A Business Segment may consist of a distribution channel, business unit, product, function, process or other business category, such as new or renewal business. The Committee may designate one or more Business Segment Performance Components for an individual Plan participant for any Plan year and, for each such Component, will determine the applicable criteria upon which performance will be measured, the goals to be achieved and the performance scores that will result from various levels of performance. The applicable criteria, related goals and resulting performance scores may be set forth in a Business Segment Performance Matrix or other format approved by the Committee. Business Segment Performance Components, performance criteria, goals and resulting performance scores may vary among participants and may be changed from year to year by the Committee.

D. Cost Structure Improvement Component

The Cost Structure Improvement Component measures success in achieving cost structure improvement for the Core Business, as a whole, or for an assigned Business Segment, if applicable. Results are reflected in a Cost Structure Improvement Score. For purposes of computing the Cost Structure Improvement Score, cost structure improvement is measured by comparing the sum of the GAAP Underwriting Expense Ratio ("Underwriting Expense Ratio") and Loss Adjustment Expense Ratio ("LAE Ratio") achieved for the Plan year (collectively, "Actual Expense Ratio") against defined expense objectives for that year, as established by or under the direction of the Committee ("Target Expense Ratio"). The Target Expense Ratio, including its individual components, may vary by Business Segment and/or for the Core Business as a whole, and may be changed from year to year by or under the direction of the Committee.

The Cost Structure Improvement Score will be computed in accordance with the following formula:

$$\text{Cost Structure Improvement Score} = 1 + \frac{[\text{Target Expense Ratio} - \text{Actual Expense Ratio}]}{3}$$



E. Investment Performance Component

The Investment Performance Component compares the investment performance of individual segments of Progressive's investment portfolio ("Portfolio Segments") against the performance of selected groups of comparable investment funds, indexes or other benchmarks ("Investment Benchmarks") over such period or periods as shall be determined by the Committee. Such Investment Benchmarks may be risk-adjusted in accordance with such formula or other method as may be determined by the Committee. Investment results are marked to market in order to calculate total return, which is then compared against the designated Investment Benchmarks to produce a Performance Score for each Portfolio Segment.

The applicable Portfolio Segments will be identified, and the related Investment Benchmarks will be determined, by the Committee and may be changed from year to year by the Committee.

In the event that any participant's Annual Bonus is to be determined by the performance of two or more Portfolio Segments, the Performance Scores for each of the Portfolio Segments will be weighted, based on the average amounts invested from time to time in each of such Portfolio Segments during the Plan year, and the weighted Performance Scores for the applicable Portfolio Segments will be then combined to produce the Investment Performance Score. Investment expense is not included in determining investment performance vs. benchmark.

8. The Annual Bonus for any Plan year will be paid to participants as soon

as practicable after the Committee has certified performance results for the Plan year, but no later than March 15 of the immediately following year. The provisions of this Paragraph shall be subject to Paragraph 9 hereof.

Any Plan participant who is eligible to participate in The Progressive Corporation Executive Deferred Compensation Plan ("Deferral Plan") may elect to defer all or a portion of the Annual Bonus otherwise payable under this Plan, subject to and in accordance with the terms of the Deferral Plan.

9. Unless otherwise determined by the Committee, in order to be entitled to receive an Annual Bonus for any Plan year, the participant must be employed by Progressive on the date designated for payment thereof. Annual Bonus payments made to participants will be net of any legally required deductions for federal, state and local taxes and other items.

10. The right to any of the Annual Bonuses hereunder may not be transferred, assigned or encumbered by any participant. Nothing herein shall prevent any participant's interest hereunder from being subject to involuntary attachment, levy or other legal process.

11. The Plan will be administered by or under the direction of the Committee. The Committee will have the authority to adopt, alter and repeal such rules, guidelines, procedures and practices governing the Plan as it, from time to time, in its sole discretion deems advisable.

The Committee will have full authority to determine the manner in which the Plan will operate, to interpret the provisions of the Plan and to make all determinations thereunder. All such interpretations and determinations will be final and binding on Progressive, all Plan participants



and all other parties. No such interpretation or determination may be relied on as a precedent for any similar action or decision.

The Plan will be administered by the Committee in accordance with the requirements of Section 162(m) of the Internal Revenue Code, as amended, and the rules and regulations promulgated thereunder (the "Code").

12. The Plan will be subject to approval by the holders of Progressive's Common Shares, $1.00 par value ("shareholders") in accordance with the requirements of Section 162(m) of the Code and no Annual Bonus will be paid hereunder unless the Plan has been so approved.

13. The Plan may be terminated, amended or revised, in whole or in part, at any time and from time to time by the Committee, in its sole discretion; provided that the Committee may not increase the amount of compensation payable hereunder to any participant above the amount that would otherwise be payable upon attainment of the applicable performance goals, or accelerate the payment of any portion of the Annual Bonus due to any participant under the Plan without discounting the amount of such payment in accordance with Section 162(m) of the Code, and further provided that any amendment or revision of the Plan required to be approved by shareholders pursuant to Section 162(m) of the Code will not be effective until approved by Progressive's shareholders in accordance with the requirements of Section 162(m).

14. The Plan will be unfunded and all payments due under the Plan will be made from Progressive's general assets.

15. Nothing in the Plan shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties or compensation.

16. Progressive shall have the unrestricted right to set off against or recover out of any bonuses or other sums owed to any participant under the Plan any amounts owed by such participant to Progressive.

17. This Plan supersedes all prior plans, agreements, understandings and

arrangements regarding bonuses or other cash incentive compensation payable or due to any participant from Progressive. Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 1997 Executive Bonus Plan, as heretofore in effect (the "Prior Plan"), which is and shall be deemed to be terminated as of December 31, 1998 (the "Termination Date"); provided, that any bonuses or other sums earned under the Prior Plan with respect to any period ended on or prior to the Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder.

18. This Plan is adopted and, subject to the provisions of Paragraph 12 hereof, is to be effective, as of January 1, 1999. Subject to the provisions of Paragraph 12, this Plan shall be effective for 1999 and for each year thereafter unless and until terminated by the Committee.

19. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

Exhibit 10(I)

THE PROGRESSIVE CORPORATION

DIRECTORS DEFERRAL PLAN

(Amendment and Restatement)

1. PURPOSES OF THE PLAN.

The purposes of this Plan are to attract and retain qualified Directors and to provide incentives to these Directors through the ability to defer their receipt of Director Fees and by providing Directors with the opportunity to participate in the Company's growth.

2. DEFINITIONS.

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

(b) "Common Shares" means units equivalent in value and dividend rights to Common Shares, $1.00 par value, of the Company.

(c) "Company" means The Progressive Corporation.

(d) "Deferred Account" means the account established by the Company for each Director who elects to defer the Fees payable to him as a Director.

(e) "Director" means any director of the Company who is not an employee of the Company.

(f) "Election Agreement" means the written election to defer Director Fees signed by the Director and in the form provided by the Chief Financial Officer of the Company.

(g) "Fees" means the fees payable to a Director by reason of his serving on the Board either (i) as a retainer (without regard to attendance at meetings) or (ii) on a per meeting basis. "Retainer Fees" means those Fees which are payable to a Director by reason of his serving on the Board as a retainer (without regard to attendance at meetings), and "Meeting Fees" means those Fees which are payable to a Director by reason of his attendance at meetings of the Board or any committee thereof.

(h) "Market Price" means the average of the high and low price at which a share of the Company's Common Stock, $1.00 par value, is traded on the NYSE on a given date.

(i) "Member" means any Director who has at any time deferred the receipt of Director Fees in accordance with this Plan.

(j) "Plan" means The Progressive Corporation Directors Deferral Plan.

(k) "Term" means the duration of the term for which a Director is elected.

(l) "Year" means the calendar year.



(m) Whenever appropriate, words used herein in the singular may be read as the plural and the plural may be read as the singular.

(n) Masculine pronouns used herein shall be deemed to refer to both women and men.

3. ELECTION TO DEFER DIRECTOR FEES.

(a) ELIGIBILITY.

A Director may elect to defer receipt of all or a portion of his Fees for any Year in accordance with Paragraph 3(b) hereof.

(b) TIME OF ELECTION.

A Director desiring to defer all or a portion of his Fees for the upcoming

Year must submit an Election Agreement to the Chief Financial Officer of the Company no later than the last day of the Year prior to the Year for which the election is to be effective.

Any Director who was not a Director during the previous Year may make an election to defer all or a portion of the Fees for the Year in which the Director is elected to the Board by delivering an Election Agreement to the Chief Financial Officer of the Company within thirty (30) days of such election to the Board. A Director fulfilling the above requirements shall be considered a "Member" for purposes of this Plan.

(c) DURATION AND NATURE OF ELECTION.

Subject to the following sentence, a Member's election to defer Fees shall continue in effect from Year to Year unless modified or revoked by the Member through written notice to the Chief Financial Officer of the Company prior to the beginning of the Year for which the revocation or modification is to apply. Modifications or revocations shall not apply retroactively, and once a Member has made, or is deemed to have made, an election to defer all or a portion of his Fees for a given Year, such election may not be modified or revoked.

4. THE AMOUNT AND DATE OF DEFERRAL.

The Election Agreement of the Member shall indicate the amount of Fees to be deferred and the date to which the Fees are to be deferred. The deferral of Retainer Fees shall be subject to Paragraph 7 hereof; the deferral of Meeting Fees shall be to the earlier of (1) the date selected by the Member in an Election Agreement, which date shall not be earlier than six months and one day after the date on which such Fees are credited to the Member's Deferred Account or (2) the date of the death of the Member. Subject to the preceding sentence, a Member may (i) select a lump-sum distribution or a series of distributions or installments and (ii) choose the date on which the lump sum shall be paid or the installments shall commence. The installments may not be more frequent than quarterly and may not consist of more than forty (40) quarterly or ten (10) annual installments. All payments will be made on the first business day of a calendar quarter. In the case of the death of the Member, distribution of the deferred Fees shall be made in accordance with Paragraph 8.



5. DEFERRAL ACCOUNTS.

(a) ACCOUNTS.

The Company shall establish and preserve one or more accounts for each Member. A Member shall designate on the Election Agreement whether to have the account valued on the basis of the Common Shares of the Company in accordance with Paragraph 5(b) hereof or on the basis of cash in accordance with Paragraph 5(c) hereof. A Member may defer a portion of his Fees into each type of account. The Company may establish separate accounts for a Member to properly account for amounts deferred under the two alternatives or during different years. An account valued on the basis of the Company's Common Shares shall be known as a "Stock Account" and an account valued on the basis of cash shall be known as a "Cash Account." Amounts held in a Stock Account may not be transferred to a Cash Account and vice versa.

(b) STOCK ACCOUNT.

There shall be credited to a Member's Stock Account, on the last day of each quarter, the number of Common Shares (whole or fractional, rounded to the nearest thousandth of a share) equal to the quotient obtained by dividing (i) the sum of the Fees he elects to defer to his Stock Account which otherwise would have been paid to him during the quarter and the dividends payable during such quarter on the Common Shares held in his Stock Account on the first day of such quarter, by (ii) the Market Price of the Common Shares on the last business day of such quarter.

(c) CASH ACCOUNT.

If a Member elects to have a portion of his Fees deferred into a Cash Account, there will be credited to his Cash Account, on the last day of each quarter, an amount equal to the sum of (i) the Fees he elects to defer to his Cash Account which otherwise would have been paid to him during the quarter and (ii) interest on the balance in the Cash Account on the first day of such quarter at a rate based on the rate of interest offered by

National City Bank, Cleveland, Ohio, on the last business day of such quarter on new three-month certificates of deposit.

(d) CLAIMS OF GENERAL CREDITORS.

All compensation deferred and amounts credited to the Cash and Stock Accounts under this Plan shall remain a part of the general assets of the Company. Accordingly, the compensation deferred under this Plan is subject to the claims of the Company's general creditors.

6. PAYMENT OF ACCOUNTS.

The accounts established and maintained for each Member shall be distributed in a lump sum or installments. The selection of the distribution date(s) and the method of distribution are to be indicated on the Election Agreement to be submitted by the Member. The election as to the method of and time for payment of the amount of an account relating to Fees deferred for a particular Year may not be altered with respect to that particular Year once the election has been made. Changes in the method of and time for payment of the amount of an account may be



effected for future Years by notifying the Chief Financial Officer in writing prior to the beginning of the Year for which the modification is to apply in accordance with Paragraph 3 above.

With respect to all distributions to be made under the Plan, the following rules shall apply:

(i) All distributions, whether from a Stock Account or a Cash Account, shall be paid in cash subject to withholding or deduction by the Company of any taxes, contributions, payments and assessments which the Company is now or may hereafter be required or authorized by law to withhold or deduct from distributions;

(ii) The amount of the distribution from the Stock Account shall be valued based on the Market Price of the Company's Common Shares, $1.00 par value, on the last business day of the calendar quarter immediately preceding the distribution date; and

(iii) The amount of the distribution from the Cash Account shall be valued based on the value of the Cash Account on the last business day of the calendar quarter immediately preceding the distribution date.

In the event a Member elects to receive installment payments, the following rules shall apply:

(i) The balance of the Stock Account shall be credited, pursuant to Paragraph 5(b) above, with additional Common Shares upon the payment of dividends until the Stock Account is completely distributed;

(ii) The balance of the Cash Account shall be credited, pursuant to Paragraph 5(c) above, with interest quarterly until the Cash Account is completely distributed; and

(iii) The amount of each installment shall be determined by dividing the value of the Stock Account, the Cash Account, or both, by the number of installments remaining to be paid to the Member.

7. MINIMUM DEFERRAL.

Retainer Fees shall be deferred as provided in this Paragraph 7. Absent the filing by a Director of an Election Agreement deferring into a Stock Account all Retainer Fees which are payable to such Director until a date which is on or after the Retainer Fee Minimum Deferral Date (as herein defined), the Director shall be deemed to have filed an election deferring such Fees until the Retainer Fee Minimum Deferral Date, electing to have such Fees deposited to a Stock Account and indicating that such Fees shall be distributed in a lump sum on the first day of the calendar quarter immediately following the Retainer Fee Minimum Deferral Date. For purposes hereof, the Retainer Fee Minimum Deferral Date shall be the later of (a) the date which is six (6) months and one day after the date upon which the Retainer Fees are credited to a Stock Account or (b) the date of the expiration of the Director's then current Term.

8. DEATH OF MEMBER.

A Member may, in the Election Agreement described in Paragraph 3 above, provide that, in the event of his death prior to the date or dates on which his account balance is distributable, the



account balance shall be distributed to his estate or designated beneficiary in a single distribution or in the installments contemplated by Paragraph 6 above. This election shall be made at the time of the election contemplated by Paragraph 3 above. If no such election is made, the account balance shall be distributed to the estate of the deceased Member in a single distribution six months after the Member's death.

9. VALUATION OF ACCOUNTS.

Each account shall be valued as of the last day of each calendar quarter until payment of the account in full to the Member in accordance with Paragraph 6. Each Member shall receive a statement of his accounts not less than annually.

10. CAPITAL CHANGES.

In the event of any change in the number of outstanding Common Shares, $1.00 par value, of the Company by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares or a similar corporate change, the Board shall determine, in its sole discretion, the extent to which such change equitably requires an adjustment in the number of Common Shares held in the Stock Accounts and such adjustment shall be made by the Company and shall be conclusive and binding on all Members of the Plan.

11. DEFERRED VESTING OF COMMON SHARES.

Retainer Fees credited to a Member's Stock Account (whether as a result of filing an election under Paragraph 3(b) or a deemed election under Paragraph 7) shall not vest upon their being credited to the Member's Stock Account, but shall become vested only upon the expiration of the Term of such Director to which the Fees relate or upon such Director's earlier death, resignation due to disability or removal without cause. If a Director ceases to be a Director for any reason other than death, resignation due to disability or removal without cause, the Director shall forfeit all Retainer Fees credited to his Stock Account during his unexpired Term, along with any dividends attributable thereto, and the Member's Stock Account shall be reduced accordingly.

12. ADMINISTRATION.

This Plan shall be administered by the Board or by an appropriate Committee of Directors selected by the Board. The Board or the appropriate Committee shall have the sole right and authority to interpret and construe the provisions of this Plan, and its decisions on any matter or dispute arising under the Plan shall be binding and conclusive upon the Members. If a Member is part of the Board or Committee that administers this Plan, he shall not participate in any deliberations or actions of the Board or such Committee relating exclusively to his membership or participation in this Plan.

13. TERMINATION OR MODIFICATION OF PLAN.

This Plan may be terminated, modified, or amended at the sole discretion of the Board. If this Plan is terminated, the remaining Deferred Account balances will be distributed pursuant to the terms of this Plan and no additional deferrals will be permitted.



14. NON-ALIENATION.

The amounts credited to any accounts maintained under the Plan may not be pledged, assigned, or transferred by the Director for whom such account is maintained or by any other individual, and any purported pledge, assignment, or transfer shall be void and unenforceable.

15. CLAIMS OF OTHER PERSONS.

The provisions of the Plan shall in no event be construed as giving any person, firm or corporation any legal or equitable right as against the Company or any subsidiary, or the officers, employees, or directors of the Company or any subsidiary, except any such rights as are specifically provided for in the Plan or are hereafter created in accordance with the terms and provisions of the Plan.

16. SEVERABILITY.

The invalidity and unenforceability of any particular provision of the Plan shall not affect any other provision hereof, and the Plan shall be construed in all respects as if such invalid or unenforceable provisions were omitted herefrom.

17. GOVERNING LAW.

The provisions of the Plan shall be governed by and construed in accordance with the laws of the State of Ohio.



AMENDMENT NO. 1

TO

THE PROGRESSIVE CORPORATION

DIRECTORS DEFERRAL PLAN

(AMENDMENT AND RESTATEMENT)

The Progressive Corporation Directors Deferral Plan (Amendment and Restatement) (the "Plan") is hereby amended as follows:

1. Section 2(g) of the Plan is hereby amended to read as follows:

> (g) "Fees" means the fees payable to a Director by reason of his or her serving on the Board and includes both "Retainer Fees" and "Meeting and Service Fees." "Retainer Fees" means those Fees which are payable to a Director by reason of his or her serving on the Board (without regard to attendance at meetings). "Meeting and Service Fees" means those Fees which are payable to a Director (i) by reason of his or her attendance at meetings of the Board or any committee thereof, or (ii) for participation in meetings of the Company's management, or other Board-related activities, for which such Director is entitled to receive compensation, as determined in the sole discretion of the Chairman of the Board.

2. All references to "Meeting Fees" contained in the Plan are hereby amended to read "Meeting and Service Fees."

The foregoing amendments will be effective as of October 25, 1996, and will be applicable to all Plan years beginning on or after January 1, 1997.

/s/ David M. Schneider
----------------------

David M. Schneider

Secretary

Exhibit 10(M)

SEPARATION AGREEMENT AND GENERAL RELEASE

1. This Agreement specifies the terms of the separation of CHARLES BERGEN CHOKEL ("Employee") from PROGRESSIVE CASUALTY INSURANCE COMPANY ("Progressive").

In consideration of the payments noted in Paragraphs 3 and 4 below, Employee hereby releases Progressive, its officers, directors, employees, parent, subsidiaries, affiliates, agents and assigns (the "Progressive Entities") from all actions, suits, claims, and demands in law or equity, that Employee ever had or now has against any of the Progressive Entities, by reason of any matter, cause, or thing, and particularly any claims relating in any way to Employee's employment relationship or the termination of Employee's employment relationship with Progressive, including, without limitation, any claim under the Age Discrimination in Employment Act, any claim arising under any federal, state, or local law and any common law claim, but excepting those matters described in Paragraphs 3 and 4 below.

2. Effective January 31, 2001 (the "Resignation Date"), Employee hereby resigns as an officer and/or director of The Progressive Corporation, Progressive and of any Progressive subsidiary or affiliate(s) as is confirmed by Employee's signature on the resignation letter attached hereto as Exhibit A and hereby agrees to execute all other documents and undertake any other action(s) necessary to effect such resignations or any other matters necessary to complete his obligations as an officer or director of Progressive or any of its affiliates. Employee agrees to resign his directorships with Plymouth Rock Assurance Company, G & L Holding Group, Inc., Netrex Holdings L.L.C. and any of Netrex's subsidiaries or affiliates, and in any other company in which Progressive has made an equity investment effective the Resignation Date, and to execute all other documents and undertake any other action(s) necessary to effect such resignations. Although Employee will remain employed by Progressive until the Separation Date (as defined below), he will have no authority to make any commitments or representations or take any action on behalf of any of the Progressive Entities or to bind any of the Progressive Entities in any way. Progressive, accordingly, shall have no obligation to defend or indemnify Employee for any act or omission by Employee after the Resignation Date.

3. In full consideration of Employee signing this Agreement and for the covenants contained herein, Progressive hereby agrees to the following:

A. Employee shall remain an employee of Progressive through the Separation Date (as defined below) and shall receive-for the period of time between the execution of this Agreement and the Separation Date - salary in the amount of Two Thousand Dollars ($2,000), payable within ten (10) days of the Separation Date. The Separation Date shall be the earlier of: (a) January 31, 2002; (b) the date on which Employee begins employment as an employee on the payroll of another entity; or c) the date of a "Disqualifying Activity" as defined in Section 4B. below.

B. Within ten (10) days of Employee's execution of this Agreement or upon the dissolution of all applicable restraining orders, whichever is later, Employee shall be paid a lump-sum payment of One Million Two Hundred Forty-four Thousand Dollars ($1,244,000) (the "Severance Amount"), less all applicable withholding taxes.

C. Employee shall be paid for credited but unused Earned Time Benefit ("ETB") hours determined as of the Resignation Date. Such payment to be made within ten (10) days of the Resignation Date or upon the dissolution of all applicable restraining orders, whichever



is later. Employee agrees that Employee will not be entitled to accrue any ETB hours subsequent to the Resignation Date.

4.

A. Notwithstanding anything to the contrary provided in any Non-Qualified Stock Option Agreement ("NQSO Agreement") heretofore entered into between

Employee and Progressive, the parties hereto agree that, subject to the conditions set forth in Paragraph 4B. below concerning a "Disqualifying Activity," if and to the extent that any Option Installment (as defined below) of any non-qualified stock option ("NQSO") heretofore granted to Employee by Progressive under The Progressive Corporation 1989 Incentive Plan (the "1989 Plan") or The Progressive Corporation 1995 Incentive Plan (the "1995 Plan") (collectively, the "Plans") is not vested and exercisable as of the Resignation Date, such Option Installment (i) shall remain in effect with respect to fifty percent (50%) of the Common Shares of The Progressive Corporation ("Common Shares") covered thereby and, as to such Common Shares, shall vest and become exercisable on the vesting date applicable thereto, as provided in the applicable NQSO Agreement, and may be exercised by Employee in whole or in part at any time between such vesting date and the expiration date applicable thereto (i.e., the tenth anniversary of the date of grant), as provided in the related NQSO Agreement, and (ii) shall terminate, effective as of the Resignation Date, with respect to the remaining fifty percent (50%) of the Common Shares covered by such Option Installment. In the event that Employee shall engage in any Disqualifying Activity, Employee shall forfeit all of his rights under this Paragraph and all NQSOSs then held by Employee which were not vested as of the Resignation Date (regardless of whether vested at the time of the Disqualifying Activity), shall immediately terminate and may not thereafter be exercised in whole or in part. For purposes hereof, an Option Installment shall mean any NQSO award included within a single grant which includes multiple NQSO awards, each with a separate vesting date. Except as herein expressly provided, all NQSOS's awarded to Employee under the Plans will continue to be governed by all of the terms and conditions of the Plans and applicable NQSO Agreement.

B. Employee shall forfeit his rights under Paragraph 4A. if Employee participates in any "Disqualifying Activity" as defined below:

Disqualifying Activity - means any of the following acts or activities committed during the period beginning on the Resignation Date and ending January 31, 2004 (the "Restriction Period"):

- directly or indirectly serving as a principal, shareholder, partner, of officer, employee or agent of, or as a consultant, advisor or in any other capacity (other than as a Director) to, any insurance carrier other than Progressive with more than 1.5% market share of the U.S. market for private passenger automobile insurance as of December 31, 1999 as reported by A.M. Best and specifically listed on the attached Exhibit B. This clause shall not apply if Employee becomes an employee of one of the entities listed on Exhibit B solely as a result of actions beyond Employee's control--such as an acquisition not initiated by Employee of an entity with a smaller market share then employing Employee by one of the listed companies; or

- any disclosure by the Employee, or any use by the Employee for his own benefit or for the benefit of any other person or entity (other than Progressive, its parent or



its subsidiaries), of any confidential information or trade secret of Progressive or its subsidiaries (as defined herein) to an extent deemed material by Progressive; or

- any violation of Paragraphs 2, 5, 8 or 10 of this Agreement; or

- making any other disclosure or taking any other action which is materially detrimental to the business, prospects or reputation of Progressive, its parent or its subsidiaries. The direct ownership of less than 10% of the outstanding voting shares of a publicly traded corporation which competes with Progressive or its subsidiaries shall not constitute a Disqualifying Activity.

5. Employee shall not, during the Restriction Period, hire or solicit to hire any of Progressive's then current employees (other than Employee's spouse), either directly or indirectly, to work for Employee or any other entity. This

prohibition is not intended, nor shall it be construed, to prohibit any future employer of Employee from hiring anyone in the normal course of its business without assistance from Employee; but, rather, is intended to cover and shall only be construed to prohibit actions of Employee.

6. With the exception of the rights and benefits contained in this Agreement, Employee: (a) waives any and all rights Employee now has or might hereafter have acquired to, and acknowledges the forfeiture of, any and all "NQSOs" under the Plans which are not vested as of the Resignation Date; and (b) waives any rights Employee may now have or would have had under Progressive's 2001 Gainsharing Program, The Progressive Corporation 2001 Executive Bonus Plan, The Progressive Corporation 1999 Executive Bonus Plan, The Progressive Corporation Separation Allowance Plan and to any other compensation or bonus Employee may have received had Employee remained employed by Progressive. Other than is provided for in paragraph 3, Employee shall not be entitled to any compensation as a Progressive employee after the Resignation Date, including, but not limited to, NQSOs granted under the Plans and any other bonus or incentive payment(s).

7. Employee's rights relating to vested, but unexercised NQSOs shall be determined in accordance with the provisions of the Plans and applicable NQSO Agreement(s) between Progressive and Employee, and as is specified in those agreements, the last available date for exercise by Employee of any vested NQSOs shall be sixty (60) days after the Separation Date. Employee's rights (if any) under the Executive Deferred Compensation Program (the "Program") shall be determined in accordance with the governing provisions of the Program.

8. Employee hereby agrees that neither Employee nor any person, organization, or other entity acting on Employee's behalf will communicate or permit to be communicated, either directly or indirectly, any information regarding the financial terms of this Agreement except to Employee's counsel, Employee's spouse, Employee's accountant, a prospective employer, financial institutions when needed to demonstrate Employee's personal financial condition, or to any court involved in any action brought by either party to enforce the terms of this Agreement.

9. Employee agrees and acknowledges that this Agreement is not and shall not be construed to be an admission of any violation of any federal, state, or local law, regulation or of any duty Progressive owed Employee and that the execution of this Agreement is a voluntary act to provide conclusion to Employee's employment relationship with Progressive.



10. Employee agrees that Employee will maintain the confidentiality of confidential information which Employee has received by virtue of Employee's employment with Progressive and will refrain from using such information or disclosing it to anyone other than Progressive or its employees. For purposes of this Agreement, confidential information is information which Progressive endeavors to keep confidential, including, without limitation, customer lists, employee lists, rate schedules, underwriting information, the terms of contracts and policies, marketing plans, program designs, trade secrets, Progressive's internal electronic mail distribution lists and addresses, proprietary information, and any such information provided by a third party to Progressive in confidence. Employee represents that upon Employee's separation, Employee will return to Progressive any documents in Employee's possession containing confidential information of Progressive or documents or other items which are the property of Progressive.

11. Any notices or matters regarding this Agreement shall be made to Progressive's Chief Legal Officer, Charles E. Jarrett by mail to 300 North Commons Boulevard, Mayfield Village, Ohio 44143, by facsimile transmission to (440) 395-0280 or by electronic mail to GOTOBUTTON BM_1_ Chuck_Jarrett@Progressive.com or to Employee at his home address.

12. Employee has read and understands all of the terms of this Agreement. Employee signs this Agreement in exchange for the consideration to be given to Employee. Neither Progressive nor its agents, representatives, or employees have made any representations to Employee concerning the terms or effects of this Agreement other than those contained in the Agreement. This Agreement contains the entire agreement between Employee and Progressive and supercedes all prior or contemporaneous discussions or agreements.

13. The terms of this Separation Agreement and General Release are separate and

independent and should any of them be declared invalid or unenforceable by any court, the remaining provisions and terms of this Agreement shall remain in full force and effect.

14. This Agreement shall be governed and interpreted in accordance with the laws of the State of Ohio. Any dispute arising under the terms of this Agreement shall be resolved by binding arbitration in Cuyahoga County, Ohio in accordance with the rules of commercial arbitration of the American Arbitration Association. In any such arbitration proceeding, the tribunal may award only compensatory damages and is not empowered to award punitive or exemplary damages, but shall award reasonable attorneys' fees to the prevailing party.



EMPLOYEE HAS READ AND UNDERSTANDS ALL OF THE TERMS OF THIS AGREEMENT AND EMPLOYEE HAS BEEN ENCOURAGED TO CONSULT WITH AN ATTORNEY. EMPLOYEE ACKNOWLEDGES THAT EMPLOYEE HAS BEEN GIVEN A PERIOD OF TWENTY-ONE (21) DAYS TO REVIEW THIS AGREEMENT WITH AN ATTORNEY AND CONSIDER ITS EFFECT, INCLUDING EMPLOYEE'S RELEASE OF RIGHTS AND SEPARATION. EMPLOYEE ALSO ACKNOWLEDGES THAT EMPLOYEE HAS SEVEN (7) DAYS FOLLOWING EXECUTION OF THIS AGREEMENT TO REVOKE THIS AGREEMENT FOR ANY REASON AND IS HEREBY ADVISED THAT THIS AGREEMENT SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE EXPIRATION OF THE SEVEN (7) DAY REVOCATION PERIOD.

IN WITNESS WHEREOF, the parties have executed this Agreement this 23 day of February, 2001

_________________________________________
CHARLES BERGEN CHOKEL

_______________________________________
Witness

PROGRESSIVE CASUALTY INSURANCE COMPANY

By: _________________________________________

Title: ______________________________________

Witness: ____________________________________

EXHIBIT 10(R)

NON-QUALIFIED STOCK OPTION AGREEMENT

This Agreement (the "Agreement") is made as of the _____ day of _______________, 19_____, between The Progressive Corporation, an Ohio corporation (the "Company"), and (NAME) (the "Optionee"). The Company hereby grants Optionee an option (the "Option") to purchase (TOTAL_SHARES) Common Shares, $1.00 par value, (the "Common Shares") of the Company for a per share purchase price of $_________ (the "Option Price"). The Option has been granted pursuant to The Progressive Corporation 1989 Incentive Plan (as amended and restated) (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 become exercisable on _______________ (the "Vesting Date") and may be exercised, in whole or in part, at any time thereafter until _______________ (the "Expiration Date"), on which date the Option shall expire and no longer be exercisable.

2. METHOD OF EXERCISE. Subject to Section 1 above, the Option shall be exercisable from time to time by written notice (in form approved or furnished by the Company) to the Committee 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 and agreements, in form and substance satisfactory to counsel for the Company, with respect to the investment intent of such person or persons exercising the Option as the Company may request.

3. PAYMENT OF PRICE. Upon exercise of the Option, the Company shall deliver a certificate or certificates for the Common Shares purchased thereunder to the specified person or persons at the specified time upon receipt of the full purchase price for such Common Shares: (a) by certified or bank cashier's check, or (b) by any other method of payment or combination thereof authorized by the Plan.

4. TRANSFERABILITY. The Option shall not be transferable by the Optionee other than by will or by the laws of descent and distribution. Subject to the following sentence, during the lifetime of 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. Upon the death or disability of the Optionee, 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, during the period and to the extent authorized in the Plan.

5. TERMINATION OF EMPLOYMENT. If the employment of the Optionee by the Company (or any of its Subsidiaries or Affiliates) terminates:

(a) due to involuntary termination without cause or due to retirement (with the employer's approval, but subject to Section 5(e) below), the Option may be exercised to the extent exercisable at the date of such termination, during the lesser of (i) two months after such date, or (ii) the balance of the Option's term;

(b) due to death or disability, the provisions of Section 5(b)(6) or 5(b)(7) of the Plan, as applicable, shall apply;

(c) due to resignation by the Optionee (other than by reason of a Qualified Retirement, as provided at Section 5(e) below), the Optionee may exercise the Option, to the extent of the lesser of (A) the number of Common Shares as to which the Option is exercisable on the date the Optionee ceases to be an employee or (B) the number of Common Shares as to which the Option was exercisable ninety days prior to such date, reduced by any Common Shares acquired by exercise of the Option within such ninety day period, at any time within two (2) months after the date that the Optionee ceases to be an employee (but in no event after expiration of the original term of the Option) and the Option shall not be or become exercisable as to any additional Common Shares after the date that the Optionee ceases to be an employee;

(d) due to termination for cause, the Option and all rights to purchase Common Shares thereunder shall immediately terminate; and

(e) due to a Qualified Retirement (as defined below), the following provisions shall apply (subject in all cases to Section 5(e)(v) hereof):

(i) if the Option has vested and is exercisable as of the Qualified Retirement Date (as defined below), the Option shall not terminate upon the retirement of the Optionee, and, to the extent that it has not been previously exercised, may be exercised by the Optionee, in whole or in part, at any time between the Qualified Retirement Date and the Expiration Date;

(ii) subject to Section 5(e)(iii) hereof, if the Option is not vested and exercisable as of the Qualified Retirement Date, the Option shall not terminate in its entirety upon the retirement of the Optionee; instead, the Option (A) shall remain in effect with respect to fifty percent (50%) of the Common Shares which are subject to the Option as of the Qualified Retirement Date and, as to such Common Shares, shall vest and become exercisable on the Vesting Date and may be exercised by the Optionee, in whole or in part, at any time between the Vesting Date and the Expiration Date, and (B) shall terminate, effective as of the Qualified Retirement Date, with respect to the remaining fifty percent (50%) of the Common Shares that are subject to the Option as of the Qualified Retirement Date;



(iii) notwithstanding Section 5(e)(ii) above, if the Option is not vested and exercisable as of the Qualified Retirement Date, but has a Vesting Date which is no later than four (4) months after the Qualified Retirement Date, then, notwithstanding the Optionee's retirement, the full Option (or, if the Option is subject to installment vesting, that portion thereof which is scheduled to vest on such Vesting Date) shall remain in effect, shall vest on such Vesting Date and may be exercised by the Optionee, in whole or in part, at any time between such Vesting Date and the Expiration Date;

(iv) if the Optionee dies after the date of his or her retirement and has not exercised the Option, in whole or in part, prior to his or her death, the Optionee's estate shall have the right to exercise the Option as to (A) all Common Shares, if any, as to which the Option has vested and is exercisable as of the date of the Optionee's death, plus (B) the additional Common Shares, if any, as to which the Option would have become exercisable within one (1) year from the date of the Optionee's death pursuant to Section 5(e)(ii) and/or (iii) hereof, as applicable, but for the death of the Optionee, at any time during the one (1) year period beginning on the date of the Optionee's death (or such other period as the Committee may specify), and the balance of the Option shall terminate as of the date of the Optionee's death;

(v) if the Committee determines that the Optionee is or has engaged in any Disqualifying Activity (as defined below), then (1) to the extent that the Option has vested and is exercisable as of the Disqualification Date (as defined below), the Optionee shall have the right to exercise the Option during the lesser of two months from the Disqualification Date or the balance of the Option's term and (2) to the extent that the Option is not vested and exercisable as of the Disqualification Date, the Option shall terminate as of such date. Any determination by the Committee, which may act upon the recommendation of the Chief Executive Officer or other senior officer of the Company, that the Optionee is or has engaged in any Disqualifying Activity, and as to the Disqualification Date, shall be final and conclusive.

(vi) As used in this Section 5(e), the following terms are defined as follows:

(A) QUALIFIED RETIREMENT - any termination of the Optionee's employment with the Company or its Subsidiaries for any reason (other than death, Disability or an involuntary termination for Cause) if, at or immediately prior to the date of such termination, the Optionee satisfies both of the following conditions:

(1) the Optionee shall be 55 years of age or older; and

(2) the sum of the Optionee's age and completed years of service as an employee of the Company or its Subsidiaries (disregarding fractions, in both cases) shall total 70 or more.

(B) QUALIFIED RETIREMENT DATE - the date as of which the Optionee's employment with the Company or its Subsidiaries shall terminate pursuant to a Qualified Retirement.



(C) DISQUALIFYING ACTIVITY - means and includes each of the following acts or activities:

(1) directly or indirectly serving as a principal, shareholder, partner, director, officer, employee or agent of, or as a consultant, advisor or in any other capacity to, any business or entity which competes with the Company or its Subsidiaries in any business or activity then conducted by the Company or its Subsidiaries to an extent deemed material by the Committee; or

(2) any disclosure by the Optionee, or any use by the Optionee for his or her own benefit or for the benefit of any other person or entity (other than the Company or its Subsidiaries), of any confidential information or trade secret of the Company or its Subsidiaries to an extent deemed material by the Committee; or

(3) any material violation of any of the provisions of the Company's Code of Conduct or any agreement between the Optionee and the Company; or

(4) making any other disclosure or taking any other action which is determined by the Committee to be materially detrimental to the business, prospects or reputation of the Company or its Subsidiaries. The ownership of less than 2% of the outstanding voting shares of a publicly traded corporation which competes with the Company or its Subsidiaries shall not constitute a Disqualifying Activity.

(D) DISQUALIFICATION DATE - the date of any determination by the Committee that the Optionee is or has engaged in any Disqualifying Activity.

6. RESTRICTIONS ON EXERCISE. The Option is subject to all restrictions set forth in this Agreement or in the Plan. As a condition to 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 requested by counsel for the Company.

7. TAXES. The Optionee hereby agrees that he or she shall pay to the Company, in cash, any federal, state and local taxes of any kind required by law to be withheld with respect to the Option granted to him or her hereunder or the exercise thereof. 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 (or from any Subsidiary or Affiliate of the Company), any federal, state and local taxes of any kind required by law to be withheld with respect to the Option, the exercise thereof 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.

8. 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: _________, 19____

BY: _____________________________________
TITLE: __________________________________



ACCEPTANCE OF AGREEMENT

The Optionee hereby: (a) acknowledges receiving a copy of the Plan Description dated _______________ (the "Plan Description") relating to the Plan, and represents that he or she is familiar with all of the material provisions of the Plan, as set forth in the Plan Description; (b) accepts this Agreement and the Option granted to him or 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 Committee relating to the Plan, this Agreement or the Option granted hereunder.

Optionee: _________________________________________

Date: _______________________________, 19____

Exhibit 10(S)

NON-QUALIFIED STOCK OPTION AGREEMENT

This Agreement (the "Agreement") is made as of the _______ day of __________________, 19_____, between The Progressive Corporation, an Ohio corporation (the "Company"), and {NAME} (the "Optionee"). The Company hereby grants Optionee an option (the "Option") to purchase {TOTAL_SHARES} Common Shares, $1.00 par value, (the "Common Shares") of the Company for a per share purchase price of $____________ (the "Option Price"). The Option has been granted pursuant to The Progressive Corporation 1989 Incentive Plan (as amended and restated) (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 become exercisable as follows:

___________ Common Shares may be purchased on or after _______________ and until _______________, at which date the right to purchase such Common Shares shall expire.

___________ Common Shares may be purchased on or after _______________ and until _______________, at which date the right to purchase such Common Shares shall expire.

___________ Common Shares may be purchased on or after _______________ and until _______________, at which date the right to purchase such Common Shares shall expire.

The dates set forth above on or after which the Option, or any part thereof, may be exercised and specified numbers of Common Shares may be purchased hereunder are referred to herein as "Vesting Dates" and the dates set forth above as of which such stock purchase rights expire are referred to herein as "Expiration Dates."

2. METHOD OF EXERCISE. Subject to Section 1 above, the Option shall be exercisable from time to time by written notice (in form approved or furnished by the Company) to the Committee 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 and agreements, in form and substance satisfactory to counsel for the Company, with respect to the investment intent of such person or persons exercising the Option as the Company may request.

3. PAYMENT OF PRICE. Upon exercise of the Option, the Company shall deliver a certificate or certificates for the Common Shares purchased thereunder to the specified person or persons at



the specified time upon receipt of the full purchase price for such Common Shares: (a) by certified or bank cashier's check, or (b) by any other method of payment or combination thereof authorized by the Plan.

4. TRANSFERABILITY. The Option shall not be transferable by the Optionee other than by will or by the laws of descent and distribution. Subject to the following sentence, during the lifetime of 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. Upon the death or disability of the Optionee, 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, during the period and to the extent authorized in the Plan.

5. TERMINATION OF EMPLOYMENT. If the employment of the Optionee by the Company (or any of its Subsidiaries or Affiliates) terminates:

(a) due to involuntary termination without cause or due to retirement (with the employer's approval, but subject to Section 5(e) below), the Option may be exercised to the extent exercisable at the date of such termination, during the lesser of (i) two months after such date, or (ii) the balance of the Option's term;

(b) due to death or disability, the provisions of Section 5(b)(6) or 5(b)(7) of the Plan, as applicable, shall apply;

(c) due to resignation by the Optionee (other than by reason of a Qualified Retirement, as provided at Section 5(e) below), the Optionee may exercise the Option, to the extent of the lesser of (A) the number of Common Shares as to which the Option is exercisable on the date the Optionee ceases to be an employee or (B) the number of Common Shares as to which the Option was exercisable ninety days prior to such date, reduced by any Common Shares acquired by exercise of the Option within such ninety day period, at any time within two (2) months after the date that the Optionee ceases to be an employee (but in no event after expiration of the original term of the Option) and the Option shall not be or become exercisable as to any additional Common Shares after the date that the Optionee ceases to be an employee;

(d) due to termination for cause, the Option and all rights to purchase Common Shares thereunder shall immediately terminate; and

(e) due to a Qualified Retirement (as defined below), the following provisions shall apply (subject in all cases to Section 5(e)(v) hereof):

(i) if and to the extent that any Option Installment (as defined below) has vested and is exercisable as of the Qualified Retirement Date (as defined below), such Option Installment shall not terminate upon the retirement of the Optionee, but may be exercised by the Optionee, in whole or in part, at any time between the Qualified Retirement Date and the Expiration Date applicable thereto;

(ii) subject to Section 5(e)(iii) hereof, if and to the extent that any Option Installment is not vested and exercisable as of the Qualified Retirement Date, such Option Installment



(A) shall remain in effect with respect to fifty percent (50%) of the Common Shares covered thereby and, as to such Common Shares, shall vest and become exercisable on the Vesting Date applicable thereto and may be exercised by the Optionee, in whole or in part, at any time between the Vesting Date and Expiration Date applicable thereto, and (B) shall terminate, effective as of the Qualified Retirement Date, with respect to the remaining fifty percent (50%) of the Common Shares covered by such Option Installment;

(iii) notwithstanding Section 5(e)(ii) above, if and to the extent that any Option Installment is not vested and exercisable as of the Qualified Retirement Date, but has a Vesting Date which is no later than four (4) months after the Qualified Retirement Date, then, notwithstanding the Optionee's retirement, the Option Installment which is scheduled to vest on such Vesting Date shall remain in effect, shall vest on such Vesting Date and may be exercised by the Optionee, in whole or in part, at any time between such Vesting Date and the applicable Expiration Date;

(iv) if the Optionee dies after the date of his or her retirement and has not exercised the Option, in whole or in part, prior to his or her death, the Optionee's estate shall have the right to exercise the Option as to (A) all Common Shares, if any, as to which the Option has vested and is exercisable as of the date of the Optionee's death, plus (B) the additional Common Shares, if any, as to which the Option would have become exercisable within one (1) year from the date of the Optionee's death pursuant to Sections 5 (e)(ii) and/or (iii) hereof, as applicable, but for the death of the Optionee, at any time during the one (1) year period beginning on the date of the Optionee's death (or such other period as the Committee may specify), and the balance of the Option shall terminate as of the date of the Optionee's death;

(v) if the Committee determines that the Optionee is or has engaged in any Disqualifying Activity (as defined below), then (1) to the extent that the Option has vested and is exercisable as of the Disqualification Date (as defined below), the Optionee shall have the right to exercise the Option during the lesser of two months from the Disqualification Date or the balance of the Option's term and (2) to the extent that the Option is not vested and exercisable as of the Disqualification Date, the Option shall terminate as of such date. Any determination by the Committee, which may act upon the recommendation of the Chief Executive Officer or other senior officer of the Company, that the Optionee is or has engaged in any Disqualifying Activity, and as to the Disqualification Date, shall be final and conclusive.

(vi) As used in this Section 5(e), the following terms are defined as follows:

(A) QUALIFIED RETIREMENT - any termination of the Optionee's employment with the Company or its Subsidiaries for any reason (other than death, Disability or an involuntary termination for Cause) if, at or immediately prior to the date of such termination, the Optionee satisfies both of the following conditions:

(1) the Optionee shall be 55 years of age or older; and



(2) the sum of the Optionee's age and completed years of service as an employee of the Company or its Subsidiaries (disregarding fractions, in both cases) shall total 70 or more.

(B) QUALIFIED RETIREMENT DATE - the date as of which the Optionee's employment with the Company or its Subsidiaries shall terminate pursuant to a Qualified Retirement.

(C) DISQUALIFYING ACTIVITY - means and includes each of the following acts or activities:

(1) directly or indirectly serving as a principal, shareholder, partner, director, officer, employee or agent of, or as a consultant, advisor or in any other capacity to, any business or entity which competes with the Company or its Subsidiaries in any business or activity then conducted by the Company or its Subsidiaries to an extent deemed material by the Committee; or

(2) any disclosure by the Optionee, or any use by the Optionee for his or her own benefit or for the benefit of any other person or entity (other than the Company or its Subsidiaries), of any confidential information or trade secret of the Company or its Subsidiaries to an extent deemed material by the Committee; or

(3) any material violation of any of the provisions of the Company's Code of Conduct or any agreement between the Optionee and the Company; or

(4) making any other disclosure or taking any other action which is determined by the Committee to be materially detrimental to the business, prospects or reputation of the Company or its Subsidiaries.

The ownership of less than 2% of the outstanding voting shares of a publicly traded corporation which competes with the Company or its Subsidiaries shall not constitute a Disqualifying Activity.

(D) DISQUALIFICATION DATE - the date of any determination by the Committee that the Optionee is or has engaged in any Disqualifying Activity.

(E) OPTION INSTALLMENT - if the Option consists of multiple awards, each with a separate Vesting Date and Expiration Date, any one of such awards.

6. RESTRICTIONS ON EXERCISE. The Option is subject to all restrictions set forth in this Agreement or in the Plan. As a condition to 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 requested by counsel for the Company.

7. TAXES. The Optionee hereby agrees that he or she shall pay to the Company, in cash, any federal, state and local taxes of any kind required by law to be withheld with respect to the Option granted to him or her hereunder or the exercise thereof. 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 (or from any Subsidiary or Affiliate of the Company), any federal, state and local taxes of any kind required by law to be withheld with respect to the Option, the exercise thereof 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.

8. 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: _________, 19____

BY: ______________________________________

TITLE: ___________________________________



ACCEPTANCE OF AGREEMENT

The Optionee hereby: (a) acknowledges receiving a copy of the Plan Description dated _______________ (the "Plan Description") relating to the Plan, and represents that he or she is familiar with all of the material provisions of the Plan, as set forth in the Plan Description; (b) accepts this Agreement and the Option granted to him or 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 Committee relating to the Plan, this Agreement or the Option granted hereunder.

Optionee: _________________________________________

Date: ______________________________, 19____

Exhibit 10(T)

OBJECTIVE-BASED
NON-QUALIFIED STOCK OPTION AGREEMENT

This Agreement (the "Agreement") is made as of the _____ day of _______________, 20___ between The Progressive Corporation, an Ohio corporation (the "Company"), and {NAME} (the "Optionee"). The Company hereby grants Optionee an option (the "Option") to purchase {TOTAL SHARES} Common Shares, $1.00 par value (the "Common Shares"), of the Company for a per share purchase price of $_________ (the "Option Price"). The Option has been granted pursuant to The Progressive Corporation 1995 Incentive 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 become exercisable as follows:

   _____ Common Shares may be purchased on or after the Vesting Date (as defined below) and until ___________________________ (the "Expiration Date"), on which date the right to purchase such Common Shares shall expire.

   The Option will vest and become exercisable upon the date (the "Vesting Date") which is the earlier of (a) ________________________ or (b) the date of the public dissemination by the Company of a release reporting earnings for the Company and its subsidiaries for the first calendar year or quarter as of the end of which the Company and its subsidiaries have generated net earned premiums of $_________ or more over a period consisting of four consecutive calendar quarters ("Realization Period") at a combined ratio of less than _______ for the Realization Period.

2. Method of Exercise. Subject to Section 1 above, the Option shall be exercisable from time to time after the Vesting Date by written notice (in form approved or furnished by the Company) 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 and agreements, in form and substance satisfactory to counsel for the Company, with respect to the investment intent of such person or persons exercising the Option as the Company may request.

3. Payment of Price. Upon exercise of the Option, the Company shall deliver a certificate or certificates for the Common Shares purchased thereunder 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 any other method of payment or combination thereof authorized by the Plan.



4. Transferability. The Option shall not be transferable by the Optionee other than by will or by the laws of descent and

distribution. Subject to the following sentence, during the lifetime of 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. Upon the death or disability of the Optionee, 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, during the period and to the extent authorized in the Plan.

5. Termination of Employment. If the employment of the Optionee by the Company (or any of its Subsidiaries or Affiliates) terminates:

(a) due to involuntary termination without Cause or, subject to Section 5(e) hereof, due to retirement (with the employer's approval), the Option may be exercised to the extent exercisable at the date of such termination, during the lesser of (i) two months after such date, or (ii) the balance of the Option's term;

(b) due to death or Disability, the provisions of Section 5(b)(6) or 5(b)(7) of the Plan, as applicable, shall apply;

(c) due to resignation by the Optionee, the Optionee may exercise the Option, to the extent of the lesser of (A) the number of Common Shares as to which the Option is exercisable on the date the Optionee ceases to be an employee or (B) the number of Common Shares as to which the Option was exercisable ninety days prior to such date, reduced by any Common Shares acquired by exercise of the Option within such ninety day period, at any time within two (2) months after the date on which the Optionee ceases to be an employee (but in no event after expiration of the original term of the Option) and the Option shall not be or become exercisable as to any additional Common Shares after the date that the Optionee ceases to be an employee;

(d) due to termination for Cause, the Option and all rights to purchase Common Shares thereunder shall immediately terminate; and

(e) due to a Qualified Retirement (as defined below), the following provisions shall apply (subject in all cases to Section 5(e)(iv) hereof):

(i) if and to the extent that the Option has vested and is exercisable as of the Qualified Retirement Date (as defined below), the Option shall not terminate upon the retirement of the Optionee, but may be exercised by the Optionee, in whole or in part, at any time between the Qualified Retirement Date and the Expiration Date applicable thereto;

(ii) if the Option is not vested and exercisable as of the Qualified Retirement Date, the Option (A) shall remain in effect with respect to fifty percent (50%) of the Common Shares covered thereby and, as to such Common Shares, shall vest and become exercisable on the Vesting Date, and may be exercised by the Optionee, in whole or in part, at any time between the Vesting Date and Expiration Date,



and (B) shall terminate, effective as of the Qualified Retirement Date, with respect to the remaining fifty percent (50%) of the Common Shares covered by Option;

(iii) if the Optionee dies after the date of his or her retirement and has not exercised the Option, in whole or in part, prior to his or her death, the Optionee's estate shall have the right to exercise the Option within one (1) year of the date of the Optionee's death as to (A) all Common Shares as to which the Option has not been exercised prior to the date of the Optionee's death, if the Option has vested and is exercisable as of the date of the Optionee's death, or (B) if the Option has not vested prior to the date of the Optionee's death, the Common Shares, if any, as to which the Option would have become exercisable pursuant to Section 5(e)(ii) hereof at any time during the one (1) year period beginning on the date of the Optionee's death (or such other period as the Committee may specify);

(iv) if the Committee determines that the Optionee is or has engaged in any Disqualifying Activity (as defined below), then (1) if the Option has vested and is exercisable as of the Disqualification Date (as defined below), the Optionee shall have the right to exercise the Option during the lesser of two months from the Disqualification Date or the balance of the Option's term and (2) if the Option is not vested and exercisable as of the Disqualification Date, the Option shall terminate as of such date. Any determination by the Committee, which may act upon the recommendation of the Chief Executive Officer or other senior officer of the Company, that the Optionee is or has engaged in any Disqualifying Activity, and as to the Disqualification Date, shall be final and conclusive.

(v) As used in this Section 5(e), the following terms are defined as follows:

(A) Qualified Retirement - any termination of the Optionee's employment with the Company or its Subsidiaries for any reason (other than death, Disability or an involuntary termination for Cause) if, at or immediately prior to the date of such termination, the Optionee satisfies both of the following conditions:

(1) the Optionee shall be 55 years of age or older; and

(2) the sum of the Optionee's age and completed years of service as an employee of the Company or its Subsidiaries (disregarding fractions, in both cases) shall total 70 or more.

(B) Qualified Retirement Date - the date as of which the Optionee's employment with the Company or its Subsidiaries shall terminate pursuant to a Qualified Retirement.

(C) Disqualifying Activity - means and includes each of the following acts or activities:



(1) directly or indirectly serving as a principal, shareholder, partner, director,

officer, employee or agent of, or as a consultant, advisor or in any other capacity to, any business or entity which competes with the Company or its Subsidiaries in any business or activity then conducted by the Company or its Subsidiaries to an extent deemed material by the Committee; or

(2) any disclosure by the Optionee, or any use by the Optionee for his or her own benefit or for the benefit of any other person or entity (other than the Company or its Subsidiaries), of any confidential information or trade secret of the Company or its Subsidiaries to an extent deemed material by the Committee; or

(3) any material violation of any of the provisions of the Company's Code of Conduct or any agreement between the Optionee and the Company; or

(4) making any other disclosure or taking any other action which is determined by the Committee to be materially detrimental to the business, prospects or reputation of the Company or its Subsidiaries.

The ownership of less than 2% of the outstanding voting shares of a publicly traded corporation which competes with the Company or its Subsidiaries shall not constitute a Disqualifying Activity.

(D) Disqualification Date - the date of any determination by the Committee that the Optionee is or has engaged in any Disqualifying Activity.

6. Restrictions on Exercise. The Option is subject to all restrictions set forth in this Agreement or in the Plan. As a condition to any exercise of the Option, the Company may require the Optionee or his or her successor to make any representation or warranty to comply with any applicable law or regulation or to confirm any factual matters requested by counsel for the Company.

7. Taxes. The Optionee hereby agrees that he or she shall pay to the Company, in cash, any federal, state and local taxes or other items of any kind required by law to be withheld with respect to the Option granted to him or her hereunder. 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 (or from any Subsidiary or Affiliate of the Company), any federal, state and local taxes or other items of any kind required by law to be withheld with respect to the Option, the exercise thereof 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.

8. 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: ________________________________
Charles E. Jarrett, Secretary

ACCEPTANCE OF AGREEMENT

The Optionee hereby: (a) acknowledges receiving a copy of the Plan Description dated ____________________________ (the "Plan Description") relating to the Plan, and represents that he or she is familiar with all of the material provisions of the Plan, as set forth in the Plan Description; (b) accepts this Agreement and the Option granted to him or 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 Committee relating to the Plan, this Agreement or the Option granted hereunder.

Optionee: _____________________________________

Date: _________________________________________

Exhibit 11

THE PROGRESSIVE CORPORATION
COMPUTATION OF EARNINGS PER SHARE
(MILLIONS - EXCEPT PER SHARE AMOUNTS)

| Years Ended December 31, | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Amount | Per Share | Amount | Per Share | Amount | Per Share |
| BASIC: | | | | | | |
| Net income | $ 46.1 | $ .63 | $295.2 | $4.05 | $456.7 | $6.30 |
| Average shares outstanding | 73.2 | | 72.9 | | 72.5 | |
| DILUTED: | | | | | | |
| Net income | $ 46.1 | $ .62 | $295.2 | $3.96 | $456.7 | $6.11 |
| Average shares outstanding | 73.2 | | 72.9 | | 72.5 | |
| Net effect of dilutive stock options | 1.1 | | 1.7 | | 2.2 | |
| Total | 74.3 | | 74.6 | | 74.7 | |

Exhibit 13

3500 BC

THE INVENTION OF
THE WHEEL

2000 AD

THE PROGRESSIVE
CORPORATION
ANNUAL REPORT

WHAT
DO YOU
DAYDREAM
ABOUT?



## CYCLES

In 1937, the Progressive insurance organization began business during a difficult but hopeful era. From the start, the Company has been innovators -- growing into new markets and pioneering new ways to meet consumers' needs. In 1956, Progressive Casualty Insurance Company was founded to be among the first specialty underwriters of nonstandard auto insurance. Today, The Progressive Corporation, which owns 76 subsidiaries and one mutual insurance company affiliate, provides all drivers throughout the United States with competitive rates and 24-hour, in-person and online services.

As with any creative process, innovation and its results are often cyclical. This year's Annual Report chronicles a very trying year in the cycle of our company and the auto insurance industry. Progressive is often at the leading edge of cycles. We expect to emerge stronger from the challenges of 2000 and look forward to opportunities ahead.

To illustrate this concept, we commissioned artist Greg Colson to explore the theme of cycles. Using simple charts and statistical measures, Colson's mixed media paintings probe our perceptions of the universe and provide a whimsical snapshot of human desire, vocation and avocation. Colson's work will become part of Progressive's growing collection of contemporary art.



## 2000 FINANCIAL HIGHLIGHTS

| (millions - except per share amounts) | 2000 | 1999 | % CHANGE |
|---|---|---|---|
| FOR THE YEAR | | | |
| Direct premiums written | $ 6,402.1 | $ 6,305.3 | 2% |
| Net premiums written | 6,196.1 | 6,124.7 | 1 |
| Net premiums earned | 6,348.4 | 5,683.6 | 12 |
| Total revenues | 6,771.0 | 6,124.2 | 11 |
| Operating income | 55.4 | 266.7 | (79) |
| Net income | 46.1 | 295.2 | (84) |
| Per share:(1) | | | |
| Operating income | .75 | 3.58 | (79) |
| Net income | .62 | 3.96 | (84) |
| Underwriting margin | (4.4)% | 1.7% | |

AT YEAR-END

| | | | |
|---|---|---|---|
| Consolidated shareholders' equity | $ 2,869.8 | $ 2,752.8 | 4 |
| Common Shares outstanding | 73.5 | 73.1 | 1 |
| Book value per share | $ 39.04 | $ 37.66 | 4 |
| Market capitalization | $ 7,616.8 | $ 5,345.4 | 42 |
| Return on average shareholders' equity | 1.7% | 10.9% | |

| | 1-YEAR |
|---|---|
| STOCK PRICE APPRECIATION (DEPRECIATION)(2) | |
| Progressive | 42.3% |
| S&P 500 | (9.1)% |

----------

(1) Presented on a diluted basis.

(2) Assumes dividend reinvestment.



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 roles and enjoy their contributions.

VISION

We seek to be an excellent, innovative, growing and enduring business by cost-effectively and profitably reducing the human trauma and economic costs of auto accidents and other mishaps, and by building a recognized, trusted, admired, business-generating brand. We seek to earn a superior return on equity and to provide a positive environment which attracts quality people who develop and achieve ambitious growth plans.

CORE VALUES

Progressive's Core Values are pragmatic statements of what works best for us in the real world. They govern our decisions and behavior. We want them understood and embraced by all Progressive people. Growth and change provide new perspective, requiring regular refinement of Core Values.

INTEGRITY We revere honesty. We adhere to high ethical standards, report promptly and 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 communicate clearly 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. We teach and encourage our people to improve performance and to reduce the costs of what they do for customers. We base their 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. Expanding profits reflect our customers' and claimants' increasingly positive view of Progressive.



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 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 3.4% in 2000, and averaged 2.5% over the past five years and 2.7% over the past ten years). If we believe we can earn such a profit, we will invest in business operations. If we do not believe we can earn such a profit, we will return underleveraged capital to our investors. We prefer share repurchases over dividends as a means of returning capital. As appropriate, we will substitute debt for equity in our capital structure to reduce our cost of capital. Our return on equity was 1.7% in 2000, and averaged 13.4% over the past five years and 16.3% over the past ten years.



PROFITABILITY Our business focus has evolved substantially during the '90s from a largely variable cost business with very short-term policy retention, to a set of businesses each at differing levels of maturity with unique underlying cost structures, customer mix, policy life expectancies and growth opportunities. The balance and discipline implicit in managing this increasingly complex business will be guided by Progressive's most important goal of producing an aggregate calendar year 4% underwriting profit. Overall, we had an underwriting loss of 4.4% in 2000, and an underwriting profit of 3.2% for the past five years and 4.1% for the past ten years. Estimated industry results for the personal auto insurance market for the same periods were underwriting losses of 8.7%, 2.9% and 2.5%.

GROWTH Progressive is a growth-oriented company and management incentives are tied to profitable growth. In 2000, we made the decision to report Personal Lines' results by channel -- Agent and Direct. This decision was made to give shareholders a more accurate picture of the business dynamics of each distribution method and their respective rates of growth. Aggregate expense ratios and aggregate growth rates disguise the true nature and performance of each business. As we considered the implications of the compounding effect of any single growth goal and the dispersion around individual segment and sub-segment growth rates, it became clear that the true goal is to grow as fast as possible constrained only by our profitability objective and our ability to provide high quality customer service.

The Agent channel net premiums written decreased 8% in 2000, while the Direct channel volume grew 35%. During the year, the Company shifted to writing more six-month policies, which distort the premium growth rates for the year. Policies in force, which may be a more accurate measure, decreased 7% in Agent Auto and increased 45% in Direct Auto. Total Personal Lines net premiums written decreased 1% in 2000, compared to an estimated 2.8% growth in the personal auto insurance market for the year.

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, 2000, with a market value of $796,800, for a 22.8% compounded annual return, compared to the 9.1% return achieved by investors in the Standard & Poor's 500 during the same period. In addition, the shareholder received dividends of $2,076 in 2000, bringing total dividends received to $22,341 since the shares were purchased.

In the ten years since December 31, 1990, Progressive shareholders have realized compounded annual returns of 20.4%, compared to 17.4% for the S&P 500. In the five years since December 31, 1995, Progressive shareholders' returns were 16.5%, compared to 18.3% for the S&P 500. In 2000, the returns were 42.3% on Progressive shares and negative 9.1% for the S&P 500.

Over the years, when we have had adequate capital and believe it is appropriate, we have repurchased our shares. Since 1971, we spent $632.1 million repurchasing our shares, at an average cost of $9.34 per share. During 2000, we repurchased 272,500 Common Shares in the open market at an average cost of $58.09 per share, excluding 28,554 Common Shares repurchased to offset obligations under various employee benefit plans.

I feel a sweet sadness writing my 36th and last letter to shareholders as CEO. I will miss being a key person in the day-to-day work of Progressive's becoming a greater company. This valedictory letter covers the Company's 2000 results and prospects. It is written in the context of my thoughts about the reasons Progressive has produced extraordinary results for more than three decades and why pursuing the same fundamentals will support Progressive continuing to perform excellently in the process of becoming United States consumers' #1 choice for auto insurance.

The bedrock of Progressive's success is its Core Values, its Vision of reducing the human trauma and economic costs of auto accidents and the challenging Financial Objectives against which we evaluate performance. The Vision, Values and Objectives provide the clarity that lets excellent people perform well. The Vision affirms our benefit to society and drives our single-minded focus on U.S. auto insurance buyers. The Values guide behavior. The demanding Objectives attract the special people who enjoy working hard, performing well, being rewarded competitively and growing constantly.

INSURANCE OPERATIONS

Regrettably, my last year as CEO produced unacceptable results. The 2000 combined ratio missed Progressive's four percent underwriting profit objective by 8.4 points. This goal permeates our culture and its achievement is required for senior operating managers to earn target bonuses. We also missed our goal of growing premium volume at 15 percentage points greater than the rate of inflation. Rate increases in late 1999 and throughout 2000 made Progressive less competitive, resulting in one percent premium volume growth. This letter identifies the causes of 2000's disappointing performance and what was accomplished during 2000 so that 2001 results can be better.

I am proud of and comfortable with how I was succeeded. After 35 years as CEO, passing age 65, being partially disabled and enjoying my good life outside Progressive, I was ready to shed the furious pace, complex responsibilities and agonizing people decisions required of a great CEO. Led by me, the Board conducted a thoughtful, thorough and deliberate three-year process that resulted in Glenn Renwick officially becoming CEO of The Progressive Corporation on January 1, 2001. Glenn has broad, successful experience in most areas of Progressive's operations. He was ready when he effectively became CEO at the start of 2000 and has flourished through 2000's "baptism in the fire." I remain involved as "coach and cheerleader," am in close touch with Glenn and other managers, and am working to be an effective Chairman of an effective Board of Directors.

Although each year's results are very important, the vagaries of capital flows, natural disasters, competitive pressures and accounting estimates make it more reasonable to evaluate achievement over consecutive five-year periods. For the five years ending December 31, 2000, our average underwriting profit margin was 3.2 percent and our average annual growth rate was 16 percent. In 1999, Progressive became the #4 U.S. private passenger auto insurer based on volume, by understanding the fundamentals and having the will and discipline to stick with them. Our competition has changed as we have grown, and is tougher now than ever. I believe that following these proven concepts may lead to meeting our targets over the next five years.



Progressive knows about auto insurance cyclicality. After periods of okay profit margins, competitors begin to price more for market share than for underwriting profit. This starts a downward cycle, which often is amplified by costs escalating faster than expected, and/or regulators inhibiting rate increases, and/or high interest rates prompting careless underwriting, and/or mistakes in rate making. Progressive does not intentionally price for market share, and reacts fast when the other factors come into play. That is why we grow less during unprofitable parts of the cycle, like during 2000.

Progressive people's creativity, a rapidly changing business milieu and the value we attribute to continuous improvement drives constant innovation and change, not always in the right direction. I attribute 2000's results less to the cycle than to sub-optimal organizational and tactical decisions led or made by me prior to 2000. As CEO-Insurance Operations during 2000, Glenn Renwick accomplished an enormous amount to remedy these problems, to develop new capabilities and to ready Progressive for a positive surge. The changes conceived by Glenn and his leadership team greatly improve Progressive's future prospects. Fast, decisive actions were required when profit margins deteriorated in late 1999 and Glenn led us to take them!

Progressive believes in being unusually open and values people who look for and disclose problems, and seek help to get them fixed. This constant search for shortfall, combined with measuring almost everything, keeps us working on problems, many of which were identified in my 1999 shareholders' letter. We described the same issues in more detail in early 2000, at the first of what we plan to be annual March meetings with security analysts and investors. I am pleased to report the progress we have made against each of those changes.



Progressive's alternative to making a proper underwriting profit is not to do business. Progressive's people understand that it is absolutely necessary always to charge enough to earn our target returns and to raise rates immediately when experience suggests the need. Ratemaking is subject to error. Our rates became inadequate due to unanticipated increases in personal injury protection and physical damage claim costs, because we changed profit objectives, and because claim handling deteriorated.

In 2000, we returned to our historical 4 percent annual profit objective, increased rates fast, began improving claim handling and studied how better to anticipate loss trend changes. Increasing rates before competitors do slows growth and causes our competitors to grow faster. While not growing, we fix the processing problems that always arise during previous periods of fast growth and change. Some competitors grow faster while both their underwriting results and customer service deteriorate. Then competitors finally raise rates and restrict acceptances to stem their losses. When this has happened, because Progressive's rates had been adequate and our operations were running smoothly, we grew, usually quite profitably. We will soon learn whether this long-time dynamic still operates.

In 1998, we changed the basis for employee Gainsharing from 4 percent annual profit margin to a 4 percent profit margin over the life of the policy. This was based on an assumption, which turned out to be wrong, that we could accurately calculate the future profits to be realized on policies written currently. Upon understanding our mistake, we reverted to the annual profit standard for 2000 and beyond. The Gainsharing payout declined from $55.6 million for 1999 to $8.3 million for 2000. We made mistakes in product design that were mostly corrected. In 1999, 35 percent of our policies were written for a semiannual term. Now 80 percent of policies are being written for a six-month term, which speeds by six months the effect of rate changes.

Progressive regularly reorganizes to adapt to new circumstances, which energizes and challenges its people. Through the 1980s and 1990s, we managed growth by a series of subdivisions into smaller geographic units each managed by a General Manager (GM) who was responsible for profit and growth in his/her area. By 1999, we had subdivided into 39 such units, with the new GMs' first objective being to apply their creativity and energy to improve claim service and lower claim costs in their communities -- yet many absorbed themselves in marketing activities. That structure dissipated pricing talent and ineffectively matched corporate pricing strategy to local market and regulatory conditions. In April 2000, Glenn reorganized again -- this time functionally, with separate managers and objectives for marketing agent-produced business and telephone/Internet-related business.

Progressive's people are the reason for Progressive's superior performance and exciting prospects. Retaining people was difficult in 2000, as our folks were faced with disappointing results, minimal or no Gainsharing and a vibrant employment market. Employee turnover predictably escalated from 18.4 percent in 1999 to 22.4 percent in 2000. Some of the increase was due to Company-initiated departures after the claim diagnostic review and the reorganization.

Progressive's leaders understand profoundly that claim service is the principal service we deliver. The reorganization made Claims a separate department, with the head of Claims reporting to Glenn. The claims head and a team of 15 people, six of whom are regional General Managers covering the U.S., implement strategies they develop as a team. These 16 folks have an average of 16 years of Progressive experience, mostly in claims, with some great successes as GMs. This organization eliminates roadblocks to decision making and standard setting.

The new claim management team's first step was self-critically to examine our own claim handling from the customers' viewpoint. We learned that concentrating on delivering fast claim service had led us to divide tasks and involve too many people in each claim, diminishing our customers' experience and increasing total cost. Speed is but one essential factor in a well-handled claim. Future customer interactions will be more personal and caring with corresponding improvements in speed of final resolution and payment accuracy. Our claim handlers will be more helpers and less investigators/negotiators.

A number of valuable changes are already in place as a byproduct of this claim review, including a new claim file-by-claim file quality calibration process that lets us better evaluate individual claim handlers and overall claim handling. We moved experienced claim managers from largely administrative duties to working with their people on day-to-day file handling. We are testing an array of techniques to bring us closer yet to our customers and will further differentiate our claim service so that it becomes an even more recognized and important part of our continuously developing brand.

Concern that loss reserves might have become deficient was another 2000 problem. Achieving "accurate" reserves is like balancing a scale where what's being weighed continuously changes and exact balance (exactly accurate reserves) is elusive and accuracy is ephemeral. Progressive's reserving philosophy is never to be inadequate. Historically, we set reserves near the high end of the reasonable range of reserves to ensure we didn't slip below balance. Our attempts through the '90s to reduce reserve redundancy put us disconcertingly close to or even under balance and shook manager confidence. In 2000, we applied more energy to studying reserves and we increased them. We will soon publish the first detailed analysis of our own loss reserves since 1995, in order to help those who follow Progressive to better understand and critique our thinking, process and detailed reserve segments.

Other important accomplishments resulted from our constant effort to improve. Glenn and his team focused early on expense management, achieving reductions for the Agency group whose expenses were down to 18.8 percent of premiums earned from 20.7 percent last year. This was due in part to an increase in percentage of renewals, the reduced Gainsharing payout and no longer charging brand advertising to the Agency business. The Direct business expense ratio was reduced to 29.6 percent from 38.5 percent by more expertly buying advertising and an increase in the percentage of renewal policies. We changed focus from brand building and internal process orientation to making it easier and more comfortable for customers to be with us. As part of a concerted 2001 effort to increase renewal persistency, Glenn articulated a standard for handling every aspect of every customer experience -- "Virtually Perfect." We will move inexorably toward that standard.

Progressive's long-time intense focus on changing U.S. auto insurance to make it easier and less costly for consumers led us to Immediate Response(R) claims service, 24/7 in-person delivery of all Progressive services, free comparative rates, distributing all ways consumers want to buy, the first Internet "buy button" and more. Our open, flexible, creative approach to the business continued in 2000 and more firsts, including making progressive.com the first auto insurance site available on Web-enabled cellular phones, promising tests of new ways to handle physical damage losses and confidence-building progress in our Internet-related business. We received the Gomez award for the No. 1 online insurance carrier for the last three consecutive quarters in 2000 and continued volume increases causing Internet business to be 15 percent of Direct business net premiums written, up from 7 percent in 1999, and to be 3 percent of total Company volume, up from 1 percent in 1999.



CAPITAL MANAGEMENT AND INVESTING

Although investment returns are an important part of our operations, any premium in Progressive's stock price depends on continuing profitable growth in the auto insurance business. This is the reason previous shareholder letters have dealt more with operations than with capital and investing. This will be my first and final discourse on why Progressive manages capital and invests as it does.

Our primary objective of capital and investment management is always to have sufficient capital to support all the insurance we can profitably underwrite. Other objectives include financing growth internally and maintaining a senior debt rating of at least A. The fundamental drivers are the same as in operations -- Core Values, high standards and excellent people paid well for achieving challenging objectives. Capital and investment management objectives, processes and controls have evolved based on experience garnered from over 35 years of trying hard to do both well. Managing these functions requires the ability to attract the best people, to decide what to do about conflicting objectives, to communicate unfamiliar and complex ideas, and to make major decisions quickly.

CAPITAL MANAGEMENT Capital Management Policy is established by the CEO, CFO and Chairman. By producing a proper underwriting profit, growing premium volume at the targeted rate and managing capital aggressively but prudently, we have posted a return on equity that met our goal of exceeding the inflation rate by 15 percentage points in 18 of the past 25 years.

Auto insurance customers pay in advance so a profitable, growing company could theoretically operate with no capital, by paying yesterday's bills with today's premium receipts. Because insurance companies hold customers' money against a promise to deliver future service and indemnity and are not always profitable, sensible regulation requires companies to have "adequate" capital, generally defined by the National Association of Insurance Commissioners (NAIC). Our desire to fall within NAIC parameters establishes Progressive's minimum capital level.



We want to have more than the minimum capital to support excellent debt, claim paying and A.M. Best ratings, to fund dramatic growth if it comes, to deal with catastrophic losses and unforeseen surprises, and to be able to take advantage of unforeseen opportunities. Being conservative assures capital adequacy. The questions are how much capital is required for these purposes, how much excess do we have and what do we do about it?

Progressive is special because our objectives are tough to achieve, particularly all of them every year. We discipline our use of capital by requiring ourselves to produce an excellent return on it. To become U.S. consumers' #1 choice for auto insurance, we expect to expand market share and volume for the foreseeable future, in part because we are not distracted by any other business and in part because we will continue to spend millions each year for the systems, training and facilities required to achieve and manage such growth. These "investments" in business capacity are funded from current operations, not from capital. Currently, we see no attractive alternatives, including acquisition, to deploy excess capital.

Progressive's 2000 return on equity was 1.7 percent, compared to 10.9 percent in 1999 and 16.7 percent under the objective, because we produced too little profit on too much capital. We are working hard on addressing the "too little profit" issue. Repurchasing our shares is our strong preference for reducing capital. In 2000, we repurchased 272,500 shares at an average price of $58.09, compared to no open market purchases in 1999. In 2001, we will repurchase shares when our capital position, view of the future and the stock's price make it attractive to do so. In December, we paid off $300 million of 10 percent and 10.125 percent maturing debt. At December 31, our ratio of debt to total debt plus equity was 20.7 percent.



INVESTING Progressive's investment objectives, beyond having sufficient capital, include maximizing total investment return, managing to predetermined risk levels and maintaining adequate liquidity. Although responsible for managing Progressive's assets since they were less than $10 million, I concentrated on insurance operations and didn't develop the skills to be a competent, confident buyer and seller of financial assets. Instead, we hired investment specialists, either employees or fee/incentive-paid outside managers, whose recommendations and reasoning were debated by a committee of specialized "experts," directors and senior managers who spent too much time coming to sub-optimal consensus decisions.

The lessons we learned from this experience follow and are implicit in how we manage investing today.

- Excellent investment professionals are unusually intelligent, articulate, confident and persuasive. We organize and operate in ways that attract people with those qualities.

- Our way is but one of many "right ways" to invest. We stay open to considering new and different approaches.

- Progressive's culture requires carefully researched and well-rationalized investing that is understood by interested operating people. Intuitive esoteric investing is not possible for us.

- Asset allocation is the biggest investment decision. We seek and consider input from senior managers and Directors before making it.

- Occasionally, extraordinary investors produce consistently superior results. These investors usually invest mostly for themselves, and the results are difficult, if not impossible, to replicate. We take big risks in our operating business, but not in our investment business. Our objective is to achieve market returns on the high-grade, short duration, fixed-income debt securities that comprise 85% of our assets as well as on equities and other investments.

- Business, investing and capital strategies are inextricable, mutually informing and driven by change. We review, re-evaluate and revise these strategies as circumstances dictate.

- Regulation, risk appetite and operating need make fixed-income securities our major investment vehicle. Most of Progressive's investment time and talent is devoted to such instruments.

- Asset values seem to plummet at the least comfortable times. We don't assume different asset classes will necessarily move in different directions, and we carefully consider "worst case" outcomes.

- Progressive is not great at buying, nor interested in operating, businesses that do not directly support its strategy.

The Board's investment committee approves asset allocation ranges, investment objectives, risk parameters and an evolving list of investing constraints. Progressive employs portfolio managers who manage the fixed-income securities in a process that prompts them to move assets from weakening to strengthening bond categories. For the equity securities, 57.6 percent are managed internally, with the remainder primarily indexed to the Russell 3000 by an outside manager.

In 2000, Progressive earned an 8.6 percent total return on its portfolio. The fixed-income return was 11.1 percent for the year. We benefited from a timely lengthening of duration in mid-year. At December 31, our fixed-income portfolio duration was 3.5 years and our average credit quality was AA-. In 2000, the internally managed equity return was 1.1 percent, in line with results achieved by value oriented active equity managers. All other risk assets, which include high yield and distressed debt, private equities and warrants, and mezzanine investments, comprise 2 percent of total invested assets and had a total return of negative 7.8 percent.



REVELATION AND THANKS

My perspective results from 35 years of on-the-job CEO training at Progressive, throughout which I felt unsure and unqualified to deal with the constant, unpredictable issues raised by continuous fast growth and change. I relied on trial and error and often was wrong. We prospered because I searched for, acknowledged and fixed (or ended) mistakes, and worked hard to nurture a few good decisions into profitable growth. Progressive benefits from a culture that makes acknowledging one's own shortfall a positive learning experience.

Thanks to every person who ever contributed energy and intelligence to Progressive. Neither the Company nor I would be where we are without you. Thanks to the 19,490 men and women who will take Progressive into 2001 and beyond for your contributions in 2000. We deeply appreciate the nearly 8 million customers we are privileged to serve. Thanks for your business. Thanks to the agents in the more than 30,000 Independent Insurance Agencies who did business with Progressive in 2000. Thanks to our shareholders for their confidence.

I honor the people who founded Progressive and got it started -- my dad, Joe Lewis, founder and first CEO; Jack Green, co-founder and second CEO; my grandmother, Irma Rosenfeld who put up the first capital; my mom, Helen Rosenfeld Lewis Bialosky, who, in 1965, financed the two of us when we acquired control of Progressive and my brother, Dan Lewis, who has served superbly in a variety of senior Progressive roles over the past 14 years.

Progressive's pace and aspirations demand boundless energy, commitment and hard work. In my new role, I have the unique opportunity to continue to influence Progressive as it approaches a future which I believe will be even greater than its illustrious past. This is my last letter as CEO, but it's not good-bye. Take care of yourselves. Be well and happy.

Joy Love and Peace
/s/ Peter B. Lewis

Peter B. Lewis
Chairman of the Board



Financial Review 2000







Consolidated Statements of Income

(millions - except per share amounts)

| For the years ended December 31, | 2000 | 1999 | 1998 |
|---|---|---|---|
| NET PREMIUMS WRITTEN | $ 6,196.1 | $ 6,124.7 | $ 5,299.7 |
| REVENUES | | | |
| Premiums earned | $ 6,348.4 | $ 5,683.6 | $ 4,948.0 |
| Investment income | 385.2 | 340.7 | 294.8 |
| Net realized gains on security sales | 16.9 | 47.2 | 11.4 |
| Service revenues | 20.5 | 47.5 | 38.2 |
| Other income(1) | -- | 5.2 | -- |
| Total revenues | 6,771.0 | 6,124.2 | 5,292.4 |
| EXPENSES | | | |
| Losses and loss adjustment expenses | 5,279.4 | 4,256.4 | 3,376.3 |
| Policy acquisition costs | 788.0 | 745.0 | 659.9 |
| Other underwriting expenses | 559.3 | 583.8 | 495.8 |
| Investment expenses | 9.1 | 9.5 | 7.4 |
| Service expenses | 21.4 | 40.9 | 30.8 |
| Interest expense | 77.8 | 76.4 | 61.1 |

| | | | |
|---|---|---|---|
| Non-recurring item(2) | 4.2 | -- | -- |
| Total expenses | 6,739.2 | 5,712.0 | 4,631.3 |
| NET INCOME | | | |
| Income before income taxes | 31.8 | 412.2 | 661.1 |
| Provision (benefit) for income taxes | (14.3) | 117.0 | 204.4 |
| Net income | $ 46.1 | $ 295.2 | $ 456.7 |
| COMPUTATION OF EARNINGS PER SHARE | | | |
| Basic: | | | |
| Average shares outstanding | 73.2 | 72.9 | 72.5 |
| Per share | $ .63 | $ 4.05 | $ 6.30 |
| Diluted: | | | |
| Average shares outstanding | 73.2 | 72.9 | 72.5 |
| Net effect of dilutive stock options | 1.1 | 1.7 | 2.2 |
| Total equivalent shares | 74.3 | 74.6 | 74.7 |
| Per share | $ .62 | $ 3.96 | $ 6.11 |

(1) See Note 12 - Related Party Transaction for discussion.

(2) Represents the realization of the foreign currency translation loss associated with the substantial liquidation of the Company's foreign subsidiary.

See notes to consolidated financial statements.





## Consolidated Balance Sheets

| | (millions) | |
|---|---|---|
| December 31, | 2000 | 1999 |
| ASSETS | | |
| Investments: | | |
| Available-for-sale: | | |
| Fixed maturities, at market (amortized cost: $4,741.9 and $4,650.9) | $ 4,784.1 | $ 4,532.7 |
| Equity securities, at market: | | |
| Preferred stocks (cost: $806.3 and $425.4) | 813.7 | 422.4 |
| Common stocks (cost: $1,141.3 and $1,127.8) | 1,198.7 | 1,243.6 |
| Short-term investments, at amortized cost (market: $186.8 and $229.0) | 186.8 | 229.0 |
| Total investments | 6,983.3 | 6,427.7 |
| Cash | 8.9 | 14.2 |
| Accrued investment income | 64.2 | 54.0 |
| Premiums receivable, net of allowance for doubtful accounts of $42.0 and $42.9 | 1,567.0 | 1,760.8 |
| Reinsurance recoverables | 237.7 | 254.7 |
| Prepaid reinsurance premiums | 95.7 | 88.3 |
| Deferred acquisition costs | 309.9 | 343.4 |
| Income taxes | 241.1 | 273.7 |
| Property and equipment, net of accumulated depreciation of $315.5 and $243.8 | 504.5 | 447.7 |
| Other assets | 39.3 | 40.2 |
| Total assets | $10,051.6 | $ 9,704.7 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Unearned premiums | $ 2,636.5 | $ 2,781.4 |
| Loss and loss adjustment expense reserves | 2,986.4 | 2,416.2 |
| Accounts payable, accrued expenses and other liabilities | 810.1 | 705.7 |
| Debt | 748.8 | 1,048.6 |
| Total liabilities | 7,181.8 | 6,951.9 |
| Shareholders' equity: | | |
| Common Shares, $1.00 par value (authorized 300.0, issued 83.1, including treasury shares of 9.6 and 10.0) | 73.5 | 73.1 |
| Paid-in capital | 511.2 | 481.6 |
| Accumulated other comprehensive income: | | |
| Net unrealized appreciation (depreciation) on investment securities | 69.5 | (3.4) |

| | | |
|---|---|---|
| Other | (4.8) | (9.0) |
| Retained earnings | 2,220.4 | 2,210.5 |
| Total shareholders' equity | 2,869.8 | 2,752.8 |
| Total liabilities and shareholders' equity | $10,051.6 | $ 9,704.7 |

See notes to consolidated financial statements.





# Consolidated Statements of Changes in Shareholders' Equity

(millions - except per share amounts)

| For the years ended December 31, | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| RETAINED EARNINGS | | | | | | |
| Balance, Beginning of year | $2,210.5 | | $1,932.6 | | $1,534.8 | |
| Net income | 46.1 | $ 46.1 | 295.2 | $ 295.2 | 456.7 | $ 456.7 |
| Cash dividends on Common Shares ($.27, $.26 and $.25 per share) | (19.8) | | (19.0) | | (18.1) | |
| Treasury shares purchased | (15.5) | | (.6) | | (39.8) | |
| Other, net | (.9) | | 2.3 | | (1.0) | |
| Balance, End of year | $2,220.4 | | $2,210.5 | | $1,932.6 | |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX | | | | | | |
| Balance, Beginning of year | $ (12.4) | | $ 103.7 | | $ 116.0 | |
| Change in unrealized appreciation (depreciation) | | 72.9 | | (116.7) | | (9.0) |
| Other | | 4.2 | | .6 | | (3.3) |
| Other comprehensive income (loss) | 77.1 | 77.1 | (116.1) | (116.1) | (12.3) | (12.3) |
| Balance, End of year | $ 64.7 | | $ (12.4) | | $ 103.7 | |
| COMPREHENSIVE INCOME | | $ 123.2 | | $ 179.1 | | $ 444.4 |
| COMMON SHARES, $1.00 PAR VALUE | | | | | | |
| Balance, Beginning of year | $ 73.1 | | $ 72.5 | | $ 72.3 | |
| Stock options exercised | .7 | | .6 | | .6 | |
| Treasury shares purchased | (.3) | | -- | | (.4) | |
| Balance, End of year | $ 73.5 | | $ 73.1 | | $ 72.5 | |
| PAID-IN CAPITAL | | | | | | |
| Balance, Beginning of year | $ 481.6 | | $ 448.3 | | $ 412.8 | |
| Stock options exercised | 17.9 | | 12.0 | | 10.9 | |
| Tax benefits on stock options exercised | 11.3 | | 20.4 | | 25.6 | |
| Treasury shares purchased | (2.0) | | -- | | (2.4) | |
| Other | 2.4 | | .9 | | 1.4 | |
| Balance, End of year | $ 511.2 | | $ 481.6 | | $ 448.3 | |
| TOTAL SHAREHOLDERS' EQUITY | $2,869.8 | | $2,752.8 | | $2,557.1 | |

There are 20.0 million Serial Preferred Shares authorized; no such shares are issued or outstanding.

There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.

See notes to consolidated financial statements.





# Consolidated Statements of Cash Flows

| For the years ended December 31, | 2000 | 1999 | (millions) 1998 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income | $ 46.1 | $ 295.2 | $ 456.7 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 77.6 | 71.8 | 56.1 |
| Net realized gains on security sales | (16.9) | (47.2) | (11.4) |
| Gain on sale of property and equipment | -- | (5.2) | -- |
| Realized foreign currency translation loss | 4.2 | -- | -- |
| Changes in: | | | |
| Unearned premiums | (144.9) | 451.7 | 349.6 |
| Loss and loss adjustment expense reserves | 570.2 | 231.2 | 42.0 |
| Accounts payable, accrued expenses and other liabilities | 40.1 | 106.7 | 71.1 |
| Prepaid reinsurance premiums | (7.4) | (10.6) | 2.1 |
| Reinsurance recoverables | 17.0 | 26.3 | 36.5 |
| Premiums receivable | 193.8 | (304.6) | (295.4) |
| Deferred acquisition costs | 33.5 | (44.3) | (39.5) |
| Income taxes | (6.9) | (17.8) | (71.3) |
| Tax benefits from exercise of stock options | 11.3 | 20.4 | 25.6 |
| Other, net | 4.7 | 21.0 | 20.1 |
| Net cash provided by operating activities | 822.4 | 794.6 | 642.2 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases: | | | |
| Available-for-sale: fixed maturities | (5,259.2) | (6,076.7) | (3,998.8) |
| equity securities | (1,227.2) | (1,094.7) | (942.9) |
| Sales: | | | |
| Available-for-sale: fixed maturities | 4,728.3 | 5,182.5 | 3,210.2 |
| equity securities | 837.5 | 480.0 | 774.3 |
| Maturities, paydowns, calls and other: | | | |
| Available-for-sale: fixed maturities | 406.7 | 361.4 | 419.9 |
| equity securities | 27.0 | 26.6 | 126.0 |
| Net (purchases) sales of short-term investments | 42.2 | 221.0 | (32.5) |
| (Receivable) payable on securities | 64.3 | (19.1) | 18.9 |
| Purchases of property and equipment | (130.3) | (147.5) | (174.2) |
| Sale of property and equipment | -- | 12.1 | -- |
| Purchase of subsidiaries, net of cash acquired | -- | (9.9) | -- |
| Net cash used in investing activities | (510.7) | (1,064.3) | (599.1) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from exercise of stock options | 18.6 | 12.6 | 11.5 |
| Proceeds from debt | -- | 301.4 | -- |
| Payments of debt | (300.4) | (30.0) | -- |
| Dividends paid to shareholders | (19.8) | (19.0) | (18.1) |
| Acquisition of treasury shares | (17.8) | (.6) | (42.6) |
| Other, net | 2.4 | .9 | 1.4 |
| Net cash provided by (used in) financing activities | (317.0) | 265.3 | (47.8) |
| Decrease in cash | (5.3) | (4.4) | (4.7) |
| Cash, Beginning of year | 14.2 | 18.6 | 23.3 |
| Cash, End of year | $ 8.9 | $ 14.2 | $ 18.6 |

See notes to consolidated financial statements.





# Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998

## 1 REPORTING AND ACCOUNTING POLICIES

NATURE OF OPERATIONS The Progressive Corporation, an insurance holding company formed in 1965, owns 76 subsidiaries and has one mutual insurance company affiliate. The companies provide personal automobile insurance and other specialty property-casualty insurance and related services throughout the United States.

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 intercompany accounts and transactions are eliminated in consolidation.

ESTIMATES The Company is required to make estimates and assumptions when preparing its financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (GAAP). Actual results could differ from those estimates.

INVESTMENTS

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, reported in accumulated other comprehensive income. Market values are obtained from a recognized pricing service or other quoted sources. 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 accumulated other comprehensive income. Changes in value of foreign equities due to foreign currency exchange are limited by foreign currency hedges; unhedged amounts are not material and changes in value are recognized in income in the current period. There were no foreign currency hedges outstanding at December 31, 2000.

Trading securities are securities bought principally for the purpose of sale in the near term and are reported at market value in the available-for-sale portfolio. 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 or cash flows; the effect on results of operations is separately disclosed in Note 2 - Investments.

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 purposes and hedge positions. Derivative positions used for risk management are evaluated as to their effectiveness to modify the Company's risk characteristics and enhance the yields of the available-for-sale portfolios. 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 other comprehensive income 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 instruments entered into for the purpose of hedging anticipated transactions are deferred and amortized over the life of the hedged transaction, beginning at the inception of the transaction. 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. Hedges that no longer qualify for hedge accounting due to lack of correlation are reclassified to derivative instruments held or issued for purposes other than trading and used for risk management purposes. 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 or results of operations; gains or losses during the year were reported 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 and include write downs on available-for-sale securities considered to have other than temporary declines in market value.

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. The useful lives range from 3 to 4 years for computers, 10 to 40 years for buildings and improvements, and 5 to 6 years for all other property and equipment. Property and equipment includes software capitalized for internal use. At December 31, 2000 and 1999, land and buildings comprised 71% and 66%, respectively, of total property and equipment.

As of December 31, 2000, the Company had contractual commitments related to the Company's construction project in Mayfield Village, Ohio totalling $124.1 million, of which $114.2 million had been paid through 2000. Total interest capitalized was $3.3 million, $3.4 million and $3.5 million in 2000, 1999 and 1998, respectively, relating to both the Company's construction projects and capitalized computer software costs.

INSURANCE PREMIUMS AND RECEIVABLES Insurance premiums written are earned primarily on a pro rata basis over the period of risk. The Company provides insurance and related services to individuals, lenders and small commercial accounts throughout the United States, 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.

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 (IBNR). 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 14 - Reinsurance for further discussion). The remaining reinsurance arises from the Company seeking to reduce its loss exposure in its auto and non-auto programs and its strategic alliance relationships. Prepaid reinsurance premiums are recognized on a pro rata basis over the period of risk.

EARNINGS PER SHARE Basic earnings per share are computed using the weighted average number of Common Shares outstanding. Diluted earnings per share include common stock equivalents, such as stock options, assumed outstanding during the period.

DEFERRED ACQUISITION COSTS Deferred acquisition costs include commissions, premium taxes and other variable 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. Based on current indications, management believes that these costs will be fully recoverable in the near term. The Company does not defer advertising costs.

SERVICE REVENUES AND EXPENSES Service revenues consist primarily of fees generated from processing business for involuntary plans and 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 $13.8 million, $116.5 million and $235.9 million in 2000, 1999 and 1998, respectively. Total interest paid was $81.6 million for 2000, $72.4 million for 1999 and $63.8 million for 1998.

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 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, both of which standardize the accounting for derivative instruments and require that all derivatives be recognized at fair value on the balance sheet. Changes in fair value are recorded in current period earnings or in other comprehensive income if the derivative transaction is a qualified cash flow hedge. The statement is effective for fiscal years beginning after June 15, 2000. The Company estimates that the net effect of all derivative transactions would not have been significant at December 31, 2000. The Company does not engage in significant hedging activities.

RECLASSIFICATIONS Certain amounts in the financial statements for prior periods were classified to conform with the 2000 presentation





2 INVESTMENTS

The composition of the investment portfolio at December 31 was:

| (millions) | COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | MARKET VALUE |
|---|---|---|---|---|
| 2000 | | | | |
| Available-for-sale: | | | | |
| U.S. government obligations | $ 447.8 | $ 4.0 | $ (1.1) | $ 450.7 |
| State and local government obligations | 1,006.8 | 22.9 | (4.3) | 1,025.4 |
| Foreign government obligations | 39.0 | .1 | (.3) | 38.8 |
| Corporate debt securities | 1,050.6 | 18.0 | (14.4) | 1,054.2 |
| Asset-backed securities | 2,187.1 | 40.0 | (22.6) | 2,204.5 |
| Other debt securities | 10.6 | .2 | (.3) | 10.5 |
| | 4,741.9 | 85.2 | (43.0) | 4,784.1 |
| Preferred stocks | 806.3 | 22.8 | (15.4) | 813.7 |
| Common stocks | 1,141.3 | 192.0 | (134.6) | 1,198.7 |
| Short-term investments | 186.8 | -- | -- | 186.8 |
| | $6,876.3 | $ 300.0 | $ (193.0) | $6,983.3 |
| 1999 | | | | |
| Available-for-sale: | | | | |
| U.S. government obligations | $ 322.6 | $ -- | $ (6.1) | $ 316.5 |
| State and local government obligations | 1,352.9 | 8.8 | (29.5) | 1,332.2 |
| Foreign government obligations | 60.4 | -- | (1.4) | 59.0 |
| Corporate debt securities | 935.3 | .1 | (25.0) | 910.4 |
| Asset-backed securities | 1,897.3 | .7 | (66.9) | 1,831.1 |
| Other debt securities | 82.4 | 1.6 | (.5) | 83.5 |
| | 4,650.9 | 11.2 | (129.4) | 4,532.7 |
| Preferred stocks | 425.4 | 2.4 | (5.4) | 422.4 |
| Common stocks | 1,127.8 | 195.0 | (79.2) | 1,243.6 |
| Short-term investments | 229.0 | -- | -- | 229.0 |
| | $6,433.1 | $ 208.6 | $ (214.0) | $6,427.7 |

The components of pretax investment income and net realized gains on security sales for the years ended December 31 were:

| (millions) | 2000 | 1999 | 1998 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Available-for-sale: fixed maturities | $ 296.8 | $ 275.6 | $ 233.9 |
| equity securities | 63.6 | 53.4 | 34.1 |
| Short-term investments | 24.8 | 11.7 | 26.8 |
| Investment income | 385.2 | 340.7 | 294.8 |
| Gross realized gains: | | | |
| Available-for-sale: fixed maturities | 41.3 | 35.4 | 34.6 |
| equity securities | 159.4 | 135.8 | 159.1 |
| Short-term investments | .7 | .1 | .2 |
| Gross realized losses: | | | |
| Available-for-sale: fixed maturities | (43.8) | (55.8) | (37.1) |
| equity securities | (140.7) | (68.3) | (145.4) |
| Net realized gains on security sales | 16.9 | 47.2 | 11.4 |
| | $ 402.1 | $ 387.9 | $ 306.2 |

During 2000, the Company wrote down $46.5 million in securities determined to have an other than temporary decline in market value, compared to $16.3 million and $32.1 million in 1999 and 1998, respectively.





In the available-for-sale portfolio are trading securities, including derivative instruments used for trading purposes. At December 31, 2000, trading securities had a net market value of $2.3 million, compared to $50.2 million at December 31, 1999. Net realized gains (losses) on trading securities for the years ended December 31, 2000, 1999 and 1998 were $(18.7) million, $.8 million and $(1.2) million, respectively, including the change in net unrealized gains (losses) of $(12.6) million, $(1.5) million and $1.1 million, respectively.

The composition of fixed maturities by maturity at December 31, 2000 was:

| (millions) | COST | MARKET VALUE |
|---|---|---|
| Less than one year | $ 384.9 | $ 383.0 |
| One to five years | 2,611.4 | 2,637.7 |
| Five to ten years | 1,502.4 | 1,527.0 |
| Ten years or greater | 243.2 | 236.4 |
| | $4,741.9 | $4,784.1 |

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. Actual maturities may differ from expected maturities because the issuers of the securities may have the right to call or prepay obligations without prepayment penalties.

At December 31, 2000, bonds in the principal amount of $78.6 million were on deposit with various regulatory agencies to meet statutory requirements.

The components of derivative financial instruments held or issued for purposes other than trading at December 31 were:

| (millions) | MARKET VALUE/ CARRYING VALUE AT DECEMBER 31, 2000 | 1999 | CONTRACT/ NOTIONAL VALUE AT DECEMBER 31, 2000 | 1999 |
|---|---|---|---|---|
| Forward/future positions: Assets | $ -- | $ 1.3 | $ -- | $ 2.1 |
| Options: | | | | |

| | | | | |
|---|---|---|---|---|
| Assets - Puts | 2.3 | -- | 40.4 | -- |
| Liabilities - Calls | (4.9) | (.9) | 97.8 | 16.5 |
| Foreign currency forward/future positions: Liabilities | (.7) | (1.3) | 4.5 | 16.1 |
| | $ (3.3) | $ (.9) | $142.7 | $ 34.7 |

Derivative instruments classified as held or issued for purposes other than trading are used to manage the Company's 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, hedged securities or hedged cash flows. During 1998, the Company entered into a short futures position as part of an anticipatory debt hedge relating to the then outstanding $300 million shelf registration. Driven by changing economic conditions, the futures position did not meet the established criteria for hedging correlation and was discontinued as a hedge. The short futures position recognized a net realized gain of $8.1 million in 1999, and a net realized loss of $9.2 million in 1998.

Derivative instruments may also be used for trading purposes. The Company had net gains of $.3 million (gross gains of $5.6 million; gross losses of $5.3 million) during 2000 and net losses of $1.8 million (gross gains of $4.4 million; gross losses of $6.2 million) during 1999 from derivatives used for trading purposes; these losses 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, 2000, the Company had trading positions in call and put options with net market values of $(1.4) million and notional values of $18.7 million; the average market value for long positions was $.2 million and the average market value for short positions was $(.4) million in 2000. At December 31, 1999, the Company had trading positions in treasury forwards and call and put options with net market values of $(.1) million and notional values of $129.4 million; the average market values for long and short positions in 1999 were $(.4) million and less than $.1 million, respectively.

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, 2000, the Company had open investment funding commitments of $39.0 million. The Company had no uncollateralized lines or letters of credit as of December 31, 2000 or 1999.





3 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) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Balance at January 1 | $ 2,416.2 | $ 2,188.6 | $ 2,146.6 |
| Less reinsurance recoverables on unpaid losses | 216.0 | 242.8 | 279.1 |
| Net balance at January 1 | 2,200.2 | 1,945.8 | 1,867.5 |
| Incurred related to: | | | |
| Current year | 5,203.6 | 4,286.2 | 3,560.5 |
| Prior years | 75.8 | (29.8) | (184.2) |
| Total incurred | 5,279.4 | 4,256.4 | 3,376.3 |
| Paid related to: | | | |
| Current year | 3,447.7 | 2,919.2 | 2,376.0 |
| Prior years | 1,246.6 | 1,082.8 | 922.0 |
| Total paid | 4,694.3 | 4,002.0 | 3,298.0 |
| Net balance at December 31 | 2,785.3 | 2,200.2 | 1,945.8 |
| Plus reinsurance recoverables on unpaid losses | 201.1 | 216.0 | 242.8 |

| | | | |
|---|---|---|---|
| Balance at December 31 | $ 2,986.4 | $ 2,416.2 | $ 2,188.6 |

The Company establishes case and IBNR reserves near the middle of the reasonable range of reserves. Prior to 2000, the Company's reserves developed conservatively. Beginning in 1999 and continuing throughout 2000, the Company experienced an increase in severity trends which led to adverse development on prior accident years in 2000, as compared to 1999 and 1998.

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. 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.

4 STATUTORY FINANCIAL INFORMATION

At December 31, 2000, $285.0 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 2000, the insurance subsidiaries paid aggregate cash dividends of $159.5 million to the parent company. Based on the dividend laws currently in effect, the insurance subsidiaries may pay aggregate dividends of $171.0 million in 2001 without prior approval from regulatory authorities.

Statutory policyholders' surplus was $2,177.0 million and $2,258.9 million at December 31, 2000 and 1999, respectively. Statutory net income was $33.8 million, $199.3 million and $330.4 million for the years ended December 31, 2000, 1999 and 1998, respectively.

The Company files statutory-basis financial statements with state insurance departments in all states in which the Company is licensed. On January 1, 2001, significant changes to the statutory basis of accounting will become effective. The cumulative effect of these changes, known as the Codification guidance, will be recorded as a direct adjustment to statutory surplus. The effect of adoption is expected to increase statutory surplus by approximately $300 million; the Company expects that statutory surplus after adoption will continue to be in excess of the regulatory risk-based capital requirements.





5 INCOME TAXES

Significant components of the Company's income tax provision (benefit) were as follows:

| (millions) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Current tax provision | $ 25.0 | $ 136.2 | $ 237.1 |
| Deferred tax benefit | (39.3) | (19.2) | (32.7) |
| Total income tax provision (benefit) | $ (14.3) | $ 117.0 | $ 204.4 |

The provision (benefit) for income taxes in the accompanying consolidated statements of income differed from the statutory rate as follows:

| (millions) | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| Income before income taxes | $ 31.8 | | $412.2 | | $661.1 | |
| Tax at statutory rate | $ 11.1 | 35% | $144.3 | 35% | $231.4 | 35% |
| Tax effect of: | | | | | | |
| Exempt interest income | (17.6) | (55) | (22.1) | (5) | (23.1) | (3) |
| Dividends received deduction | (10.3) | (32) | (6.1) | (2) | (6.6) | (1) |
| Goodwill amortization | 1.4 | 4 | 1.6 | -- | 1.2 | -- |
| Foreign currency translation loss | 1.4 | 4 | -- | -- | -- | -- |
| Other items, net | (.3) | (1) | (.7) | -- | 1.5 | -- |
| | $(14.3) | (45)% | $117.0 | 28% | $204.4 | 31% |

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, 2000 and 1999, the components of the net deferred tax assets were as follows:

| (millions) | 2000 | 1999 |
|---|---|---|
| Deferred tax assets: | | |
| Unearned premiums reserve | $ 183.8 | $ 194.5 |
| Non-deductible accruals | 59.6 | 45.8 |
| Loss reserves | 134.2 | 115.7 |
| Other | 28.3 | 22.2 |
| Deferred tax liabilities: | | |
| Deferred acquisition costs | (108.5) | (120.2) |
| Unrealized (gains) losses | (37.5) | 2.0 |
| Net deferred tax assets | $ 259.9 | $ 260.0 |

The Company is able to demonstrate that the benefit of its deferred tax assets is fully realizable.





## 6 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 $9.3 million in 2000, $8.0 million in 1999 and $6.5 million in 1998.

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 $12.9 million in 2000, $11.3 million in 1999 and $9.9 million in 1998.

The Company had 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; the benefit 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. During 2000, the Company terminated this plan and recognized $3.2 million in settlement expenses. In addition, the Company recognized pension expense of $2.8 million in 2000, $2.3 million in 1999 and income of $.1 million in 1998.

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 $6.6 million at December 31, 2000, compared to $2.4 million in 1999.

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 $.4 million in both 2000 and 1999 and $.7 million in 1998. 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, 2000 and 1999, the trust held assets of $17.6 million and $18.8 million, respectively, of which $3.4 million and $2.3 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. In addition to the Incentive Plans, the Company registered 1,425,000 and 650,000 Common Shares relating to stock options granted to key employees and directors of the Company, respectively. 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 employee stock option activity during the years ended December 31 follows:

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| 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 | 4,458,463 | $ 58.20 | 4,705,811 | $ 46.07 | 4,968,964 | $ 35.52 |
| Add (deduct): | | | | | | |
| Granted | 1,085,789 | 59.01 | 476,850 | 139.18 | 441,210 | 124.61 |
| Exercised | (678,924) | 25.59 | (552,473) | 22.54 | (641,013) | 16.99 |
| Cancelled | (339,936) | 80.80 | (171,725) | 65.50 | (63,350) | 61.03 |
| End of year | 4,525,392 | $ 61.60 | 4,458,463 | $ 58.20 | 4,705,811 | $ 46.07 |
| Exercisable, end of year | 1,544,614 | $ 30.91 | 1,571,538 | $ 25.15 | 1,342,801 | $ 20.26 |
| Available, end of year | 3,625,569 | | 4,371,422 | | 4,676,547 | |





The following employee options were outstanding or exercisable as of December 31, 2000:

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OF SHARES | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE |

| | | | | | |
|---|---|---|---|---|---|
| $ 13-20 | 275,950 | 1.00 years | $ 15.46 | 275,950 | $ 15.46 |
| 21-40 | 1,220,251 | 3.16 years | 33.33 | 1,220,251 | 33.33 |
| 41-60 | 1,601,428 | 7.33 years | 53.33 | 29,962 | 45.97 |
| 61-80 | 613,480 | 6.20 years | 68.69 | 15,277 | 69.19 |
| 81-125 | 413,673 | 7.14 years | 119.39 | 2,664 | 106.54 |
| 126-161 | 400,610 | 7.97 years | 141.96 | 510 | 154.00 |
| $ 13-161 | 4,525,392 | | | 1,544,614 | |

Under SFAS 123, the Company uses the Black-Scholes pricing model to calculate the fair value of the options awarded, including 90,156 options awarded to directors. This model produced a value of 41.6% for 2000 awards, 44.3% for 1999 awards and 40.6% for 1998 awards. The following assumptions were used to derive the ratio: an option term of 6 years for 2000 and 7 years for both 1999 and 1998; an annualized volatility rate of .314 for 2000, .284 for 1999 and .259 for 1998; a risk-free rate of return of 6.40% for 2000, 6.18% for 1999 and 5.49% for 1998; and a dividend yield of .50% for 2000, .18% for 1999 and .20% for 1998. 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) | 2000 | 1999 | 1998 |
|---|---|---|---|
| PRO FORMA | | | |
| Net income | $ 34.0 | $ 283.9 | $ 447.3 |
| Earnings per share | | | |
| Basic | $ .46 | $ 3.90 | $ 6.17 |
| Diluted | .46 | 3.81 | 6.00 |

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 $8.3 million in 2000, $55.6 million in 1999 and $107.5 million in 1998.

## 7 LITIGATION

The Company is named as defendant in various lawsuits generally relating to its insurance operations. All legal actions relating to claims made under insurance policies or in connection with previous reinsurance agreements are considered by the Company in establishing its loss and loss adjustment expense reserves. Various other legal and regulatory actions are currently pending that involve the Company and specific aspects of its conduct of business. The Company believes that the ultimate disposition of these lawsuits in excess of amounts currently reserved will not materially impact the Company's financial position, cash flows or results of operations.

The Company is also named as defendant in a number of purported class action lawsuits, such as those alleging damages as a result of the Company's total loss evaluation methodology, use of after-market parts or the alleged diminution of value to vehicles which are involved in accidents, and cases challenging other aspects of the Company's business. Other insurance companies face similar suits. The Company plans to vigorously contest these suits, but is currently unable to estimate the potential exposure





## 8 SEGMENT INFORMATION

The Company writes personal automobile and other specialty property-casualty insurance and related services throughout the United States. The Company's Personal Lines business consists predominantly of auto insurance and is either generated by an agent or written directly by the Company. The Personal Lines-Agent channel includes business primarily written by the Company's network of more than 30,000 Independent Insurance Agencies while the Personal Lines-Direct channel business is generated primarily through the telephone or Internet. The Personal Lines business areas, which include Agent and Direct, are managed at a local level and structured into six regions. Each business area has a business leader and a product team, with local product managers at the state or regional level.

The Company's other lines of business include insurance for small fleets of commercial vehicles, lenders' collateral protection, directors' and officers' liability and related services, including processing business for involuntary plans. The other lines of business accounted for 7% of the Company's 2000 consolidated revenues. All revenues are generated from external customers and the Company does not have a reliance on any major customer.

The Company evaluates segment profitability based on pretax underwriting and service profit (loss). Expense allocations are based on certain assumptions and estimates; stated segment operating results would change if different methods were applied. The Company does not allocate assets, investment income, interest expense or income taxes to operating segments. In addition, the Company does not separately identify depreciation and amortization expense by segment and such disclosure would be impracticable. Companywide depreciation and amortization expense was $77.6 million in 2000, $71.8 million in 1999 and $56.1 million in 1998. The accounting policies of the operating segments are the same as those described in Note 1 - Reporting and Accounting Policies.

For the years ended December 31,

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| (millions) | REVENUES | PRETAX PROFIT (LOSS) | REVENUES | PRETAX PROFIT (LOSS) | REVENUES | PRETAX PROFIT (LOSS) |
| Personal Lines - Agent | $4,643.4 | $ (176.0) | $4,548.7 | $ 161.2 | $4,177.5 | $ 391.7 |
| Personal Lines - Direct(1) | 1,220.6 | (128.7) | 745.4 | (98.0) | 403.2 | (30.2) |
| Total Personal Lines(2) | 5,864.0 | (304.7) | 5,294.1 | 63.2 | 4,580.7 | 361.5 |
| Other(3) | 504.9 | 21.3 | 442.2 | 47.0 | 405.5 | 61.9 |
| Investments(4) | 402.1 | 393.0 | 387.9 | 378.4 | 306.2 | 298.8 |
| Interest expense | -- | (77.8) | -- | (76.4) | -- | (61.1) |
| | $6,771.0 | $ 31.8 | $6,124.2 | $ 412.2 | $5,292.4 | $ 661.1 |

(1) Internet sales accounted for 15%, 7% and 2% of Personal Lines - Direct net premiums written in 2000, 1999 and 1998, respectively.

(2) Personal automobile insurance accounted for 93% of the total Personal Lines segment net premiums written in 2000, compared to 94% in both 1999 and 1998.

(3) For 2000, pretax profit includes the realization of a $4.2 million foreign currency translation loss associated with the substantial liquidation of the Company's foreign subsidiary. 1999 revenues and pretax profit include a $5.2 million gain on the sale of the corporate aircraft; see Note 12 - Related Party Transaction for discussion.

(4) Revenues represent recurring investment income and net realized gains/losses on security sales; pretax profit is net of investment expenses.

## 9 COMMITMENTS AND CONTINGENCIES

The Company has operating lease commitments and service agreements with terms greater than one year, some with options to renew at the end of the contract periods. The minimum commitments under such noncancelable contracts at December 31, 2000 are as follows (in millions): 2001 - $66.0; 2002 - $50.6; 2003 - $22.6; 2004 - $11.0; 2005 - $2.6; and thereafter - $.1. Total expense incurred by the Company for such purposes for 2000, 1999 and 1998 was $100.0 million, $96.3 million and $93.1 million, respectively.

During 2000, the Company accrued $20.0 million related to the termination of a Strategic Alliance partnership. As a result of the dissolution of this joint venture, a related reinsurance agreement will terminate and the Company is entitled to the run-off of all of the premium written by the joint venture. The amount accrued represents the Company's best estimate of the share of the net present value of the future profit on that business that its partner is entitled to receive upon this termination. This estimate is susceptible to change in the near term.





## 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 13 - Debt. The cost and market value of the financial instruments as of December 31 are summarized as follows:

| (millions) | 2000 COST | 2000 MARKET VALUE | 1999 COST | 1999 MARKET VALUE |
|---|---|---|---|---|
| Investments: | | | | |
| Available-for-sale: fixed maturities | $4,741.9 | $4,784.1 | $4,650.9 | $4,532.7 |
| preferred stocks | 806.3 | 813.7 | 425.4 | 422.4 |
| common stocks | 1,141.3 | 1,198.7 | 1,127.8 | 1,243.6 |
| Short-term investments | 186.8 | 186.8 | 229.0 | 229.0 |
| Debt | (748.8) | (712.0) | (1,048.6) | (1,001.1) |

## 11 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income (loss) for the years ended December 31 were as follows:

| (millions) | 2000 PRETAX | 2000 TAX (PROVISION) BENEFIT | 2000 AFTER TAX | 1999 PRETAX | 1999 TAX (PROVISION) BENEFIT | 1999 AFTER TAX | 1998 PRETAX | 1998 TAX (PROVISION) BENEFIT | 1998 AFTER TAX |
|---|---|---|---|---|---|---|---|---|---|
| Unrealized gains (losses) arising during period: | | | | | | | | | |
| Available-for-sale: | | | | | | | | | |
| fixed maturities | $191.3 | $(67.0) | $124.3 | $(150.7) | $ 52.8 | $(97.9) | $ 2.8 | $ (1.0) | $ 1.8 |
| equity securities | (69.8) | 24.4 | (45.4) | 25.7 | (9.0) | 16.7 | 64.3 | (22.5) | 41.8 |
| Reclassification adjustment:(1) | | | | | | | | | |
| Available-for-sale: | | | | | | | | | |
| fixed maturities | (30.9) | 10.7 | (20.2) | (14.9) | 5.2 | (9.7) | (10.0) | 3.5 | (6.5) |
| equity securities | 21.8 | (7.6) | 14.2 | (39.8) | 14.0 | (25.8) | (71.2) | 25.1 | (46.1) |
| Net unrealized gains (losses) | 112.4 | (39.5) | 72.9 | (179.7) | 63.0 | (116.7) | (14.1) | 5.1 | (9.0) |
| Other(2) | 4.2 | -- | 4.2 | .6 | -- | .6 | (3.3) | -- | (3.3) |
| Other comprehensive income (loss) | $116.6 | $(39.5) | $ 77.1 | $(179.1) | $ 63.0 | $(116.1) | $(17.4) | $ 5.1 | $(12.3) |

(1) Represents adjustments for gains (losses) realized in net income.

(2) Other includes foreign currency translation adjustments, which have no tax effect.

## 12 RELATED PARTY TRANSACTION

On April 23, 1999, the Company sold its corporate aircraft to a company independently owned by Peter B. Lewis, the Company's Chairman of the Board, and then President and Chief Executive Officer. The airplane had a net book value of $6.9 million and was sold to Mr. Lewis for $12.1 million, the fair market value of the airplane as determined by an independent appraiser.





## 13 DEBT

Debt at December 31 consisted of:

| (millions) | 2000 COST | 2000 MARKET VALUE | 1999 COST | 1999 MARKET VALUE |
|---|---|---|---|---|
| 6 5/8% Senior Notes due 2029 (issued: $300.0, March 1999) | $ 293.8 | $ 257.4 | $ 293.7 | $ 254.1 |
| 7.30% Notes due 2006 (issued: $100.0, May 1996) | 99.7 | 102.4 | 99.7 | 98.0 |
| 6.60% Notes due 2004 (issued: $200.0, January 1994) | 199.4 | 200.3 | 199.3 | 193.7 |
| 7% Notes due 2013 (issued: $150.0, October 1993) | 148.6 | 144.6 | 148.5 | 138.8 |
| 10% Notes due 2000 (issued: $150.0, December 1988) | -- | -- | 149.9 | 154.3 |
| 10 1/8% Subordinated Notes due 2000 (issued: $150.0, December 1988) | -- | -- | 149.8 | 154.5 |
| Other debt | 7.3 | 7.3 | 7.7 | 7.7 |
| | $ 748.8 | $ 712.0 | $1,048.6 | $1,001.1 |

Debt includes amounts the Company has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes. Market values are obtained from publicly quoted sources.

The Company's debt is noncallable, except for the 6 5/8% Senior Notes which may be redeemed all or in part at any time, subject to a "make whole" provision; interest is 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 has the right to borrow up 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. During 2000, the Company borrowed $2.5 million for one day at an average annual interest rate of 7%. The Company had no borrowings under this arrangement at December 31, 2000 or 1999.

Aggregate principal payments on debt outstanding at December 31, 2000, are $.4 million for 2001, $0 for 2002, $.9 million for 2003, $206.0 million for 2004, $0 for 2005 and $550.0 million thereafter.

## 14 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, 2000 and 1999, approximately 60% of the "prepaid reinsurance premiums" and "reinsurance recoverables" are comprised of CAIP, for which the Company retains no indemnity risk, and the Company's Strategic Alliance partnerships. See Note 9 - Commitments and Contingencies regarding a Strategic Alliance partnership termination.

The effect of reinsurance on premiums written and earned as of December 31 was as follows:

| (millions) | 2000 WRITTEN | 2000 EARNED | 1999 WRITTEN | 1999 EARNED | 1998 WRITTEN | 1998 EARNED |
|---|---|---|---|---|---|---|
| Direct premiums | $6,402.1 | $6,547.0 | $6,305.3 | $5,853.5 | $5,451.3 | $5,100.5 |
| Ceded | (206.0) | (198.6) | (180.6) | (169.9) | (151.6) | (152.5) |
| Net premiums | $6,196.1 | $6,348.4 | $6,124.7 | $5,683.6 | $5,299.7 | $4,948.0 |

Losses and loss adjustment expenses are net of reinsurance ceded of $161.0 million in 2000, $132.8 million in 1999 and $131.9 million in 1998.





Report of PricewaterhouseCoopers LLP, Independent Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS, THE PROGRESSIVE CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Progressive Corporation and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audits 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Cleveland, Ohio
January 24, 2001





Management's Discussion and Analysis of Financial Condition and Results of Operations

The consolidated financial statements and the related notes on pages 26 through 40, together with the supplemental information on pages 47 through 55, 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, to retire its outstanding indebtedness, to pay dividends and for other business purposes.

During 2000, the Company repurchased 301,054 of its Common Shares at a total cost of $17.9 million (average $59.31 per share), including 28,554 Common Shares (average $70.97 per share) repurchased to satisfy obligations under the Company's benefit plans. During the three-year period ended December 31, 2000, the Company repurchased 711,177 of its Common Shares at a total cost of $61.0 million (average $85.72 per share), including 45,677 Common Shares (average $89.32 per share) repurchased to satisfy obligations under the Company's benefit plans. During the same period, The Progressive Corporation received $167.5 million of dividends from its subsidiaries, net of capital contributions made to these subsidiaries. The regulatory restrictions on subsidiary dividends are described in Note 4 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. In March 1999, the Company issued $300 million of 65/8% Senior Notes due 2029. The net proceeds of $293.7 million were used to repay current outstanding debt upon its maturity. During 2000 and 1999, the Company repaid $300 million and $30 million, respectively, of maturing debt. The Company also has available a $10.0 million revolving credit agreement. The Company's debt to total capital ratio is 21%; management believes the Company has substantial capital resources and sufficient borrowing capacity 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, 2000, operations generated positive cash flows of $2,259.2 million, and cash flows are expected to be positive in both the short-term and reasonably foreseeable future. The Company's investment portfolio is highly liquid and consists substantially of readily marketable securities.

Total capital expenditures for the three years ended December 31, 2000, aggregated $452.0 million. The Company is constructing a five building, 732,300 square foot, corporate office complex in Mayfield Village, Ohio. The estimated cost is $129.0 million, of which $119.1 million has been paid as of December 31, 2000. Four buildings and the parking garage are completed. The fifth building is scheduled to be completed in the first quarter 2001. In February 1999, the Company completed the third and final building of a 307,000 square foot regional call center in Tampa, Florida. The cost of this project was $45.5 million. These construction projects are funded through operating cash flows.

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 tradeoffs of investment opportunities, measuring their effects on stability, diversity, overall quality and liquidity of the investment portfolio. The market value of the portfolio was as follows:

| (millions) | DECEMBER 31, 2000 | | DECEMBER 31, 1999 | |
|---|---|---|---|---|
| Investment-Grade Fixed Maturities: | | | | |
| Short/Intermediate-Term | $4,470.0 | 64.0% | $4,417.7 | 68.7% |
| Long-Term | 406.3 | 5.8 | 96.0 | 1.5 |
| Non-Investment-Grade Fixed Maturities | 94.6 | 1.4 | 248.0 | 3.9 |
| | 4,970.9 | 71.2 | 4,761.7 | 74.1 |
| Common Stocks: | | | | |
| Domestic Equities(1) | 905.0 | 13.0 | 825.2 | 12.8 |
| Term Trust Certificates(2) | 220.4 | 3.2 | 230.2 | 3.6 |
| Foreign Equities(3) | -- | -- | 84.2 | 1.3 |
| Other Equity Investments(4) | 73.3 | 1.0 | 104.0 | 1.6 |
| | 1,198.7 | 17.2 | 1,243.6 | 19.3 |
| Preferred Stocks(5) | 813.7 | 11.6 | 422.4 | 6.6 |
| Total Portfolio | $6,983.3 | 100.0% | $6,427.7 | 100.0% |

(1) Domestic equities are traded on nationally recognized securities exchanges.

(2) Term trust certificates, the common shares of closed-end bond funds, have the risk and reward characteristics of the underlying bonds.

(3) Foreign equities may include stock index futures and foreign currency forwards.

(4) Includes private equities, warrants, mezzanine investments and partnership investments.

(5) Comprised of over 95% and 89%, respectively, of fixed-rate preferred stocks with mechanisms that are expected to provide an opportunity to liquidate at par.





As of December 31, 2000, the Company's portfolio had $107.0 million in unrealized gains, compared to $5.4 million in unrealized losses in 1999. This increase in value was the result of increasing duration and modest rate declines, and the equity portfolio's outperformance relative to the Russell 3000, due to overweighting in the value sector. The weighted average fully taxable equivalent book yield of the portfolio was 6.4% for the year ended December 31, 2000, and 6.3% for 1999 and 1998. The pretax recurring investment yield of the portfolio was 5.7%, 5.6% and 5.5% for the years ended December 31, 2000, 1999 and 1998, respectively.

The majority of the portfolio is invested in high-grade, fixed-maturity securities. Long-term investment-grade securities include the scheduled principal paydowns, of asset-backed securities, that are greater than 10 years. Non-investment-grade fixed-maturity securities 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 quality distribution of the fixed-income portfolio, which includes fixed-maturity securities and preferred stocks, was as follows:

| RATING | DECEMBER 31, 2000 | DECEMBER 31, 1999 |
|---|---|---|
| AAA | 50.6% | 54.7% |
| AA | 11.7 | 14.2 |
| A | 25.3 | 20.0 |
| BBB | 8.1 | 5.1 |
| Non Rated/Other | 4.3 | 6.0 |
| | 100.0% | 100.0% |

The duration of the fixed-income portfolio was 3.5 years at December 31, 2000, compared to 3.0 years at December 31, 1999.

The Company held asset-backed securities at December 31, 2000, which were comprised of the following:

| (millions) | MARKET VALUE | DURATION (YEARS) | RATING(1) | UNREALIZED GAINS (LOSSES)(2) |
|---|---|---|---|---|
| Collateralized Mortgage Obligations (CMO): | | | | |
| Sequential Bonds | $ 252.1 | 3.32 | AAA | $ 3.2 |
| Planned Amortization Class Bonds | 236.7 | 4.67 | AAA | 4.9 |
| | 488.8 | 3.98 | AAA | 8.1 |
| Commercial Mortgage-Backed Obligations (CMB): | | | | |
| Interest-Only Certificates | 221.3 | 3.42 | AAA- | (2.0) |
| Other | 768.8 | 4.40 | AA | 5.0 |
| | 990.1 | 4.18 | AA+ | 3.0 |
| Other asset-backed securities(3) | 725.6 | 2.31 | AA | 6.3 |
| Total asset-backed securities(4) | $ 2,204.5 | 3.52 | AA+ | $ 17.4 |

(1) Weighted average Moody's or Standard & Poor's rating.

(2) The single largest unrealized loss in any individual CMO security was $.3 million and in any CMB security was $4.5 million at December 31, 2000.

(3) The remainder of the asset-backed portfolio was invested primarily in auto loan and other asset-backed securities.

(4) The majority of asset-backed securities are liquid with available market quotes and contain no residual interests.

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, excluding term trust certificates, and other risk assets, which generally have greater risk and volatility of market value, may range from 0 to 25% of the portfolio; at December 31, 2000, these securities comprised 14.6% of the portfolio. 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 quarterly for compliance. Exposures are





evaluated individually and as a whole, considering the effects of cross correlation. For the quantitative market risk disclosures, see page 52. On a quarterly basis, the Company 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 GAAP to reduce the carrying value of such security to its net realizable value. During 2000, the Company wrote down $46.5 million in securities determined to have an other than temporary decline in market value, compared to $16.3 million and $32.1 million in 1999 and 1998, respectively.

Trading securities, including derivative instruments held or issued for trading, are entered into for the purpose of near-term profit generation. At December 31, 2000, trading securities had a net market value of $2.3 million, compared to $50.2 million at December 31, 1999. Net realized gains (losses) on trading securities for the years ended December 31, 2000, 1999 and 1998 were $(18.7) million, $.8 million and $(1.2) million, respectively.

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, hedged securities or hedged cash flows. During 1998, the Company entered into a short futures position as part of an anticipatory hedge relating to the then outstanding $300 million shelf registration. Driven by changing economic conditions, the futures position did not meet the established criteria for hedging correlation and was discontinued as a hedge, but the Company continued to hold it for risk management of the anticipated debt offering. The Company recognized a net realized gain of $8.1 million in 1999 and a net realized loss of $9.2 million in 1998, on the short futures position. Derivative instruments may also be used for trading purposes. For all derivative positions, net cash requirements 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.

RESULTS OF OPERATIONS Operating income, which excludes net realized gains and losses from security sales and one-time items, was $55.4 million, or $.75 per share, in 2000, $266.7 million, or $3.58 per share, in 1999 and $449.3 million, or $6.01 per share, in 1998. The GAAP combined ratio (CR) was 104.4 in 2000, 98.3 in 1999 and 91.6 in 1998. The one-time items for 2000 included a $20.0 million, $.17 per share or .3 points, accrual related to the estimated cost of terminating a Strategic Alliance partnership (see Note 9), $3.2 million, $.03 per share or .1 points, additional expense associated with the termination of the Company's defined benefit pension plan (see Note 6), $1.7 million, $.01 per share, of severance costs associated with the Company's reorganization at the general manager level and a $4.2 million, $.06 per share, loss related to the realization of the foreign currency translation loss associated with the substantial liquidation of the Company's Canadian subsidiary. For 1999, the one-time items included $7.5 million, $.07 per share or .1 points, additional expenses associated with previous advertising commitments that will no longer be realized due to changes in marketing strategy, $1.2 million, $.01 per share, reserve for the wind down of the Company's Canadian operations, and a $5.2 million, $.05 per share, gain on the sale of the corporate aircraft (see Note 12). There were no one-time items in 1998. The deterioration in results was due to several factors as discussed below.

Direct premiums written increased 2% to $6,402.1 million in 2000, compared to $6,305.3 million in 1999 and $5,451.3 million in 1998. Net premiums written increased 1% in 2000, compared to 16% in 1999 and 14% in 1998. The difference between direct and net premiums written is attributable to premiums written under state-mandated involuntary Commercial Auto Insurance Procedures, for which the Company retains no indemnity risk, of $50.9 million in 2000, $49.7 million in 1999 and $60.7 million in 1998, and reinsurance the Company maintains in its auto and non-auto programs and its strategic alliance relationships. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 12% in 2000, compared to 15% in 1999 and 18% in 1998.

The Company's Personal Lines business units write insurance for private passenger automobiles and recreation vehicles and currently represent 91% of the Company's total premiums written. Personal Lines volume declined 1% in 2000 and grew 16% and 15% in 1999 and 1998, respectively. The reduction in volume for 2000 is discussed below while increases for 1999 and 1998 primarily reflect an increase in unit sales.

The Personal Lines business is generated either by an Agent or written directly by the Company. The Agent channel includes business written by the Company's network of 30,000 Independent Insurance Agencies and through Strategic Alliance business relationships (other insurance companies, financial institutions, employers and national brokerage agencies). Direct business includes business written through 1-800-AUTO-PRO(R), the Internet (progressive.com) and the Strategic Alliance business unit on behalf of affinity groups.

In addition to its Personal Lines business, the Company's other lines of business include writing insurance for small fleets of commercial vehicles, collateral protection and loan tracking for auto lenders and financial institutions, directors' and officers' liability and fidelity coverage for American Bankers Association member community banks and independent credit unions, and providing related claim, underwriting and system services.





Underwriting results for the Company's Personal Lines, including its channel components, and the other lines of business were as follows:

| (millions) | 2000 | 1999 | 1998 |
|---|---|---|---|
| NET PREMIUMS WRITTEN (NPW) | | | |
| Personal Lines - Agent | $ 4,358.4 | $ 4,746.5 | $4,390.4 |
| Personal Lines - Direct | 1,293.1 | 955.9 | 531.9 |
| Total Personal Lines | 5,651.5 | 5,702.4 | 4,922.3 |
| Other Lines | 544.6 | 422.3 | 377.4 |
| Companywide | $ 6,196.1 | $ 6,124.7 | $5,299.7 |
| NET PREMIUMS EARNED | | | |
| Personal Lines - Agent | $ 4,643.4 | $ 4,548.7 | $4,177.5 |
| Personal Lines - Direct | 1,220.6 | 745.4 | 403.2 |
| Total Personal Lines | 5,864.0 | 5,294.1 | 4,580.7 |
| Other Lines | 484.4 | 389.5 | 367.3 |
| Companywide | $ 6,348.4 | $ 5,683.6 | $4,948.0 |
| STANDARD/PREFERRED SALES AS A % OF PERSONAL LINES NPW | 54% | 47% | 35% |
| INTERNET SALES AS % OF PERSONAL LINES - DIRECT NPW | 15% | 7% | 2% |
| PERSONAL LINES - AGENT CR | | | |
| Loss & loss adjustment expense ratio | 85.0 | 75.8 | 68.9 |
| Underwriting expense ratio | 18.8 | 20.7 | 21.7 |
| | 103.8 | 96.5 | 90.6 |
| PERSONAL LINES - DIRECT CR | | | |
| Loss & loss adjustment expense ratio | 80.9 | 74.6 | 70.8 |
| Underwriting expense ratio | 29.6 | 38.5 | 36.7 |
| | 110.5 | 113.1 | 107.5 |
| PERSONAL LINES - TOTAL CR | | | |
| Loss & loss adjustment expense ratio | 84.1 | 75.6 | 69.1 |
| Underwriting expense ratio | 21.1 | 23.2 | 23.0 |
| | 105.2 | 98.8 | 92.1 |
| OTHER LINES - CR | | | |
| Loss & loss adjustment expense ratio | 71.3 | 65.1 | 57.7 |
| Underwriting expense ratio | 23.2 | 25.8 | 27.5 |
| | 94.5 | 90.9 | 85.2 |
| COMPANYWIDE GAAP CR | | | |
| Loss & loss adjustment expense ratio | 83.2 | 74.9 | 68.2 |
| Underwriting expense ratio | 21.2 | 23.4 | 23.4 |
| | 104.4 | 98.3 | 91.6 |
| COMPANYWIDE ACCIDENT YEAR | | | |
| Loss & loss adjustment expense ratio | 82.0 | 75.4 | 71.9 |

The Agent channel net premiums written decreased 8% in 2000, as expected, compared to increases of 8% and 9% in 1999 and 1998, respectively. The decrease in 2000 was primarily a result of the rate increases filed by the Company in almost every state during the last year as well as the shift in business to six-month terms, while the prior year increases were primarily due to increases in unit sales. The Company has been raising rates for 15 months and its current need for even higher rates vary considerably by state. Agent auto policies in force decreased 7% in 2000, driven by these rate increases, primarily in New York and Florida. The Company's Direct channel net premiums written increased 35% in 2000, 80% in 1999 and 109% in 1998. For 2000, the Direct business policies in force increased 45%. Recognizing seasonal variations, the quote volume on the Direct business remained steady for the second half of 2000, but increased relative to the first six months. The Company continues to see an increase in the number of quotes generated via the Internet. Conversion rates on the Direct business decreased slightly through the third quarter 2000, with some minor increases in the fourth quarter due to seasonality.

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. Claim 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 83% in 2000, compared to 75% in 1999 and 68% in 1998. The increase in the loss ratios were driven primarily by three factors discussed below: rate level, trend and loss reserve adequacy.

The first factor impacting the increase in loss ratios is rate level. In 2000, the Company generated underwriting profits in just under half of the states in which it writes business, with the remaining states still generating combined ratios over 100, reflecting the Company's failure to raise rates sufficiently to keep current with loss cost trends. In particular, New York currently represents the most significant challenge to the Company. It is estimated that the turnaround time to bring this state back to profitability will be considerably longer than in the other states. The Company will continue to monitor and adjust rates as needed to meet its financial goals. Over the past year, the Company has been committed to ensuring that a majority of its new and renewal policies have six-month terms, which speeds by six months the effect of rate changes. At December 2000, 80% of new auto policies written had six-month terms, compared to 35% for 1999 and 37% for 1998; the Company expects this number to increase into 2001.

The second factor contributing to the increase in claim costs is the increase in severity trend that the Company is experiencing. Based on industry data from the National Association of Independent Insurers and review of other insurance company filings, it appears that the escalation in loss costs this year is impacting many other carriers as well. Although the Company's loss costs are increasing, the rate of increase has slowed throughout 2000, but the Company does not expect these costs to level off in the near future.

The third factor facing the Company is loss reserve adequacy. During 2000, the Company experienced $75.8 million, or 1.2 points, of adverse loss reserve development relating to prior accident years, compared to $29.8 million, or .5 points, of favorable development in 1999, and $184.2 million, or 3.7 points, of favorable development in 1998. The Company conducts extensive quarterly reviews to help ensure that the Company is meeting its objective of maintaining adequate loss reserves.

Policy acquisition and other underwriting expenses as a percentage of premiums earned were 21% in 2000, and 23% in both 1999 and 1998. For the Agent channel, the expense ratio decrease was driven primarily by lower incentive compensation costs and lower commission expenses as a result of the mix of business shifting toward more renewals, which have lower commission expenses associated with it. For the Direct business, the decrease was driven by higher productivity in our Direct sales call centers, more efficient purchases of television media and a greater percentage of renewal business, which has lower expenses associated with it.

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.

The Company is named as defendant in a number of purported class action lawsuits, such as those alleging damages as a result of the Company's total loss evaluation methodology, use of after-market parts or the alleged diminution of value to vehicles which are involved in accidents, and cases challenging other aspects of the Company's business. Other insurance companies face similar suits. The Company plans to vigorously contest these suits, but is currently unable to estimate the potential exposure.

Safe Harbor statement under the Private Securities Litigation Reform Act of 1995: Certain matters in this Annual Report may be considered forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions and projections generally; changes in economic conditions (including changes in interest rates and financial markets); pricing competition and other initiatives by competitors; legislative and regulatory developments; weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions); driving patterns; court decisions and trends in litigation and health care costs; and other matters described from time to time by the Company in other documents filed with the United States Securities and Exchange Commission. The Company assumes no obligation to update the information in this Annual Report.





Quarterly Financial and Common Share Data
(not covered by report of independent accountants)

(millions - except per share amounts)

| | | NET INCOME (LOSS) | | OPERATING INCOME (LOSS)(1) | | STOCK PRICE(2) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| QUARTER | OPERATING REVENUES(3) | TOTAL | PER SHARE(5) | TOTAL(4) | PER SHARE(5) | HIGH | LOW | CLOSE | RATE OF RETURN(6) | DIVIDENDS PER SHARE |
| 2000 | | | | | | | | | | |
| 1 | $1,526.2 | $(46.6) | $(.64) | $(36.6) | $(.50) | $ 85.75 | $ 45.00 | $ 76.06 | | $.065 |
| 2 | 1,584.9 | (14.1) | (.19) | 4.0 | .06 | 100.00 | 60.00 | 74.00 | | .065 |
| 3 | 1,620.5 | 58.8 | .79 | 37.9 | .51 | 85.38 | 62.25 | 81.88 | | .070 |
| 4 | 1,637.3 | 48.0 | .64 | 50.1 | .67 | 111.00 | 69.63 | 103.63 | | .070 |
| | $6,368.9 | $ 46.1 | $ .62 | $ 55.4 | $ .75 | $111.00 | $ 45.00 | $103.63 | 42.3% | $.270 |
| 1999 | | | | | | | | | | |
| 1 | $1,333.3 | $105.3 | $1.41 | $104.0 | $1.39 | $174.25 | $115.44 | $143.50 | | $.065 |
| 2 | 1,416.8 | 112.1 | 1.50 | 98.5 | 1.32 | 152.13 | 127.38 | 145.00 | | .065 |
| 3 | 1,474.5 | 74.0 | .99 | 59.5 | .80 | 144.94 | 81.50 | 81.69 | | .065 |
| 4 | 1,506.5 | 3.8(7) | .05(7) | 4.7(7) | .06(7) | 97.63 | 68.50 | 73.13 | | .065 |
| | $5,731.1 | $295.2 | $3.96 | $266.7 | $3.58 | $174.25 | $ 68.50 | $ 73.13 | (56.7)% | $.260 |
| 1998 | | | | | | | | | | |
| 1 | $1,156.2 | $120.1 | $1.58 | $102.8 | $1.35 | $135.50 | $106.69 | $134.69 | | $.060 |
| 2 | 1,237.2 | 123.0 | 1.61 | 109.1 | 1.43 | 150.00 | 126.50 | 141.00 | | .060 |
| 3 | 1,290.9 | 135.1 | 1.81 | 134.4 | 1.80 | 156.75 | 95.00 | 112.75 | | .065 |
| 4 | 1,301.9 | 78.5(8) | 1.05(8) | 103.1 | 1.38 | 172.00 | 94.00 | 169.38 | | .065 |
| | $4,986.2 | $456.7 | $6.11 | $449.3 | $6.01 | $172.00 | $ 94.00 | $169.38 | 41.6% | $.250 |

(1) Represents net income less realized gains (losses) on security sales and one-time items.

(2) Prices as reported on the consolidated transaction reporting system. The Company's Common Shares are listed on the New York Stock Exchange.

(3) Represents premiums earned plus service revenues.

(4) The sum may not equal the total due to rounding in the individual periods. Each period is properly stated.

(5) Presented on a diluted basis. The sum may not equal the total because the average equivalent shares differ in the periods.

(6) Represents annual rate of return, including quarterly dividend reinvestment.

(7) During the fourth quarter 1999, the Company increased loss reserves $33 million, $.29 per share, primarily relating to the 1999 accident year and recognized $7 million, $.06 per share, of losses related to Hurricane Irene. The remainder of the decline was primarily attributable to increased loss severity.

(8) During the fourth quarter 1998, the Company wrote down $24.5 million, $.21 per share, on investment securities considered to have other than temporary declines in market value and realized a $9.2 million, $.08 per share, net loss on an anticipatory hedge.





Ten Year Summary -- Financial Highlights
(not covered by report of independent accountants)

| (millions - except per share amounts and number of people employed) | 2000 | 1999 |
|---|---|---|
| INSURANCE COMPANIES SELECTED FINANCIAL INFORMATION AND OPERATING STATISTICS -- STATUTORY BASIS | | |
| Reserves: | | |
| Loss and loss adjustment expense(1) | $ 2,785.3 | $ 2,200.2 |
| Unearned premiums | 2,542.4 | 2,694.5 |
| Policyholders' surplus(1) | 2,177.0 | 2,258.9 |
| Ratios: | | |
| Net premiums written to policyholders' surplus | 2.8 | 2.7 |
| Loss and loss adjustment expense reserves to policyholders' surplus | 1.3 | 1.0 |
| Loss and loss adjustment expense | 83.2 | 75.0 |
| Underwriting expense | 21.0 | 22.1 |
| Statutory combined ratio | 104.2 | 97.1 |
| SELECTED CONSOLIDATED FINANCIAL INFORMATION -- GAAP BASIS | | |
| Total revenues | $ 6,771.0 | $ 6,124.2 |
| Total assets | 10,051.6 | 9,704.7 |
| Total shareholders' equity(2) | 2,869.8 | 2,752.8 |
| Common Shares outstanding | 73.5 | 73.1 |
| Common Share price | | |
| High | $ 111.00 | $ 174.25 |
| Low | 45.00 | 68.50 |
| Close(3) | 103.63 | 73.13 |
| Market capitalization | $ 7,616.8 | $ 5,345.4 |
| Book value per Common Share(2) | $ 39.04 | $ 37.66 |
| Return on average common shareholders' equity(4) | 1.7% | 10.9% |
| Debt outstanding | $ 748.8 | $ 1,048.6 |
| Ratios: | | |
| Debt to total capital | 21% | 28% |
| Earnings to fixed charges(5) | 1.3x | 5.7x |
| Price to earnings(6) | 138 | 20 |
| Price to book | 2.7 | 1.9 |
| GAAP underwriting margin(2) | (4.4)% | 1.7% |
| Number of people employed | 19,490 | 18,753 |

(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.

(5) 1995 and prior represents the ratio of earnings to combined fixed charges and preferred share dividends.

(6) Represents the closing stock price/operating earnings per share.

All share and per share amounts were adjusted for the December 1992, 3 for 1 stock split.





| 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|---|---|
| $ 1,945.8 | $ 1,867.5 | $ 1,532.9 | $ 1,314.4 | $ 1,100.2 | $ 1,053.7 | $ 994.7 | $ 901.7 |
| 2,253.3 | 1,901.9 | 1,382.9 | 1,140.4 | 954.8 | 688.9 | 538.5 | 513.6 |
| 2,029.9 | 1,722.9 | 1,292.4 | 1,055.1 | 945.1 | 701.9 | 658.3 | 676.7 |
| 2.6 | 2.7 | 2.7 | 2.8 | 2.6 | 2.6 | 2.2 | 2.0 |
| 1.0 | 1.1 | 1.2 | 1.2 | 1.2 | 1.5 | 1.5 | 1.3 |
| 68.5 | 71.1 | 70.2 | 71.6 | 64.2 | 62.6 | 68.3 | 65.7 |
| 22.4 | 20.7 | 19.8 | 21.4 | 22.4 | 25.4 | 29.8 | 33.5 |
| 90.9 | 91.8 | 90.0 | 93.0 | 86.6 | 88.0 | 98.1 | 99.2 |
| $ 5,292.4 | $ 4,608.2 | $ 3,478.4 | $ 3,011.9 | $ 2,415.3 | $ 1,954.8 | $ 1,738.9 | $ 1,493.1 |
| 8,463.1 | 7,559.6 | 6,183.9 | 5,352.5 | 4,675.1 | 4,011.3 | 3,440.9 | 3,317.2 |
| 2,557.1 | 2,135.9 | 1,676.9 | 1,475.8 | 1,151.9 | 997.9 | 629.0 | 465.7 |
| 72.5 | 72.3 | 71.5 | 72.1 | 71.2 | 72.1 | 67.1 | 63.3 |
| $ 172.00 | $ 120.88 | $ 72.25 | $ 49.50 | $ 40.50 | $ 46.13 | $ 29.38 | $ 20.63 |
| 94.00 | 61.50 | 40.38 | 34.75 | 27.75 | 26.63 | 14.75 | 15.00 |
| 169.38 | 119.88 | 67.38 | 48.88 | 35.00 | 40.50 | 29.13 | 18.00 |
| $ 12,279.7 | $ 8,667.0 | $ 4,817.3 | $ 3,523.9 | $ 2,492.0 | $ 2,920.1 | $ 1,954.3 | $ 1,139.4 |
| $ 35.27 | $ 29.54 | $ 23.45 | $ 19.31 | $ 14.97 | $ 12.62 | $ 7.94 | $ 5.83 |
| 19.3% | 20.9% | 20.5% | 19.6% | 27.4% | 36.0% | 34.7% | 6.7% |
| $ 776.6 | $ 775.9 | $ 775.7 | $ 675.9 | $ 675.6 | $ 477.1 | $ 568.5 | $ 644.0 |
| 23% | 27% | 32% | 31% | 37% | 32% | 47% | 58% |
| 10.2x | 9.2x | 7.7x | 5.6x | 6.1x | 7.1x | 3.7x | 1.5x |
| 28 | 27 | 16 | 17 | 13 | 15 | 17 | 15 |
| 4.8 | 4.1 | 2.9 | 2.5 | 2.3 | 3.2 | 3.7 | 3.1 |
| 8.4% | 6.6% | 8.5% | 5.7% | 11.5% | 10.7% | 3.5% | (3.7)% |
| 15,735 | 14,126 | 9,557 | 8,025 | 7,544 | 6,101 | 5,591 | 6,918 |





## Ten Year Summary -- GAAP Consolidated Operating Results
(not covered by report of independent accountants)

| (millions - except per share amounts) | 2000 | 1999 |
|---|---|---|
| Direct premiums written: | | |
| Personal lines | $ 5,773.2 | $ 5,799.4 |
| All other lines | 628.9 | 505.9 |
| Total direct premiums written | 6,402.1 | 6,305.3 |
| Reinsurance assumed | -- | -- |
| Reinsurance ceded | (206.0) | (180.6) |
| Net premiums written | 6,196.1 | 6,124.7 |
| Net change in unearned premiums reserve(1) | 152.3 | (441.1) |
| Premiums earned | 6,348.4 | 5,683.6 |
| Expenses: | | |
| Losses and loss adjustment expenses(2) | 5,279.4 | 4,256.4 |
| Policy acquisition costs | 788.0 | 745.0 |
| Other underwriting expenses | 559.3 | 583.8 |
| Total underwriting expenses | 6,626.7 | 5,585.2 |
| Underwriting profit (loss) before taxes | (278.3) | 98.4 |
| Provision (benefit) for income taxes | (97.4) | 34.4 |
| Underwriting profit (loss) after taxes | (180.9) | 64.0 |
| Service operations profit (loss) after taxes | (.6) | 4.3 |
| | (181.5) | 68.3 |
| Investment income after taxes | 278.3 | 249.6 |

| | | |
|---|---|---|
| Net realized gains on security sales after taxes | 11.0 | 30.7 |
| Interest expense after taxes | (50.6) | (49.7) |
| Non-recurring items after taxes(8) | (4.2) | -- |
| Other income (expenses) after taxes(3) | (6.9) | (3.7) |
| Income before tax adjustments and cumulative effect of accounting change | 46.1 | 295.2 |
| Tax adjustments(4) | -- | -- |
| Cumulative effect of accounting change(5) | -- | -- |
| Net income | $ 46.1 | $ 295.2 |
| Operating income(6) | $ 55.4 | $ 266.7 |
| Per share(7) | | |
| Net income(2) | $ .62 | $ 3.96 |
| Operating income | .75 | 3.58 |
| Dividends | .270 | .260 |
| Average equivalent shares | | |
| Basic | 73.2 | 72.9 |
| Diluted | 74.3 | 74.6 |

(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. Other income includes a $5.2 million pretax gain on the sale of the corporate aircraft in 1999 and $106.0 million of pretax income for the Proposition 103 reserve reduction in 1992.

(4) Reflects a deferred tax asset write-down.

(5) Reflects adoption of SFAS 109, "Accounting for Income Taxes."

(6) Represents net income less net realized gains (losses) on security sales and one-time items.

(7) 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.

(8) 2000 reflects a foreign currency translation loss; 1993 reflects a charge on debt extinguishment; 1992 reflects the termination of an investment management agreement and the end of an employment agreement with the then Chairman of the Company's Board of Directors.

All share and per share amounts were adjusted for the December 1992, 3 for 1 stock split.





| 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|---|---|
| $ 4,987.1 | $ 4,355.9 | $ 3,165.4 | $ 2,644.6 | $ 2,181.7 | $ 1,548.9 | $ 1,214.6 | $ 1,047.4 |
| 464.2 | 469.3 | 473.0 | 424.3 | 463.4 | 417.5 | 422.2 | 489.4 |
| 5,451.3 | 4,825.2 | 3,638.4 | 3,068.9 | 2,645.1 | 1,966.4 | 1,636.8 | 1,536.8 |
| -- | -- | 3.8 | .1 | 2.9 | 9.2 | 4.3 | .1 |
| (151.6) | (160.1) | (200.5) | (156.2) | (190.8) | (156.4) | (189.9) | (212.3) |
| 5,299.7 | 4,665.1 | 3,441.7 | 2,912.8 | 2,457.2 | 1,819.2 | 1,451.2 | 1,324.6 |
| (351.7) | (475.6) | (242.4) | (185.6) | (266.1) | (150.5) | (25.1) | (37.7) |
| 4,948.0 | 4,189.5 | 3,199.3 | 2,727.2 | 2,191.1 | 1,668.7 | 1,426.1 | 1,286.9 |
| 3,376.3 | 2,967.5 | 2,236.1 | 1,943.8 | 1,397.3 | 1,028.0 | 930.9 | 858.0 |
| 659.9 | 607.8 | 482.6 | 459.6 | 391.5 | 311.6 | 304.1 | 313.7 |
| 495.8 | 336.0 | 208.5 | 167.2 | 150.8 | 151.3 | 141.5 | 162.1 |
| 4,532.0 | 3,911.3 | 2,927.2 | 2,570.6 | 1,939.6 | 1,490.9 | 1,376.5 | 1,333.8 |
| 416.0 | 278.2 | 272.1 | 156.6 | 251.5 | 177.8 | 49.6 | (46.9) |
| 145.6 | 97.4 | 95.2 | 54.8 | 88.0 | 62.2 | 16.9 | (15.9) |
| 270.4 | 180.8 | 176.9 | 101.8 | 163.5 | 115.6 | 32.7 | (31.0) |
| 4.8 | .9 | 2.8 | 5.6 | 6.5 | 4.4 | (2.8) | (1.4) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 275.2 | 181.7 | 179.7 | 107.4 | 170.0 | 120.0 | 29.9 | (32.4) |
| 221.3 | 205.3 | 175.6 | 156.2 | 131.2 | 107.1 | 110.4 | 121.1 |
| 7.4 | 64.0 | 4.6 | 30.4 | 15.5 | 70.1 | 9.6 | 4.9 |
| (39.7) | (42.0) | (40.0) | (37.1) | (35.9) | (25.8) | (29.4) | (31.6) |
| -- | -- | -- | -- | -- | (2.6) | (42.6) | -- |
| (7.5) | (9.0) | (6.2) | (6.4) | (6.5) | (1.5) | 61.7 | (14.9) |
| 456.7 | 400.0 | 313.7 | 250.5 | 274.3 | 267.3 | 139.6 | 47.1 |
| -- | -- | -- | -- | -- | -- | -- | (14.2) |
| -- | -- | -- | -- | -- | -- | 14.2 | -- |
| $ 456.7 | $ 400.0 | $ 313.7 | $ 250.5 | $ 274.3 | $ 267.3 | $ 153.8 | $ 32.9 |
| $ 449.3 | $ 336.0 | $ 309.1 | $ 220.1 | $ 212.7 | $ 197.3 | $ 129.8 | $ 85.1 |
| $ 6.11 | $ 5.31 | $ 4.14 | $ 3.26 | $ 3.59 | $ 3.59 | $ 2.08 | $ .41 |
| 6.01 | 4.46 | 4.12 | 2.85 | 2.76 | 2.62 | 1.74 | 1.19 |
| .250 | .240 | .230 | .220 | .210 | .200 | .191 | .172 |
| 72.5 | 72.0 | 71.6 | 71.8 | 71.6 | 69.3 | 60.7 | 65.4 |
| 74.7 | 75.3 | 74.2 | 74.2 | 74.0 | 71.8 | 70.9 | 66.6 |





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, 2000, 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, 2000 were:

| | | | MARKET VALUE | | |
|---|---|---|---|---|---|
| (millions) | -200 BPS CHANGE | -100 BPS CHANGE | ACTUAL | +100 BPS CHANGE | +200 BPS CHANGE |
| U.S. Government obligations | $ 505.7 | $ 477.3 | $ 450.7 | $ 425.9 | $ 402.5 |
| State and local government obligations | 1,107.8 | 1,065.6 | 1,025.4 | 987.2 | 951.4 |
| Asset-backed securities | 2,298.6 | 2,273.0 | 2,204.5 | 2,133.6 | 2,056.2 |
| Other debt securities | 1,174.6 | 1,137.3 | 1,103.5 | 1,070.1 | 1,037.7 |
| Preferred stocks | 868.5 | 841.1 | 813.7 | 786.2 | 758.8 |
| Term trust certificates | 222.6 | 221.5 | 220.4 | 219.3 | 218.1 |
| Short-term investments | 186.8 | 186.8 | 186.8 | 186.8 | 186.8 |
| | $ 6,364.6 | $ 6,202.6 | $ 6,005.0 | $ 5,809.1 | $ 5,611.5 |

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 95% 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, 2000 were:

HYPOTHETICAL MARKET CHANGES

| (millions) | MARKET VALUE | +10% | -10% |
|---|---|---|---|
| Common stocks | $ 978.3 | $ 1,071.6 | $ 885.0 |

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 .95. 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 affect 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%. There were no stock index futures in the common stock portfolio at December 31, 2000. The model does not include term trust certificates, which comprised $220.4 million of the common stock portfolio at the end of 2000, as these securities are subject to interest rate risk rather than equity market risk.





Financial instruments subject to foreign currency risk as of December 31, 2000 were:

| (millions) | MARKET VALUE | NOTIONAL VALUE | HYPOTHETICAL GAIN (LOSS) |
|---|---|---|---|
| Canadian fixed income investments | $ 40.0 | N/A | $ (4.0) |
| Other foreign fixed income investments | 2.2 | N/A | (.2) |
| Foreign currency forwards - liabilities | (.6) | 4.9 | .5 |
| | $ 41.6 | N/A | $ (3.7) |

N/A = not applicable; notional value pertains only to derivative instruments

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, 2000, the Company did not have any cross currency exposures.

TRADING FINANCIAL INSTRUMENTS

At December 31, 2000, the Company had trading securities, including derivative instruments used for trading purposes, with a net market value of $2.3 million. During 2000, net activity in the trading portfolio was not material to the Company's financial position or cash flows.

For 2000, the Company realized $18.7 million of net losses on trading securities. Exposure to loss from open trading positions was not material individually or in the aggregate.





Analysis of Loss and Loss Adjustment Expenses (LAE) Development
(not covered by report of independent accountants)

(millions)

| For the years ended December 31, | 1990 | 1991 | 1992 | 1993 | 1994(3) | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Loss and LAE reserves(1) | $791.6 | $861.5 | $956.4 | $1,012.4 | $1,098.7 | $1,314.4 | $1,532.9 | $1,867.5 | $1,945.8 | $2,200.2 | $2,785.3 |
| Re-estimated reserves as of: | | | | | | | | | | | |
| One year later | 748.8 | 810.0 | 857.9 | 869.9 | 1,042.1 | 1,208.6 | 1,429.6 | 1,683.3 | 1,916.0 | 2,276.0 | |
| Two years later | 726.5 | 771.9 | 765.5 | 837.8 | 991.7 | 1,149.5 | 1,364.5 | 1,668.5 | 1,910.6 | | |
| Three years later | 712.7 | 718.7 | 737.4 | 811.3 | 961.2 | 1,118.6 | 1,432.3 | 1,673.1 | | | |
| Four years later | 683.7 | 700.1 | 725.2 | 794.6 | 940.6 | 1,137.7 | 1,451.0 | | | | |
| Five years later | 666.3 | 695.1 | 717.3 | 782.9 | 945.5 | 1,153.3 | | | | | |
| Six years later | 664.8 | 692.6 | 711.1 | 780.1 | 952.7 | | | | | | |
| Seven years later | 664.5 | 688.2 | 709.2 | 788.6 | | | | | | | |
| Eight years later | 661.4 | 687.9 | 714.6 | | | | | | | | |
| Nine years later | 660.4 | 690.3 | | | | | | | | | |
| Ten years later | 665.9 | | | | | | | | | | |
| Cumulative redundancy/ (deficiency) | $125.7 | $171.2 | $241.8 | $ 223.8 | $ 146.0 | $ 161.1 | $ 81.9 | $ 194.4 | $ 35.2 | $ (75.8) | |
| Percentage(2) | 15.9 | 19.9 | 25.3 | 22.1 | 13.3 | 12.3 | 5.3 | 10.4 | 1.8 | (3.4) | |

The chart represents the development of the property-casualty loss and LAE reserves for 1990 through 1999. 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/(deficiency) 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/(deficiency)/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) | 2000 | | 1999 | | 1998 | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Florida | $ 773.2 | 12.1% | $ 895.6 | 14.2% | $ 784.4 | 14.4% | $ 663.0 | 13.7% | $ 467.4 | 12.9% |
| Ohio | 563.2 | 8.8 | 528.1 | 8.4 | 447.7 | 8.2 | 404.3 | 8.4 | 340.8 | 9.4 |
| Texas | 532.6 | 8.3 | 557.6 | 8.8 | 518.6 | 9.5 | 509.4 | 10.6 | 349.9 | 9.6 |
| New York | 425.6 | 6.6 | 600.4 | 9.5 | 522.2 | 9.6 | 446.3 | 9.2 | 358.0 | 9.8 |
| California | 376.6 | 5.9 | 416.0 | 6.6 | 343.2 | 6.3 | 291.7 | 6.0 | 171.6 | 4.7 |
| Georgia | 368.6 | 5.8 | 301.9 | 4.8 | 277.8 | 5.1 | 261.9 | 5.4 | 212.1 | 5.8 |
| Pennsylvania | 312.3 | 4.9 | 322.3 | 5.1 | 292.3 | 5.4 | 248.3 | 5.1 | 201.3 | 5.5 |
| All other | 3,050.0 | 47.6 | 2,683.4 | 42.6 | 2,265.1 | 41.5 | 2,000.3 | 41.6 | 1,537.3 | 42.3 |
| Total | $6,402.1 | 100.0% | $6,305.3 | 100.0% | $5,451.3 | 100.0% | $4,825.2 | 100.0% | $3,638.4 | 100.0% |





DIRECTORS

Milton N. Allen(1),(2)
Consultant and Trustee,
Profit and Nonprofit
Organizations

B. Charles Ames(1)
Partner,
Clayton, Dubilier & Rice, Inc.
(investment banking)

James E. Bennett III(3)
President and
Chief Executive Officer,
EmployOn.com LLC
(online recruiting)

Charles A. Davis(4)

Stephen R. Hardis(2),(4)
Chairman of the Board,
Axcelis Technologies, Inc.
(manufacturing)

Janet Hill(1)
Vice President,
Alexander & Associates, Inc.
(management consulting)

Jeffrey D. Kelly(4)
Executive Vice President and
Chief Financial Officer,
National City Corporation
(commercial banking)

Peter B. Lewis(2),(4)
Chairman of the Board

Norman S. Matthews(3)
Consultant,
formerly President,
Federated Department Stores, Inc.
(retailing)

Glenn M. Renwick
President and
Chief Executive Officer

Donald B. Shackelford(3)
Chairman,
Fifth Third Bank, Central Ohio
(commercial bank)

(1) Audit Committee member

(2) Executive Committee member

CORPORATE OFFICERS

Peter B. Lewis
Chairman

Glenn M. Renwick
President and
Chief Executive Officer

Charles E. Jarrett
Secretary

W. Thomas Forrester
Treasurer

Jeffrey W. Basch
Vice President

Thomas A. King

President and
Chief Executive Officer,
MMC Capital, Inc.
(private equity investing)

(3) Executive Compensation
Committee member

(4) Investment and Capital
Committee member

Vice President

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 20, 2001, at 10:00 a.m. There were 3,766 shareholders of record on December 31, 2000.

PRINCIPAL OFFICE

The principal office of The Progressive Corporation is at 6300 Wilson Mills Road, Mayfield Village, Ohio 44143.

Web site: progressive.com

TOLL-FREE TELEPHONE NUMBERS

For assistance after an accident or to report a claim, 24 hours a day, 7 days a week, call: 1-800-274-4499.

To check rates available to you from Progressive and up to three other leading auto insurance companies, call: 1-800-AUTO-PRO(R) (1-800-288-6776) or visit: progressive.com.

For 24 Hour Policy Service, call: 1-800-888-7764.

COUNSEL

Baker & Hostetler LLP, 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. The 2001 quarterly dividend record dates, subject to Board approval, are as follows: March 9, June 8, September 14 and December 14.

SHAREHOLDER/INVESTOR RELATIONS

The Progressive Corporation does not maintain a mailing list for distribution of shareholders' reports. To view Progressive's publicly filed documents as well as its earnings releases, shareholders can access the Company's Web site: www.progressive.com/investors.

To request copies of public financial information on the Company, write to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143, e-mail: investor_relations@progressive.com or call: 1-440-446-7165.

For specific questions on financial information, call: 1-440-446-2851 or e-mail: investor_relations@progressive.com.

For stock ownership account information, call National City Bank at: 1-800-622-6757.

For all other Company information, call: 1-440-461-5000 or e-mail: webmaster@progressive.com.

INTERACTIVE ANNUAL REPORT

The Progressive Corporation's 2000 Annual Report, in an interactive format, can be found at: www.progressive.com/annualreport.







Design    Nesnadny + Schwartz, Cleveland + New York + Toronto
Artwork   Greg Colson, represented by Griffin Contemporary and Sperone Westwater
Printing  Fortran Printing



THE PROGRESSIVE CORPORATION

6300 WILSON MILLS ROAD
MAYFIELD VILLAGE, OHIO 44143
WWW.PROGRESSIVE.COM
440.461.5000

[PROGRESSIVE LOGO]

Exhibit 21

SUBSIDIARIES OF THE PROGRESSIVE CORPORATION

| Name of Subsidiary | Jurisdiction of Incorporation |
|---|---|
| 1890 Insurance Agency, Inc. | Wyoming |
| Airy Insurance Center, Inc. | Pennsylvania |
| Express Quote Services, Inc. | Florida |
| Garden Sun Insurance Services, Inc. | Hawaii |
| Greenberg Financial Insurance Services, Inc. | California |
| Husky Sun Insurance Services, Inc. | Washington |
| Insurance Confirmation Services, Inc. | Delaware |
| Lakeside Insurance Agency, Inc. | Ohio |
| Maryland Auto Insurance Solutions, Inc. | Maryland |
| Midland Financial Group, Inc. | Tennessee |
| Agents Financial Services - Tennessee, Inc. | Tennessee |
| Agents Financial Services, Inc. (40% owned) | Florida |
| AutoSurance of America, Inc. | Tennessee |
| Progressive Home Insurance Agency | Tennessee |
| Specialty Risk Insurance Company | Tennessee |
| Midland Risk Services, Inc. | Tennessee |
| Midland Risk Services - Arizona, Inc. | Arizona |
| Midland Risk Insurance Services - California, Inc. | California |
| 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 |
| 3841189 Canada Inc. | Canada |
| Progny Agency, Inc. | New York |
| Progressive Adjusting Company, Inc. | Ohio |
| Progressive Agency Holdings Corp. | Ohio |
| Barry Scott Companies, Inc. | Delaware |
| Barry Scott Agency, Inc. | New York |
| Baron Cycle, Inc. | New York |
| Barry Scott Acquisition Corp. | New York |
| Aard Vark Agency, Ltd. | New York |
| Progressive American Insurance Company | Florida |
| Bayside Underwriters Insurance Agency, Inc. | Florida |
| Progressive American Life Insurance Company | Ohio |
| Progressive Life Insurance, Ltd. | Turks & Caicos Islands |
| Progressive Auto Pro Insurance Agency, Inc. | Florida |
| Progressive Auto Pro Insurance Company | Florida |
| Progressive Bayside Insurance Company | Florida |
| Progressive Capital Management Corp. | New York |
| Progressive Casualty Insurance Company | Ohio |
| PC Investment Company | Delaware |
| Progressive Gulf Insurance Agency | Mississippi |
| Progressive Specialty Insurance Company | Ohio |
| Progressive Classic Insurance Company | Wisconsin |
| Progressive Consumers Insurance Company | Florida |
| Progressive DirecTrac Service Corp. | Texas |



| Name of Subsidiary | Jurisdiction of Incorporation |
|---|---|
| Progressive Express Insurance Company | Florida |
| Progressive Halcyon Insurance Company | Ohio |
| Progressive Hawaii Insurance Corp. | Ohio |

| | |
|---|---|
| Progressive Insurance Agency, Inc. | Ohio |
| Progressive Investment Company, Inc. | Delaware |
|     RRM Holdings, Inc. | Delaware |
| Progressive Marathon Insurance Company | California |
| 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 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 Specialty Insurance Agency, Inc. | Ohio |
| Progressive West Insurance Company | California |
| Silver Key Insurance Agency, Inc. | Nevada |
| The Progressive Agency, Inc. | Virginia |
| United Financial Casualty Company | Missouri |
| United Financial Insurance Agency, Inc. | Washington |
| Village Transport Corp. | Delaware |
| Wilson Mills Land Co. | Ohio |

Except as indicated, each subsidiary is wholly owned by its parent.

1

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 21st day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
|---|---|
| /s/ Peter B. Lewis<br>Peter B. Lewis | Director, Chairman of the Board |

2

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint, Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
|---|---|
| /s/ Glenn M. Renwick<br>Glenn M. Renwick | Director, President and Chief Executive Officer |

3

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
|---|---|
| /s/ W. Thomas Forrester<br>W. Thomas Forrester | Treasurer and Chief Financial Officer |



POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
|---|---|
| /s/ Jeffrey W. Basch<br>Jeffrey W. Basch | Chief Accounting Officer |



POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 13th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
| --- | --- |
| /s/ Milton N. Allen<br>Milton N. Allen | Director |



POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
| --- | --- |
| /s/ B. Charles Ames<br>B. Charles Ames | Director |



POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
| --- | --- |
| /s/ James E. Bennett, III<br>James E. Bennett, III | Director |

8

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
| --- | --- |
| /s/ Charles A. Davis<br>Charles A. Davis | Director |

9

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
| --- | --- |
| /s/ Stephen R. Hardis<br>Stephen R. Hardis | Director |

10

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
|---|---|
| /s/ Janet Hill<br>Janet Hill | Director |



POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| Signature | Position(s) with The Progressive Corporation |
|---|---|
| /s/ Jeffrey D. Kelly<br>Jeffrey D. Kelly | Director |



POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| | Position(s) with |
|---|---|
| Signature | 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 Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, 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 2000, 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 9th day of March, 2001.

| | Position(s) with |
|---|---|
| Signature | The Progressive Corporation |
| --------- | --------------------------- |

/s/ Donald B. Shackelford
------------------------------
Donald B. Shackelford Director