

SCHEDULE 14A  
(RULE 14A-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (Amendment No. )

Filed by the registrant /X/

Filed by a party other than the registrant / /

Check the appropriate box:

/ / Preliminary proxy statement

/X/ Definitive proxy statement

/ / Definitive additional materials

/ / Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

THE PROGRESSIVE CORPORATION  
(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DAVID M. SCHNEIDER, GENERAL COUNSEL AND SECRETARY  
(NAME OF PERSON(S) FILING PROXY STATEMENT)

Payment of filing fee (Check the appropriate box):

/X/ \$125 per Exchange Act Rule 0-11(c)(1)(ii), 14a-6(i)(1), or 14a-6(j)(2).

/ / \$500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i)(3).

/ / Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:  
Not Applicable

(2) Aggregate number of securities to which transaction applies:  
Not Applicable

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:(1)  
Not Applicable

(4) Proposed maximum aggregate value of transaction:  
Not Applicable

(1) Set forth the amount on which the filing fee is calculated and state how it was determined.

/ / Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:  
Not Applicable

(2) Form, schedule or registration statement no.:  
Not Applicable

(3) Filing party:  
Not Applicable

(4) Date filed:  
Not Applicable

[INSERT PROGRESSIVE LOGO]

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 22, 1994

Notice is hereby given that the Annual Meeting of Shareholders of The Progressive Corporation will be held at 6671 Beta Drive, Mayfield Village, Ohio, on Friday, April 22, 1994, at 10:00 a.m., Cleveland time, for the following purposes:

1. To elect seven directors, each to serve for a term of one year;
2. To approve the Company's 1994 Executive Bonus Plan as it applies to certain executive officers; and
3. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on February 24, 1994, will be entitled to notice of and to vote at said meeting or any adjournment thereof.

By Order of the Board of Directors.

DAVID M. SCHNEIDER, Secretary

March 18, 1994

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING IN PERSON ARE URGED TO DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

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THE PROGRESSIVE CORPORATION

PROXY STATEMENT

This statement is furnished in connection with the solicitation of proxies for use at the Annual Meeting of Shareholders of The Progressive Corporation, an Ohio corporation (the "Company"), to be held at 10:00 a.m., Cleveland time, on Friday, April 22, 1994, at 6671 Beta Drive, Mayfield Village, Ohio 44143, and at any adjournment thereof. This statement and the accompanying proxy, together with the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1993, will first be sent to shareholders on or about March 21, 1994.

The close of business on February 24, 1994, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting. At that date, the Company had outstanding 72,160,372 Common Shares, each of which will be entitled to one vote.

ITEM 1: ELECTION OF DIRECTORS

The Company's Code of Regulations provides that in no case shall the number of directors be less than five or more than twelve. The number of directors has been fixed at eight. At the meeting, the shares represented by proxies, unless otherwise specified, will be voted for the election as directors of the seven nominees hereinafter named, to serve until the next Annual Meeting of Shareholders and until their respective successors are duly elected and qualified. One vacancy will remain on the Board. If, by reason of death or other unexpected occurrence, any one or more of the nominees hereinafter named should not be available for election, the proxies will be voted for such substitute nominee(s), if any, as the Board of Directors may propose.

No decision has been made to fill the vacancy on the Board, nor have any candidates been considered and approved by the Board. However, the Board believes that it is desirable to have this vacancy available, so that it could be filled by action of the Board should a person who could make a valuable contribution as a director of the Company be identified during the year. Proxies cannot be voted at the Annual Meeting for a greater number of persons than the seven nominees named in this proxy statement, although persons in addition to those nominees may be nominated by the shareholders at the meeting.

If notice in writing is given by any shareholder to the President or Secretary not less than 48 hours before the time fixed for holding the meeting that such shareholder desires that the voting for election of directors shall be

cumulative, and if an announcement of the giving of such notice is made upon the convening of such meeting by the Chairman or Secretary or by or on behalf of the shareholder giving such notice, each shareholder shall have the right to cumulate his or her voting power at such election and to give one nominee a number of votes equal to the number of directors to be elected multiplied by the number of shares he or she holds, or to distribute such votes on the same basis among two or more nominees, as such shareholder sees fit. If voting for the election of directors is cumulative, the persons named in the enclosed proxy will vote the

shares represented thereby and by other proxies held by them so as to elect as many of the seven nominees named below as possible.

The following information is set forth with respect to each person nominated for election as a director, each of whom is currently a director of the Company:

NOMINEES FOR ELECTION AT THE ANNUAL MEETING

NAME	AGE	PRINCIPAL OCCUPATION AND LAST FIVE YEARS' BUSINESS EXPERIENCE	DIRECTOR SINCE
Milton N. Allen (1)	66	Director of various companies; Chairman of the Board, MDSS, Inc., Cleveland, Ohio (computer software company) until July 1990	1978
B. Charles Ames (2)	68	Principal, Clayton, Dubilier & Rice, Inc., New York, New York (investment banking) since May 1990; Chairman and Chief Executive Officer, Uniroyal Goodrich Tire Company, Akron, Ohio (manufacturing) from January 1988 to May 1990	1983
Stephen R. Hardis (3)	58	Chief Financial and Administrative Officer, Vice Chairman and a director of Eaton Corporation, Cleveland, Ohio (manufacturing)	1988
Peter B. Lewis (4)	60	President and Chief Executive Officer of the Company; Chairman of the Board of the Company since April 1993; Chairman of the Board, President and Chief Executive Officer of Progressive Casualty Insurance Company	1965
Norman S. Matthews (5)	61	Consultant, New York, New York	1981
Donald B. Shackelford (6)	61	Chairman of the Board, State Savings Bank, Columbus, Ohio (savings and loan)	1976
Paul B. Sigler	60	Professor, Yale University and Investigator in the Howard Hughes Medical Institute	1981

- (1) Mr. Allen is also a director of AGA Gas, Inc., which is publicly held, and Actron Manufacturing Company and The Bradford Group, Inc., which are privately held.
- (2) Mr. Ames is also a director of Diamond Shamrock R & M, Inc., M.A. Hanna Company and Warner-Lambert Company, which are publicly held, and Homeland Holding, Inc. and Lexmark Holding, Inc., which are privately held.
- (3) Mr. Hardis is also a director of Nordson Corporation and Society Corporation and a trustee of First Union Realty Investment Trust, all of which, as well as Eaton Corporation, are publicly held.

- (4) Mr. Peter B. Lewis is also an officer and director of other subsidiaries of the Company. Mr. Daniel R. Lewis, an executive officer of the Company, is the brother of Mr. Peter B. Lewis.
- (5) Mr. Matthews is also a director of Lechters, Inc., Hills Stores Company and Lamont's Apparel, Inc., which are publicly held, and Loehmann's, Inc., Eye

Care Centers of America and Finlay Fine Jewelry, Inc., which are privately held.

(6) Mr. Shackelford is also a director of The Limited, Inc. and Worthington Foods, Inc., which are publicly held.

Six meetings of the Board of Directors were held during 1993.

The Board has named an Executive Committee, an Audit Committee and an Executive Compensation Committee, as described below. The Board has not designated a nominating committee.

Messrs. Allen, Hardis and Lewis are the current members of the Board's Executive Committee, which exercises all powers of the Board between Board meetings, except the power to fill vacancies on the Board or its committees. During 1993, the Executive Committee adopted resolutions by written action pursuant to Ohio corporation law on four occasions.

Messrs. Allen, Hardis, Shackelford and Sigler are the current members of the Board's Audit Committee, which ensures that organization, policies, controls and systems are in place to monitor performance; provides an independent channel to receive appropriate communications from employees, auditors, counsel, bankers and consultants; and monitors the public release of financial information. The Audit Committee met three times during 1993.

Messrs. Allen, Matthews and Shackelford are the current members of the Board's Executive Compensation Committee, which monitors and directs the administration of the Company's executive compensation program, including the various cash and stock incentive programs in which officers and employees of the Company participate. During 1993, the Executive Compensation Committee met three times and adopted resolutions by written action pursuant to Ohio corporation law on one occasion.

#### CERTAIN RELATED TRANSACTIONS

In January 1991, the Company purchased 4,851,000 shares (adjusted for the 2-for-1 stock split paid February 12, 1993), or 4.9%, of the common stock of MBNA Corporation in connection with MBNA Corporation's initial public offering at a per share price of \$10.615 (split-adjusted), for an aggregate purchase price of \$51,493,365. At the time of the transaction, Mr. Alfred Lerner was the Company's Chairman and chief investment officer, as well as Chairman of the Board and Chief Executive Officer of MBNA Corporation, and owned 10% of MBNA Corporation's common stock. Mr. Lerner served as the Company's Chairman from April 1988 through April 1993 and its chief investment officer from April 1988 until February 1993. During 1993, the Company sold its entire holding of MBNA Corporation, realizing gains of \$74,325,754.

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#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners. The following information is set forth with respect to persons known to management to be the beneficial owners, as of February 11, 1994, of more than five percent of the Company's Common Shares:

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1)	PERCENT OF CLASS
Peter B. Lewis..... 6300 Wilson Mills Road Mayfield Village, Ohio 44143	10,155,411 (2)	14.1%
Oppenheimer Group, Inc..... Oppenheimer Tower World Financial Center New York, New York 10281	6,459,264 (3)	9.0%

Janus Capital Corporation..... 100 Fillmore Street, Suite 300 Denver, Colorado 80206-4923	5,581,400(4)	7.7%
Ruane, Cunniff & Co., Inc..... 767 Fifth Avenue Suite 4701 New York, New York 10153	4,431,535(5)	6.1%
The Equitable Life Assurance Society..... 787 Seventh Avenue New York, New York 10019	4,138,848(6)	5.7%

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- (1) Except as otherwise indicated, the persons listed as beneficial owners of the Common Shares have sole voting and investment power with respect to those shares. Certain of the information contained in this table, and the related footnotes, is based on the Schedule 13G filings made by the beneficial owners identified herein.
- (2) Includes 185,382 Common Shares held of record by Mr. Lewis as trustee for an adult child, 13,257 Common Shares held for Mr. Lewis by a nominee under the Company's Long-Term Savings Plan, 337,500 Common Shares held by Mr. Lewis as trustee of a trust established for his brother and 99,976 shares held by a charitable corporation of which Mr. Lewis serves as a trustee and an officer. The amount does not include 1,759,329 Common Shares held of record by National City Bank as trustee of a trust established by Mr. Lewis for the benefit of his adult children, as to which shares he disclaims any beneficial interest.
- (3) The Common Shares are held in investment accounts maintained with Oppenheimer Group, Inc. or affiliates and they disclaim any beneficial interest in such shares. Oppenheimer

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Group, Inc. has advised that it has shared voting and investment power as to all of these shares.

- (4) The Common Shares are held by mutual funds managed by or investment accounts maintained with Janus Capital Corporation or affiliates and they disclaim any beneficial interest in such shares. Janus Capital Corporation has advised that it has shared voting and investment power as to all of these shares.
- (5) The Common Shares are held in investment accounts maintained with Ruane, Cunniff & Co., Inc. and it disclaims any beneficial interest in such shares. Ruane, Cunniff & Co., Inc. has advised that it has sole voting power as to 2,221,200 of these shares, no voting power as to the balance of these shares, sole investment power as to 2,210,335 of these shares and shared investment power as to 2,221,200 of these shares.
- (6) The Common Shares are held in investment accounts maintained with The Equitable Life Assurance Society or affiliates and they disclaim any beneficial interest in such shares. The Equitable Life Assurance Society has advised that it has sole voting power as to 2,382,582 of these shares, shared voting power as to 191,200 of these shares, no voting power as to the balance of these shares and sole investment power as to all of these shares.

Security Ownership of Management. The following information is set forth with respect to the Company's Common Shares beneficially owned as of February 11, 1994, by all directors and nominees for election as directors of the Company, each of the named executive officers and by all directors and executive officers of the Company as a group:

NAME	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)	PERCENT OF CLASS
Milton N. Allen.....	49,703(2)	*
B. Charles Ames.....	30,005(3)	*
Charles B. Chokel.....	70,683(4)	*

Allan W. Ditchfield.....	47,433(5)	*
Stephen R. Hardis.....	25,808(3)	*
Peter B. Lewis.....	10,155,411(6)	14.1%
Bruce W. Marlow.....	44,317	*
Norman S. Matthews.....	37,338(3)	*
Michael C. Murr.....	616,890(7)	*
Donald B. Shackelford.....	78,671(3)	*
Paul B. Sigler.....	10,409(8)	*
All 14 Executive Officers and Directors as a Group.....	13,309,515(9)	18.2%

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\* Less than one percent of the outstanding Common Shares of the Company.

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- (1) Includes Common Shares held for executive officers under The Progressive Corporation Long-Term Savings Plan and currently exercisable stock options held by directors and executive officers under various plans. Beneficial ownership of the Common Shares held by the directors and executive officers listed in the table is comprised of both sole voting power and sole investment power, or voting power and investment power that is shared with the spouse and/or minor children of the director or executive officer.
- (2) Includes 2,400 Common Shares owned by Mr. Allen's wife, as to which shares he disclaims any beneficial interest, and 20,000 Common Shares subject to currently exercisable stock options.
- (3) Includes 20,000 Common Shares subject to currently exercisable stock options.
- (4) Includes 1,447 Common Shares held as custodian for his minor children, as to which shares he disclaims any beneficial interest.
- (5) Includes 30,000 Common Shares subject to currently exercisable stock options.
- (6) See footnote 2 on page 4.
- (7) Includes 150,000 Common Shares owned by Eva Murr, Mr. Murr's wife, as to which shares he disclaims any beneficial interest, and 464,998 Common Shares subject to currently exercisable stock options.
- (8) Includes 8,000 Common Shares subject to currently exercisable stock options.
- (9) Includes 838,498 Common Shares subject to currently exercisable stock options.

Section 16(a) Reporting. Under the Federal securities laws, the directors and certain officers of the Company, and holders of 10% or more of the Company's Common Shares, are required to report their ownership of the Company's Common Shares, and any changes in such ownership, to the Securities and Exchange Commission and New York Stock Exchange within specified time frames. The Company is required to report in this proxy statement any failure on the part of any such individual to timely file any such report. The Form 5 filed for Daniel R. Lewis for 1992 inadvertently omitted to disclose two gifts totalling 100 of the Company's Common Shares received by his two minor children in January 1992. A supplemental filing was made with the Securities and Exchange Commission and the New York Stock Exchange promptly after this oversight was discovered. Norman S. Matthews' Form 5 for 1993, reporting charitable gifts totalling 250 Common Shares, was filed 29 days late. The total of all charitable gifts reported for David M. Schneider on his December 1993 Form 4 inadvertently omitted 4 Common Shares. An amended Form 4 was filed promptly after this omission was discovered.

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#### EXECUTIVE COMPENSATION

The following information is set forth with respect to the Company's Chief Executive Officer and the other four most highly compensated executive officers,

each of whom was serving as an executive officer at December 31, 1993 (the "named executive officers").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION	
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)	RESTRICTED STOCK AWARDS (1)	SECURITIES UNDERLYING OPTIONS (#)
Peter B. Lewis	1993	\$1,000,000	\$1,400,000	\$127,646 (2)	--	67,100
Chairman, President and Chief Executive Officer	1992	1,023,077	946,000	162,703 (2)	--	137,400
	1991	1,198,077	--	124,900 (2)	--	75,000
Michael C. Murr	1993	1,001,226	892,800	--	--	37,500
Chief Investment Officer (hired 7/1/92)	1992	473,523	--	--	--	--
	1991	--	--	--	--	--
Bruce W. Marlow	1993	558,040	892,800	--	--	37,500
Chief Operating Officer	1992	551,286	465,300	--	--	72,000
	1991	549,712	150,000	--	--	45,000
Charles B. Chokel	1993	275,000	385,000	--	--	11,500
Chief Financial Officer	1992	261,539	252,120	--	--	16,500
	1991	249,712	70,000	--	--	30,000
Allan W. Ditchfield	1993	400,000	200,000	--	--	10,500
Chief Information Officer (hired 3/6/91)	1992	400,000	118,300	--	--	16,500
	1991	320,000	100,000	--	--	150,000

NAME AND PRINCIPAL POSITION	ALL OTHER COMPENSATION (\$)
Peter B. Lewis	\$ --
Chairman, President and Chief Executive Officer	--
Michael C. Murr	4,861 (3)
Chief Investment Officer (hired 7/1/92)	7,162
Bruce W. Marlow	6,704 (4)
Chief Operating Officer	5,305
	6,025
Charles B. Chokel	6,558 (5)
Chief Financial Officer	6,806
	62,598 (6)
Allan W. Ditchfield	6,923 (5)
Chief Information Officer (hired 3/6/91)	6,200
	116,212 (7)

(1) No restricted stock awards were granted to the named executive officers during the last three years. As of December 31, 1993, there were no unvested restricted stock holdings.

During 1993, the named executive officers became vested in restricted stock as follows: Mr. Lewis, 45,000 shares which had a net realized value at date of vesting of \$1,822,500; Mr. Marlow, 32,172 shares which had a net realized value at date of vesting of \$1,302,966; and Mr. Chokel, 12,000 shares which had a net realized value at date of vesting of \$486,000.

(2) Other Annual Compensation includes \$96,588, \$130,523 and \$67,484 in the form of personal use of corporate aircraft in 1993, 1992 and 1991, respectively.

(3) Represents \$4,112 of employer matching contributions paid during 1993 under the Company's Long-Term Savings Plan and \$749 of employer contributions paid during 1993 under the Company's Supplemental Retirement Plan.

(4) Represents \$6,439 employer matching contributions paid during 1993 under the Company's Long-Term Savings Plan and \$265 as an anniversary award for 15 years of employment with the Company.

(5) Represents employer matching contributions paid during 1993 under the Company's Long-Term Savings Plan.

(6) Represents a \$22,833 relocation bonus, \$34,634 reimbursement of moving expenses and \$5,131 of employer matching contributions paid during 1991 under the Company's Long-Term Savings Plan.

(7) Represents an \$83,333 relocation bonus, \$28,725 reimbursement for moving expenses and \$4,154 of employer matching contributions paid during 1991 under the Company's Long-Term Savings Plan.

## OPTION/SAR GRANTS IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS			POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM		
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1993	EXERCISE PRICE (\$/SHARE)	EXPIRATION DATE	5% 10%	
					(\$)	(\$)
Peter B. Lewis	67,100 (1)	9.7%	\$29.625	12/31/2002	\$1,173,244	\$2,933,948
Michael C. Murr	37,500 (1)	5.4	29.625	12/31/2002	655,688	1,639,688
Bruce W. Marlow	37,500 (1)	5.4	29.625	12/31/2002	655,688	1,639,688
Charles B. Chokel	11,500 (1)	1.7	29.625	12/31/2002	201,078	502,838
Allan W. Ditchfield	10,500 (1)	1.5	29.625	12/31/2002	183,593	459,113

(1) Options become exercisable 1/1/98.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR  
AND FISCAL YEAR-END OPTION/SAR VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 12/31/93		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12/31/93	
			EXERCISABLE/ UNEXERCISABLE	(#)	EXERCISABLE/ UNEXERCISABLE	(\$)
Peter B. Lewis	--	--	Exercisable	0	Exercisable	\$ 0
			Unexercisable	354,500	Unexercisable	8,008,083
Michael C. Murr	--	--	Exercisable	464,998	Exercisable	15,105,844
			Unexercisable	77,502	Unexercisable	1,533,713
Bruce W. Marlow	--	--	Exercisable	0	Exercisable	0
			Unexercisable	199,500	Unexercisable	4,513,397
Charles B. Chokel	--	--	Exercisable	0	Exercisable	0
			Unexercisable	88,000	Unexercisable	2,073,296
Allan W. Ditchfield	60,000	\$1,362,540	Exercisable	30,000	Exercisable	625,020
			Unexercisable	87,000	Unexercisable	1,867,421

## PENSION PLANS

Messrs. Peter B. Lewis, Marlow and Chokel, as well as substantially all other full-time employees of the Company and its subsidiaries who were hired before January 1, 1989 and satisfy certain other requirements, are eligible to participate in The Progressive Pension Plan (the "Pension Plan"). The Pension Plan is a defined benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), is a qualified plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code") and is subject to the minimum funding standards of Section 412 of the Code.

Benefits payable under the Pension Plan are determined pursuant to a formula based upon a participant's years of service with the Company and its subsidiaries, the participant's average annual compensation not in excess of the Social Security taxable wage base during such years of service ("Average Earnings") and Social Security benefits. For purposes of determining Average Earnings, the Pension Plan recognizes base salary, overtime earnings, cash bonuses and commissions. The benefit formula is: 2% of Average Earnings times years of service minus 50% of primary Social Security benefit for years of service through December 31, 1988, plus 1.3% of Average Earnings times years of service after that date.

Participants accrue benefits under the Pension Plan formula over their years of service with the Company and its subsidiaries, and become fully vested in their accrued benefits under the Pension Plan upon (i) completion of 5 years of service (subject to certain break-in-service rules); (ii) attainment of age



65; or (iii) retirement on account of permanent and total disability.

The estimated net annual pensions (expressed as a life and 120-month certain annuity) payable upon retirement at normal retirement age (65) under the Pension Plan for each of the three named executive officers who participate in the Pension Plan are as follows: Mr. Lewis, \$10,188; Mr. Marlow, \$8,983; and Mr. Chokel, \$9,042.

Messrs. Ditchfield and Murr, as well as substantially all other full-time employees who were hired on or after January 1, 1989 and satisfy certain other requirements, participate in The Progressive Corporation Supplemental Retirement Plan, a defined contribution plan within the meaning of ERISA and a qualified plan under the Code. The contributions made by the Company in 1993 for Mr. Murr is included in "All Other Compensation" in the Summary Compensation Table on page 7. No contribution was made by the Company for Mr. Ditchfield during 1993.

As of December 31, 1993, all benefit accruals under the Pension Plan were frozen. Effective January 1, 1994, the Supplemental Retirement Plan was amended to include all employees who previously participated in the Pension Plan and who meet requirements as to age and length of service. As a result, all named executive officers now participate in the Supplemental Retirement Plan. Under the amended plan, contributions vary from one percent to five percent of compensation up to the Social Security wage base, based on years of eligible service.

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#### SEPARATION PLANS

The named executive officers, as well as substantially all other regular, non-temporary employees of the Company and its subsidiaries, are eligible to participate in The Progressive Corporation Separation Allowance Plan (the "Separation Plan"). The Separation Plan provides payments to eligible employees whose employment is involuntarily terminated as a result of a reduction in force or a reorganization, as defined in the Separation Plan. Payments are based on compensation in effect immediately prior to termination and years of service and cannot exceed an aggregate of two years of compensation. The Separation Plan is a welfare benefit plan within the meaning of ERISA. All payments under the Separation Plan are made from the general assets of the Company and its subsidiaries. Individual employment or separation arrangements may supplement or supersede the Separation Plan in whole or in part.

The Company has entered into a separate arrangement with Mr. Ditchfield, pursuant to which he would be entitled to receive one year's salary plus a prorated bonus, if the Company were to terminate his employment prior to January 1, 1995 without just cause. These payments would be in lieu of any payments otherwise payable to him under the Separation Plan upon any termination of employment.

#### DIRECTORS' FEES AND PLANS

Each member of the Board of Directors who is not an employee of the Company currently receives an annual director's fee of \$8,000 ("Retainer Fee"). In addition, each such director receives fees for attendance at meetings of the Board and those committees of the Board of which he is a member ("Meeting Fee"). Directors currently receive \$3,000 for attendance at each of the four regular meetings of the Board and \$1,000 for attendance at each special meeting, unless attendance is by telephone, in which case the fee is \$500. Each member of a Board committee receives \$750 for attendance at each meeting of the committee, except that the committee chairman receives \$1,000 for attendance at each such meeting.

Each director of the Company who is not an employee of the Company participates in The Progressive Corporation Directors Deferral Plan, as amended (the "Directors Deferral Plan"). Each participant in the Directors Deferral Plan may elect, annually, to defer receipt of all or a portion of his Meeting Fees for the following year until the earlier of the date designated by the director in accordance with the Directors Deferral Plan or the date of his death. A participating director may elect to have such deferred fees credited to or allocated between (a) a cash account which will bear interest at a rate equal to the rate of interest on new 3-month certificates of deposit, and (b) a stock account under which the deferred fees are converted into units equivalent in value and dividend rights to the Company's Common Shares. All such accounts will

be distributed in cash, in a lump sum or installments, when and as designated by the participating director at the time of election. All directors' Retainer Fees are deferred, credited to a stock account and distributed in cash on any date designated by the participating director which is on or after the later of (a) the date of the expiration of the director's then current term or (b) the date which is six months and one day after the date such fees are credited to the director's stock account ("Minimum Deferral Date") or, if no such designation is

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made, the first day of the calendar quarter immediately following the Minimum Deferral Date. All account balances of a director will be distributed to his beneficiary, if he dies. However, if any director ceases to serve as such for any reason other than death, disability or removal without cause prior to the expiration of his term, all Retainer Fees credited to his stock account during such term are forfeited.

Each director who is not an employee of the Company is eligible to be granted awards under The Progressive Corporation 1990 Directors' Stock Option Plan, as amended (the "Directors' Stock Plan"). The Directors' Stock Plan authorizes the issuance of up to 450,000 Common Shares, subject to adjustment for stock splits and similar events. Promptly after each Annual Meeting of Shareholders, each participating director receives an option to purchase 2,000 Common Shares at an exercise price equal to the fair market value of the Common Shares on the day of such Annual Meeting. The term of each such stock option is ten years commencing on the date of grant. Options become exercisable six months and one day following the date of grant and are not transferable. Upon death, to the extent then otherwise exercisable, a stock option may be exercised for a period of one year. During 1993, the Company granted stock options under this plan covering an aggregate of 12,000 shares to six directors.

#### EXECUTIVE COMPENSATION COMMITTEE REPORT

##### EXECUTIVE COMPENSATION POLICY

The Company's executive compensation program is administered under the direction of the Executive Compensation Committee of the Board of Directors (the "Committee"). The Committee is comprised of three independent, nonemployee directors. The executive compensation program is designed to promote the following objectives:

- Attract, retain and motivate executives who can significantly contribute to the success of the Company.
- Reward the achievement of corporate objectives that have been approved by the Board.
- Provide a fair, rational and competitive executive compensation system.

The Committee believes that if these objectives are consistently achieved, shareholder value will be enhanced over time.

##### EXECUTIVE COMPENSATION PROGRAM

For 1993, the Company's executive compensation program was designed to base compensation on corporate, division and individual performance. Performance objectives and related measurements, as well as the compensation awards that would result from various levels of performance, were clearly defined in advance.

The executive compensation program consists of three components: salary, annual bonus and long-term incentives through equity-based awards. Variable compensation (consisting of annual bonus and long-term incentive awards) is a larger component of total compensation at

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more senior levels in the organization. For each executive officer, a target amount is established for each component of variable compensation. Target amounts are determined primarily by reference to data contained in published national compensation surveys. These surveys include compensation data for a

broad range of public companies in a variety of industries. Since the Company competes for executive level personnel on a nationwide basis with companies in a variety of industries, the compensation data utilized are not limited to companies included in the P/C Group referred to on page 16. The Company's policy is to pay its officers and employees competitive salaries (i.e. within 20% of the midpoint of the market range of salaries for their respective positions) and to provide variable compensation which can take total direct compensation to or above the high end of the market range when the Company, division and individual meet or exceed challenging performance goals.

A phase-out of most officer perquisites, such as company cars and extended health care coverage, began in early 1992. In addition to the executive compensation program, executive officers participate in the Company's health and retirement plans which are available to all regular employees of the Company on the same basis.

#### Salary Component

Executive officers receive a salary based on their responsibilities and potential at market levels indicated by compensation survey data. The Company's objective is to set executive salaries to be within 20% of the midpoint of the market range of salaries for comparable positions. Salaries are reviewed annually and adjusted for changes in those factors.

#### Annual Bonus Component

In 1993, the named executive officers and approximately 265 other management employees of the Company participated in the Management Bonus Plan, which was designed to reward participants appropriately for current corporate, division and individual performance.

Under the Management Bonus Plan, a target annual bonus amount, which varied by position, was established for each executive. For Messrs. Lewis, Marlow and Chokel, the target annual bonus amount for 1993 equaled 80% of salary. For the other named executive officers, the target annual bonus amount equaled various amounts up to 45% of salary. Actual awards could range from 0% to 200% of the target annual bonus amount, depending on performance.

The 1993 annual bonus award was determined by both quantitative and qualitative criteria. For the named executive officers, the quantitative component comprised 60% or more of the annual bonus opportunity for 1993. This component was determined by using a performance matrix ("Management Performance Matrix") which assigned a performance score to various combinations of profitability and growth outcomes. Profitability was measured by the combined ratio ("COR") for continuing operations, determined in accordance with generally accepted accounting principles ("GAAP"). Growth was measured in terms of the year-to-year increase in net premiums written. For executives assigned to a specific division, the performance of both the Company as a whole and the particular division was taken into account. A performance

score of 1.0 resulted if designated profitability and growth goals were met. Higher rates of profitability and growth resulted in higher scores on the Management Performance Matrix and, thus, in larger awards for the quantitative component of the annual bonus. Lower rates of profitability and growth would result in lower performance scores and awards for this component.

For the named executive officers, the qualitative component comprised up to 40% of the annual bonus opportunity for 1993. This component was based on an assessment of the individual executive's performance during the year. Each such executive had specific performance objectives for the year and, at year end, his performance was evaluated against those objectives. Consideration was also given to the impact on the Company of the executive's initiatives and contributions made by the executive beyond the scope of his defined performance objectives.

The Management Bonus Plan was terminated on December 31, 1993 and, for certain senior executives, was replaced by the 1994 Executive Bonus Plan, a description of which is contained on pages 16 through 21 hereof. Messrs. Chokel, Lewis, Marlow and Murr will participate in the 1994 Executive Bonus Plan, if the proposal set forth at Item 2 is approved by shareholders. Two other executive officers currently participate in such Plan, but their participation is not subject to a shareholder approval requirement. All other officers and regular

employees of the Company, including Mr. Ditchfield and one other executive officer, participate in the Company's 1994 Gainsharing Plan. The 1994 Gainsharing Plan is substantially similar to the 1994 Executive Bonus Plan, but does not include performance criteria for Return on Average Shareholders' Equity or Investment Performance.

#### Long-Term Incentive Component

In 1993, the executive compensation program included long-term incentives through the grant of nonqualified stock options. This component is designed to encourage the long-term retention of key executives and to align executive compensation directly with the long-term enhancement of shareholder value. Stock option grants are intended to focus the executive on managing the Company from the perspective of an owner. The named executive officers and approximately 195 other management employees of the Company currently participate in the long-term incentive program.

The value of a stock option depends directly on the future performance of the Company's Common Shares, since it has value to the recipient only if and to the extent that the price of the Company's Common Shares increases above the exercise price. Stock option awards are normally made annually. A target award value, which varies by position, is established for each executive officer in order to bring total targeted compensation to the 90th percentile of the market. In 1993, for the executive officers, these target award values ranged from 31%-80% of salary, depending on job classification. The target award value is then divided by a value per share developed through the Black-Scholes pricing model, to determine the number of option shares to be awarded. In 1993, the pricing model valued the stock options at \$11.914 per share, which is 40.21% of the per share exercise price of \$29.625. The following assumptions were

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used to derive the ratio: 10-year option term, .20 annualized volatility rate, 6.00% risk free rate of return and 1.10% dividend yield. The stock options generally have an exercise price which is equal to the market price of the Company's Common Shares on the date of grant, contain provisions which defer vesting of the options for five years and may be exercised at any time during the five years following vesting.

#### CHIEF EXECUTIVE OFFICER COMPENSATION

Peter B. Lewis, the Company's Chief Executive Officer, received cash compensation in the amount of \$2,400,000 for 1993, consisting of a salary of \$1,000,000 and an annual bonus award of \$1,400,000, in addition to the non-cash compensation disclosed in the Summary Compensation Table and related footnotes on page 7.

Mr. Lewis' annual bonus target for 1993 was \$800,000, an amount equal to 80% of his salary. For Mr. Lewis, the quantitative component comprised 75% of the bonus opportunity and the qualitative component comprised 25%. In 1993, the Company's continuing operations achieved a COR of 89, with 24.5% premium growth, as compared to 95 and 6.3% respectively, in 1992, resulting in a performance score of 2.0 on the Management Performance Matrix. Mr. Lewis therefore earned 200% of target, or \$1,200,000, for the quantitative component of his annual bonus opportunity. With respect to the qualitative component, the Committee determined that Mr. Lewis' performance for 1993 met expectations in relation to his performance objectives. He therefore was awarded \$200,000, or 100% of target, for the qualitative component of his annual bonus opportunity. In reaching this determination, the Committee specifically noted continued progress in reducing expenses, controlled experimentation in the auto product line, improving service and actions taken to resolve the role of the Company's diversified businesses.

For the long-term incentive component of his compensation, on June 18, 1993, Mr. Lewis was awarded stock options to purchase 67,100 of the Company's Common Shares at an exercise price of \$29.625 per share. This award vests on January 1, 1998, and was determined in accordance with the stock option formula described above.

45,000 Common Shares previously awarded to Mr. Lewis under the 1985 Restricted Stock Plan vested in 1993. This award, which was made during 1988, was subject to restriction until December 31, 1993. When this award was made, the Company's Common Shares had a value, adjusted to reflect the 3-for-1 stock

split effected on December 8, 1992, of \$10.08 per share.

#### OMNIBUS BUDGET RECONCILIATION ACT OF 1993

In 1993, the Internal Revenue Code was amended by the Omnibus Budget Reconciliation Act of 1993 ("Budget Reconciliation Act"), which limits to \$1 million per year the deduction allowed for Federal income tax purposes for compensation paid to the chief executive officer and the four other most highly compensated executive officers of a public company ("Deduction Limit"). This Deduction Limit, which is effective beginning in 1994, does not apply to compensation paid under a plan that meets certain requirements for "performance-based compensation". To qualify for this exception, (a) the compensation must be payable on account of the

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attainment of one or more pre-established objective performance goals; (b) the performance goals must be established by a compensation committee of the board of directors that is comprised solely of two or more "outside directors"; (c) the material terms of the compensation and the performance goals must be disclosed to and approved by shareholders before payment; and (d) the compensation committee must certify in writing that the performance goals have been satisfied before payment. It is the Company's policy to structure its incentive compensation programs to satisfy the requirements for the "performance-based compensation" exception to the Deduction Limit and, thus, to preserve the full deductibility of all compensation paid thereunder, to the extent practicable. Salaries and any perquisites are subject to approval of the Committee, but will not be submitted to a vote of shareholders, and thus will not be deductible if and to the extent that such compensation exceeds \$1 million per year for any such executive.

#### SUMMARY

The Committee believes that management compensation should be directly linked to changes in shareholder value. The Company's executive compensation program thus includes significant long-term incentives, through equity-based awards, which are tied to the long-term performance of the Company's Common Shares. The Committee recognizes, however, that while stock prices may reflect management performance over the long term, other factors, such as general economic conditions and varying investors' attitudes toward the stock market in general, and specific industries in particular, may significantly affect stock prices at any point in time. Accordingly, the annual cash components of the program, consisting of salary and annual bonus, emphasize individual performance and the realization of defined business objectives, which are independent of short-range fluctuations in the stock price.

The executive compensation program thus has been designed to align executive compensation with both the Company's business goals and long-term shareholder interests. The Committee believes that the program, as implemented, is balanced and consistent with these objectives. The Committee will continue to monitor the operation of the program and cause the program to be adjusted and refined, as necessary, to ensure that it continues to support both corporate and shareholder goals.

#### EXECUTIVE COMPENSATION COMMITTEE

Donald B. Shackelford, Chairman  
Milton N. Allen  
Norman S. Matthews

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#### PERFORMANCE GRAPH

The following performance graph compares the performance of the Company's Common Shares ("PGR") to the Standard & Poor's 500 Index ("S&P Index") and the Value Line Property/Casualty Industry Group ("P/C Group") for the last five years.

CUMULATIVE FIVE-YEAR TOTAL RETURNS\*

PGR, S&P INDEX, P/C GROUP  
(PERFORMANCE RESULTS THROUGH 12/31/93)

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	PGR	S&P INDEX	P/C GROUP
1988	100.00	100.00	100.00
1989	169.63	131.49	144.67
1990	228.30	127.32	144.43
1991	242.92	166.21	182.32
1992	396.76	179.30	232.49
1993	554.70	197.23	225.83

Assumes \$100 invested at the close of trading on December 31, 1988 in PGR, S&P Index and P/C Group.

\*Assumes reinvestment of dividends.

Source: Value Line, Inc.

ITEM 2: PROPOSAL TO APPROVE THE PROGRESSIVE CORPORATION 1994  
EXECUTIVE BONUS PLAN AS IT APPLIES TO CERTAIN EXECUTIVE  
OFFICERS

GENERAL

The Executive Compensation Committee of the Board of Directors approved The Progressive Corporation 1994 Executive Bonus Plan as of March 18, 1994, and has directed that the 1994 Executive Bonus Plan, as it applies to Charles B. Chokel, Peter B. Lewis, Bruce W. Marlow and Michael C. Murr (the "Plan"), be submitted to the Company's shareholders for approval. Messrs. Chokel, Lewis, Marlow and Murr are referred to herein as the "senior participants". The

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description herein is a summary of the Plan and is subject to and qualified by the complete text of the Plan.

The Company has designed an executive compensation program consisting of the following components: salary, annual bonus and stock options or other equity-based awards. The program is structured to reflect the market for executive compensation and to promote both the achievement of corporate goals, as approved by the Board, and performance that is in the long-term interests of shareholders. While stock options or other equity-based awards reflect the long-term value created for shareholders, the annual bonus component focuses on current operating and investment results. If approved by shareholders, the Plan will provide the annual bonus component of total compensation for the senior participants.

The Plan is being submitted to the Company's shareholders for approval pursuant to the requirements of the Budget Reconciliation Act. The Budget Reconciliation Act amended the Internal Revenue Code by adding a new Section 162(m), which limits to \$1 million per year the deduction allowed for Federal income tax purposes for compensation paid to a "covered employee" of a public company ("Deduction Limit"). Under Section 162(m), the term "covered employee" includes the chief executive officer and the four other most highly compensated executive officers. The Deduction Limit, which is effective beginning in 1994, applies to compensation which does not qualify for any of the limited number of exceptions provided for in Section 162(m) ("nonqualified compensation").

Under Section 162(m), the Deduction Limit does not apply to compensation paid under a plan that meets certain requirements for "performance-based compensation". To qualify for this exception, the following requirements must be met: (a) the compensation must be payable on account of the attainment of one or more pre-established objective performance goals; (b) the performance goals must be established by a compensation committee of the board of directors that is comprised solely of two or more "outside directors"; (c) the material terms of the compensation and performance goals must be disclosed to and approved by shareholders before payment; and (d) the compensation committee must certify in writing that the performance goals have been satisfied prior to payment.

It is the Company's policy to structure its incentive compensation programs to satisfy the requirements for the "performance-based compensation" exception to the Deduction Limit and, thus, to preserve the full deductibility of all compensation paid thereunder, to the extent practicable. As a consequence, the Committee has directed that the Plan be submitted to the Company's shareholders for approval in accordance with the requirements for the "performance-based compensation" exception to the Deduction Limit. If the Plan is approved by shareholders, the senior participants will be entitled to participate in the Plan and compensation paid to such participants under the Plan will not be subject to the Deduction Limit. If the shareholders fail to approve the Plan, the senior participants will not be entitled to participate therein or to receive any payments thereunder. However, if the shareholders fail to approve the Plan, the Committee may consider adopting an alternative bonus program without shareholder approval, even though some or all of the payments made thereunder may be subject to the

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Deduction Limit, in order to maintain the competitiveness of the Company's executive compensation program.

Two other executive officers of the Company currently participate in the 1994 Executive Bonus Plan; however, their right to participate in that plan is not being submitted to shareholders for approval since it is not anticipated that the total nonqualified compensation of either of those officers will exceed the Deduction Limit in the near future.

#### ADMINISTRATION

The Plan is administered by the Executive Compensation Committee of the Board of Directors, which consists of three Board members, all of whom are "outside directors", as defined under Section 162(m). The Committee has 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. In addition, the Committee has authority to adopt, amend and repeal such rules, guidelines, procedures and practices governing the Plan as it shall, from time to time, deem advisable.

#### ELIGIBILITY

Participation in the 1994 Executive Bonus Plan is limited to executive officers of the Company. The Committee has authority to select those executive officers who will participate in such plan, subject to a possible shareholder approval requirement in the case of executive officers whose total nonqualified compensation may exceed the Deduction Limit. There are currently eight executive officers of the Company. Six executive officers, including the four senior participants, currently participate in the 1994 Executive Bonus Plan.

#### PLAN OPERATION

The Plan has been designed to link pay directly to performance. Annual bonuses paid under the Plan ("Annual Bonuses") will be determined by application of the following formula:

$$\text{Annual Bonus} = \text{Salary Paid} \times \text{Target Percentage} \times \text{Performance Factor}$$

Salaries are established by the Committee prior to commencement of the Plan year (or prior to April 1, 1994, with respect to the 1994 Plan year) and are determined by market analysis, based on data reported in published national compensation surveys.

For each participant, a Target Percentage is selected based on market data and is intended to bring cash compensation to the 90th percentile of the market when specified performance goals are met. Total cash compensation can exceed the market range if the specified performance goals are exceeded. For 1994, the Target Percentages for the senior participants range from 80% to 167%. The Target Percentages may be changed from year to year by the Committee, consistent with the provisions of Section 162(m) and the regulations promulgated thereunder.

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Under the Plan, the performance of each participant is measured by selected performance criteria, which may include Core Business Gainsharing, Return on Average Shareholders' Equity ("ROE") and Investment Performance, as described below ("Bonus Components"). For each participant, an appropriate combination of Bonus Components is selected based on the nature and scope of such participant's assigned responsibilities.

The selected Bonus Components are assigned various weights by the Committee, which may vary among participants and may be changed from year to year by the Committee. The sum of the weighted performance scores for each of the Bonus Components assigned to a given participant equals the Performance Factor for that participant. 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.

The Core Business Gainsharing Component consists of a Profitability and Growth Factor and a Cost Structure Improvement Factor and measures overall operating performance for the Company's core personal and commercial automobile insurance business ("Core Business") for the Plan year. For purposes of this Bonus Component, operating performance is measured by a Gainsharing Matrix, as established by the Committee for the Plan year, which assigns a performance score to various combinations of profitability and growth outcomes. Under the Gainsharing Matrix, profitability is measured by the GAAP combined ratio and growth is measured by the year-to-year change in market share. The Cost Structure Improvement Factor measures success in achieving cost structure improvement by comparing the sum of the GAAP underwriting expense ratio and the loss adjustment expense ratio achieved for the Company's Core Business during a given Plan year against expense targets which have been pre-established by the Committee. For purposes of determining a performance score for the Core Business Gainsharing Component, each such Factor is assigned a different weight by the Committee. For 1994, the Profitability and Growth Factor is weighted 70% and the Cost Structure Improvement Factor is weighted 30%. The relative weighting of such Factors may be changed from year to year by the Committee.

The Plan contains a ROE Component, which measures the actual return on average shareholders' equity achieved by the Company for a given Plan year, net of inflation, against a series of pre-established performance scores. For 1994, an inflation adjusted ROE of 15% is necessary to achieve a performance score of 1.0; a higher (or lower) ROE will result in a higher (or lower) performance score for this Bonus Component. ROE performance targets and resulting scores for the ROE Component may be revised from year to year by the Committee.

The Investment Performance Component measures overall performance for the Company's investment activities. Initially, investment results for the individual segments of the Company's investment portfolio are compared against pre-established benchmarks. The resulting performance scores for the various segments are weighted by the amounts invested from time to time in each of the respective segments and the weighted performance scores are combined to produce an Investment Performance Score that reflects the overall investment performance of the portfolio. Segment classifications and benchmarks may be changed from year to year by the Committee.

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The Annual Bonus payable to any participant under the Plan with respect to any Plan year may not exceed \$2,000,000.00.

For 1994, the maximum amount of benefits that may be paid to the senior participants, and to all participating executives as a group, under the 1994 Executive Bonus Plan are as follows:

NEW PLAN BENEFITS

THE PROGRESSIVE CORPORATION 1994 EXECUTIVE BONUS PLAN

NAME AND POSITION	MAXIMUM BENEFIT FOR 1994 (\$)
-----	-----
Peter B. Lewis	



Chairman, President and Chief Executive Officer.....	\$ 1,440,000
Michael C. Murr Chief Investment Officer.....	1,878,750
Bruce W. Marlow Chief Operating Officer.....	892,864
Charles B. Chokel Chief Financial Officer.....	440,800
Executive Group, consisting of six participants.....	5,107,954

#### AMENDMENTS AND TERMINATION

The Committee, in its sole discretion, may at any time terminate, amend or revise the Plan in whole or in part; provided that any amendment or revision to the Plan which requires shareholder approval pursuant to Section 162(m) of the Code shall be subject to approval by the Company's shareholders. The Committee, without shareholder approval, may modify or change the performance targets for any Bonus Component, and the relative weighting of Bonus Components, from year to year.

#### OTHER MATERIAL PROVISIONS

The Annual Bonus shall be paid in two installments. The first installment, in an amount equal to 90% of the Annual Bonus, calculated as described above, will be paid to participants as soon as practicable after the Committee has certified performance results for the Plan year, but no later than the March 31 immediately following the end of the Plan year. The second installment, in an amount equal to 10% of the Annual Bonus, will be paid to participants on the September 30 immediately following the end of the Plan year.

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Unless otherwise determined by the Committee, in order to be entitled to receive any installment of the Annual Bonus for any Plan year, the participant must be employed by the Company on the date designated for the payment thereof.

The right to an Annual Bonus shall not be transferred, assigned or encumbered by any participant.

The Plan has been adopted, and will be effective, as of January 1, 1994, subject to shareholder approval. If approved by shareholders, the Plan will be effective for 1994 and for each calendar year thereafter unless and until terminated by the Committee.

#### FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

Effective January 1, 1994, the Company will not be entitled to deduct annual compensation in excess of \$1 million paid to any "covered employee" unless such compensation meets the requirements for "performance-based compensation," as specified in Section 162(m) of the Code and the regulations promulgated thereunder. To meet such requirements, the compensation must be payable because of the attainment of objective performance goals established by a compensation committee of the board of directors that is comprised solely of two or more "outside directors" and approved by the shareholders after disclosure to them of the material terms of the performance goals and the compensation payable under the plan. Further, before payment, the compensation committee must certify in writing that the performance goals have been satisfied.

The Plan was established by the Committee, which is comprised solely of three "outside directors," and is being submitted to shareholders for approval as it pertains to the senior participants. If the shareholders approve the Plan as it pertains to such participants and the Committee subsequently certifies the attainment of the performance goals applicable to any participant, the Company's deduction of payments made to such participant under the Plan will not be subject to the Deduction Limit.

#### VOTE REQUIRED FOR APPROVAL

The affirmative vote of a majority of the shares voting on this proposal, with abstentions and broker non-votes not counting as voting, is required for approval.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THIS PROPOSAL.

#### INDEPENDENT ACCOUNTANTS

At the meeting of the Board of Directors of the Company held February 5, 1994, the Board selected Coopers & Lybrand to serve as the independent accountants for the Company and its subsidiaries for the year 1994. Representatives of Coopers & Lybrand are expected to be present at the Annual Meeting with the opportunity to make a statement about the Company's financial condition, if they desire to do so, and to respond to appropriate questions.

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#### SHAREHOLDER PROPOSALS

Any shareholder who intends to present a proposal at the 1995 Annual Meeting of Shareholders for inclusion in the proxy statement and form of proxy relating to that meeting is advised that the proposal must be received by the Company at its principal executive offices located at 6300 Wilson Mills Road, Mayfield Village, Ohio 44143, not later than November 22, 1994. The Company will not be required to include in its proxy statement or form of proxy any shareholder proposal which is received after that date or which otherwise fails to meet requirements for shareholder proposals established by regulations of the Securities and Exchange Commission.

#### SHAREHOLDER VOTE TABULATION

Votes will be tabulated by or under the direction of Inspectors of Election who will certify the results at the Annual Meeting. Generally, under Ohio corporation law, those director nominees who receive the greatest number of votes at a shareholder meeting at which a quorum exists will be elected directors. The Proposal set forth in Item 2 will be adopted if approved by the affirmative vote of a majority of the votes cast on such Proposal, in person or by proxy, at a meeting at which a quorum exists. For such purpose, abstentions and broker non-votes are not counted as voting. Accordingly, abstentions and broker non-votes will be counted in determining the number of shares present or represented at the Annual Meeting for purposes of determining whether a quorum exists, but assuming a quorum exists, will not affect the outcome of the vote on either the election of directors or the Proposal set forth in Item 2.

#### OTHER MATTERS

The solicitation of proxies is made by and on behalf of the Board of Directors. The cost of the solicitation, including the reasonable expenses of brokerage firms or other nominees for forwarding proxy materials to beneficial owners, will be borne by the Company. In addition to solicitation by mail, proxies may be solicited by telephone, telegraph or personally. The Company has engaged the firm of Morrow & Co., New York, New York, to assist it in the solicitation of proxies at an estimated cost of \$13,000. Proxies may be solicited by directors, officers and employees of the Company without additional compensation.

If the enclosed proxy is executed and returned, the shares represented thereby will be voted in accordance with any specifications made therein by the shareholder. In the absence of any such specifications, the proxies will be voted (a) to elect the seven nominees named under "Election of Directors" above; and (b) FOR the proposal to approve the Company's 1994 Executive Bonus Plan as it applies to certain executive officers.

The presence of any shareholder at the meeting will not operate to revoke his proxy. A proxy may be revoked at any time insofar as it has not been exercised by giving written notice to the Company or in open meeting.

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If any other matters shall properly come before the meeting, the persons named in the proxy, or their substitutes, will vote thereon in accordance with their judgment. The Board of Directors does not know at this time of any other matters which will be presented for action at the meeting.

AVAILABLE INFORMATION

THE COMPANY WILL FURNISH, WITHOUT CHARGE, TO EACH PERSON TO WHOM A PROXY STATEMENT IS DELIVERED, UPON ORAL OR WRITTEN REQUEST, A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR 1993 (OTHER THAN CERTAIN EXHIBITS). REQUESTS FOR SUCH DOCUMENTS SHOULD BE SUBMITTED IN WRITING TO CHARLES B. CHOKEL, CHIEF FINANCIAL OFFICER, THE PROGRESSIVE CORPORATION, 6300 WILSON MILLS ROAD, MAYFIELD VILLAGE, OH 44143 OR BY TELEPHONE AT (216) 446-7260.

By Order of the Board of Directors.

DAVID M. SCHNEIDER, Secretary

March 18, 1994

THE PROGRESSIVE CORPORATION

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF SHAREHOLDERS

The undersigned hereby appoints Charles B. Chokel, David M. Schneider and Dane A. Shrallow, and each of them, with full power of substitution, as proxies for the undersigned to attend the Annual Meeting of Shareholders of The Progressive Corporation, to be held at 6671 Beta Drive, Mayfield Village, Ohio, at 10:00 a.m., Cleveland time, on April 22, 1994, and thereat, and at any adjournment thereof, to vote and act with respect to all Common Shares of the Company which the undersigned would be entitled to vote, with all power the undersigned would possess if present in person, as follows:

- 1. / / WITH or / / WITHOUT authority to vote (except as marked to the contrary below) for the election as directors of all seven nominees listed below for a term of one year.

Milton N. Allen, B. Charles Ames, Stephen R. Hardis, Peter B. Lewis, Norman S. Matthews, Donald B. Shackelford and Paul B. Sigler

(INSTRUCTION: To withhold authority to vote for any individual nominee, print that nominee's name in the space provided below.)

- 2. Proposal to approve the Company's 1994 Executive Bonus Plan as it applies to certain executive officers.

/ / FOR / / AGAINST / / ABSTAIN

- 3. In their discretion, to vote upon such other business as may properly come before the meeting.

(Continued, and to be dated and signed, on the other side)

(Continued from the other side)

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS SPECIFIED BY THE SHAREHOLDER. IF NO SPECIFICATIONS ARE MADE, THIS PROXY WILL BE VOTED TO ELECT THE NOMINEES IDENTIFIED IN ITEM 1 ABOVE AND TO APPROVE THE PROPOSAL DESCRIBED IN ITEM 2 ABOVE.

Receipt of Notice of Annual Meeting of Shareholders and the related Proxy Statement dated March 18, 1994, is hereby acknowledged. Date: , 1994

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Signature of Shareholder(s)

PLEASE SIGN AS YOUR NAME OR NAMES  
APPEAR HEREON. IF SHARES ARE HELD  
JOINTLY, ALL HOLDERS MUST SIGN.  
WHEN SIGNING AS ATTORNEY,  
EXECUTOR, ADMINISTRATOR, TRUSTEE  
OR GUARDIAN, PLEASE GIVE YOUR FULL  
TITLE. IF A CORPORATION, PLEASE  
SIGN IN FULL CORPORATE NAME BY  
PRESIDENT OR OTHER AUTHORIZED  
OFFICER. IF A PARTNERSHIP, PLEASE  
SIGN IN PARTNERSHIP NAME BY  
AUTHORIZED PERSON.

Proxy Card

THE PROGRESSIVE CORPORATION  
1994 EXECUTIVE BONUS PLAN  
(SENIOR PARTICIPANTS ONLY)  
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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 interests of shareholders. The annual bonus component is performance-based and focuses on current results.
2. The 1994 Executive Bonus Plan (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. This document sets forth the terms and provisions of the Plan which are applicable to Charles B. Chokel, Peter B. Lewis, Bruce W. Marlow and Michael C. Murr (the "senior participants"). Such terms and provisions, as they apply to the senior participants, shall be deemed to constitute a separate plan, which provides for "performance-based compensation" as contemplated under Section 162(m) of the Internal Revenue Code, as amended (the "Code"), and the rules and regulations promulgated thereunder, and shall be subject to approval of Progressive's shareholders in accordance with the requirements of Section 162(m) of the Code.
4. Subject to the following sentence, the amount of the annual bonus earned by any participant under the Plan ("Annual Bonus") will be determined by application of the following formula:

$$\text{Annual Bonus} = \text{Paid Salary} \times \text{Target Percentage} \times \text{Performance Factor}$$

The Annual Bonus payable to any participant with respect to any Plan year may not exceed \$2,000,000.00.

5. The salary of each Plan participant shall be as established by the Committee prior to commencement of the Plan year (or prior to April 1, 1994 with respect to the

1994 Plan year), and will be determined through market analysis based on data reported in published national compensation surveys.

6. The Target Percentages for the senior participants in the Plan are as follows:

Senior Participant -----	Position -----	Target Percentage -----
Charles B. Chokel	Chief Financial Officer	80%
Peter B. Lewis	Chief Executive Officer	100%
Bruce W. Marlow	Chief Operating Officer	80%
Michael C. Murr	Chief Investment Officer	167%

<FN>

Target Percentages may be changed from year to year by the Committee.

7. The Performance Factor  
-----  
A. General

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 The Performance Factor shall be determined by the performance results achieved with respect to one or more of the following components: Core Business Gainsharing, Return on Average Equity ("ROE") and Investment Performance, as described below (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.

The combination of Bonus Components designated for each of the senior participants, and the relative weighting of those Components, are as follows:

Senior Participant	Core Business Gainsharing Component	ROE Component	Investment Performance Component
Chokel	60%	30%	10%
Lewis	50%	30%	20%
Marlow	80%	20%	0%
Murr	0%	50%	50%

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

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

For purposes of computing the amount of the Annual Bonus, the performance score achieved for each of the designated Bonus Components will be multiplied by the applicable weighting factor to produce a Weighted Component Score. The sum of the Weighted Component Scores equals the Performance Factor. The Performance Factor can vary from 0 to 2.0, based on actual performance versus the pre-established objectives.

B. Core Business Gainsharing Component

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 The Core Business Gainsharing Component consists of the following factors:

(i) Profitability and Growth Factor

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 The Profitability and Growth Factor measures overall operating performance of Progressive's core personal and commercial automobile insurance business ("Core Business") for the Plan year in respect of which an Annual Bonus is to be paid. For purposes of computing a score for this Factor, results will be measured by the Gainsharing Matrix, as established by the Committee for the Plan year, which assigns a performance score to various combinations of profitability and growth outcomes. For this Factor, profitability is measured by the GAAP combined ratio and growth is measured by the year-to-year change in market share. Change in market share is measured in

terms of net written premium, based on industry data (which may be estimated), as reported by A.M. Best Company, Inc. in BEST WEEK, or any successor publication, upon conclusion of the Plan year for which the Annual Bonus is to be paid. The Profitability and Growth Factor is weighted 70% in computing the Core Business Gainsharing Score.

(ii) Cost Structure Improvement Factor

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 The Cost Structure Improvement Factor measures success in achieving cost structure improvement for the Core Business. 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 in the Core Business for the Plan year (collectively, "Actual Expense Ratio") against the defined expense objectives for that year, as established by the Committee ("Target Expense Ratio"). For 1994 and thereafter until otherwise directed by the Committee, the Target Expense Ratio shall be 34, based on a target LAE Ratio of 10 and a target Underwriting Expense Ratio of 24. The Cost Structure Improvement Factor is weighted 30% in computing the Core Business Gainsharing Score.

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

$$\text{Cost Structure Improvement Score} = 1 + \frac{[\text{Target Expense Ratio} - \text{Actual Expense Ratio}]}{4}$$

Expense targets and the relative weighting of the above Factors may be changed from year to year by the Committee.

C. Return on Average Equity Component

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 This Component is based on Progressive's Return on Average Equity ("ROE") for the Plan year. The ROE will be calculated for each month of the Plan year and such monthly results will be averaged to determine the ROE for the Plan year. For purposes of this Plan, ROE shall be calculated as follows:

$$\text{ROE} = \frac{\text{net income} - \text{Preferred Share dividends}}{\text{average common shareholders' equity}}$$

In determining the ROE Performance Score, actual performance will be compared to a scale which excludes the effect of inflation, in accordance with the following scoring table:

ROE (excluding effect of inflation, as reflected in the CPI)	ROE Performance Score
11% or lower	0.0

12%	0.3	
13%	0.5	
14%	0.7	
15%	1.0	
16%	1.1	
17%	1.2	
18%	1.3	
19%	1.4	
20%	1.5	
21%	1.6	
22%	1.7	
23%	1.8	
24%	1.9	
25% or higher	2.0	

To achieve a given ROE Performance Score for any Plan year, Progressive's ROE for that year must equal or exceed the required ROE level set forth in the above scoring table, without rounding, and ROE Performance Scores will not be derived from or subject to an interpolative or similar process.

For purposes of this Plan, CPI shall mean the Consumer Price Index for All Urban Consumers (CPI-U) for the U.S. City Average for All Items (1982-1984 equals 100) or such other index as the Committee may designate prior to the applicable Plan year.

D. Investment Performance Component

The Investment Performance Component compares investment performance against targets ("Benchmarks") established for the individual segments of Progressive's investment portfolio. Investments are marked to market in order to calculate total return, which is then compared against the designated Benchmarks to produce a Performance Score for each segment of the portfolio. The Performance Scores for the several segments are weighted, based on the actual amounts invested in each segment (valued monthly), and the weighted Performance Scores for the several segments are then combined to produce the Investment Performance Score. Investment expense is not included in determining investment performance vs. benchmark.

The Portfolio Segments and Benchmark measures are as follows:

Portfolio Segment	Investment Benchmark
Equities	S&P 500 including dividends
High Yield Investments	70% of the average of Merrill Lynch High Yield Index and Merrill Lynch Bankruptcy Index
Short Term Fixed Income	3 Year Treasury Securities + 75 basis points, tax equivalent basis



The scoring table for comparing Investment Performance against the designated Benchmarks is as follows:

Investment Performance Versus Benchmark (weighted)	Investment Performance Score
below 90%	0.00
90 - 94.99%	0.75
95 - 99.99%	0.90
100% and above	1.00

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To achieve a given Investment Performance Score for any Plan year, Investment Performance results must equal or exceed the required performance level indicated in the above scoring table, without rounding, and Investment Performance Scores will not be derived from or subject to an interpolative or similar process.

8. The Annual Bonus for any Plan year shall be paid to participants in two installments. The first installment, in an amount equal to 90% of the Annual Bonus, determined in accordance with the formula set forth in Paragraph 4 above, will be paid as soon as practicable after the Committee has certified performance results for the Plan year, but no later than March 31 of the immediately following year. The second installment, in an amount equal to 10% of the Annual Bonus, will be paid to participants on the September 30 immediately following the end of the Plan year for which such Annual Bonus is to be paid. The provisions of this Paragraph shall be subject to Paragraph 9 hereof.
9. Unless otherwise determined by the Committee, in order to be entitled to receive any installment of the 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 federal, state and local taxes required to be withheld.
10. The right to any of the Annual Bonuses hereunder shall 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 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 thereunder. 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.

The selection of Bonus Components and Performance Factors shall be made, and the Plan shall be administered, by the Committee in accordance with the requirements of Section 162(m) of the Code.

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12. 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 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 shall not be effective until approved by Progressive's shareholders in accordance with the requirements of Section 162(m).
  13. The Plan will be unfunded and all payments due under the Plan shall be made from Progressive's general assets.
  14. 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 their job duties or compensation.
  15. 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.
  16. 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 Management Bonus Plan, as heretofore in effect (the "Prior Plan"), which is and shall be deemed to be terminated as of December 31, 1993 (the "Termination Date"); provided, that any bonuses or other sums earned under the Prior Plan prior to the Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder.
  17. This Plan is adopted, and is to be effective, as of January 1, 1994, subject to shareholder approval. If approved by shareholders, this Plan shall be effective for 1994 and for each year thereafter unless and until terminated by the Committee.
  18. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

Q - DOES THE PROGRESSIVE CORPORATION HAVE ANY GOOD NEWS TO REPORT?

A - WE'RE GLAD YOU ASKED THAT QUESTION.

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Photograph: "Wheels Triptych," Zeke Berman, 1994

FINANCIAL HIGHLIGHTS

(millions--except per share amounts)

FOR THE YEAR	1993	1992	% CHANGE	Average Annual Compounded Rate of Increase (Decrease)	
				1989-1993	1984-1993
Direct premiums written . . . . .	\$ 1,966.4	\$ 1,636.8	20	8	23
Net premiums written . . . . .	1,819.2	1,451.2	25	7	22
Net premiums earned . . . . .	1,668.7	1,426.1	17	7	21
Total revenues . . . . .	1,954.8	1,738.9	12	8	22
Income before cumulative effect of accounting change . . . . .	267.3	139.6	91	20	28
Net income . . . . .	267.3	153.8	74	20	26
Per share:					
Income before cumulative effect of accounting change . . . . .	3.58	1.85	94	24	28
Net income . . . . .	3.58	2.05	75	24	26
Underwriting margin . . . . .	10.7%	3.5%			
AT YEAR-END					
Consolidated shareholders' equity . . . . .	\$ 997.9	\$ 629.0	59	19	29
Common Shares outstanding . . . . .	72.1	67.1	7	(2)	--
Book Value per Common Share . . . . .	\$ 12.62	\$ 7.94	59	20	27
Return on average shareholders' equity . . . . .	36.0%	34.7%			
STOCK PRICE APPRECIATION 1	1-YEAR			5-YEAR	10-YEAR
Progressive . . . . .	39.8%			40.7%	28.2%
S&P 500 . . . . .	10.1%			14.6%	14.9%

<FN>  
1 Assumes dividend reinvestment.

1993 PERFORMANCE HIGHLIGHTS

Q - HOW DID PROGRESSIVE PERFORM AGAINST THE PROPERTY-CASUALTY INDUSTRY?

A - GREAT! OUR 10.7 PERCENT COMPANYWIDE UNDERWRITING PROFIT MARGIN WAS ALMOST 20 POINTS BETTER THAN THE INDUSTRY, THE 5TH TIME IN 15 YEARS THAT WE EXCEEDED THE INDUSTRY BY MORE THAN 15 POINTS.

Q - HOW DID THE CORE BUSINESS DO?

A - THE CORE BUSINESS CONTINUES TO GROW PROFITABLY, DESPITE MORE COMPANIES TRYING TO WRITE IN THE NONSTANDARD AUTO NICHE. IN 1993, THE CORE BUSINESS GREW 25 PERCENT WITH AN UNDERWRITING PROFIT OF 10 PERCENT.

ABOUT THE ART Five years ago, Progressive set out on the path of change. Knowing we have to respond to consumers' dissatisfaction with auto insurance, we are learning how to lower consumers' cost and improve their experience sufficiently to turn their anger into delight. We have redefined our strategy, driven by our strong belief that lower prices, more information, more options and immediate service is what is needed to delight customers. We commissioned artist Zeke Berman to respond visually to this strategy. Berman constructed a series of images representing his unique interpretation of the "car." His beautifully crafted diagrammatic tableaux are assembled into forms that balance whimsy, illusion and invention. Berman's photographs will become part of Progressive's growing collection of contemporary art. Intrigued by the diagrammatic character of Berman's work and the concept of redefinition, our annual report designers looked up the word "progressive" in the dictionary. That inquiry inspired the use of the Merriam-Webster illustrations and many of the graphic elements that appear throughout this annual report.

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Q - IS PROGRESSIVE IN THE STANDARD/PREFERRED AUTO MARKET?

A - YES, WE CONTINUE TESTING OUR STANDARD AND PREFERRED PRODUCTS, AND, IN 1993, THESE PRODUCTS REPRESENTED 4.5 PERCENT OF OUR TOTAL PRIVATE PASSENGER AUTO PREMIUMS. WE ARE THE NINTH LARGEST PRIVATE PASSENGER AUTO INSURER IN THE COUNTRY.

Q - HOW DOES PROGRESSIVE DETERMINE HOW MUCH CAPITAL IT NEEDS?

A - WHEN WE ANTICIPATE SLOW GROWTH, WE CONSIDER REDUCING CAPITAL. WHEN WE EXPECT RAPID GROWTH, WE INCREASE CAPITAL. OVER THE LAST 20 YEARS, OUR GROWTH RATE HAS RANGED FROM SMALL DECLINES TO NEARLY 70 PERCENT GROWTH AND OUR RATIO OF FUNDED DEBT TO CAPITAL RANGED FROM 61 PERCENT TO 24 PERCENT.

ABOUT PROGRESSIVE The Progressive insurance organization began business in 1937. Progressive Casualty Insurance Company was founded in 1956. The Progressive Corporation, an insurance holding company formed in 1965, owns 52 operating subsidiaries and has one mutual insurance company affiliate. The companies provide personal automobile insurance and other specialty property-casualty insurance and related services sold primarily through independent insurance agents in the United States and Canada. The 1993 estimated industry premiums, which include personal auto insurance in the U.S. and Ontario, Canada, as well as insurance for commercial vehicles, were \$115 billion and Progressive's share was 1.5 percent.

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VISION, CORE VALUES AND OBJECTIVES

Communicating a clear picture of who we are, what we strive to achieve

(Vision), what guides our behavior (Core Values), how we measure our performance (Objectives), and how we will achieve them (Strategies) permits all people associated with Progressive to understand and help us achieve our vision and objectives.

VISION We seek to be an excellent, innovative, growing and enduring business by reducing the human trauma and economic costs of auto accidents in cost-effective and profitable ways that delight customers. We seek to earn a superior return on equity and to provide a positive environment to attract quality people and achieve ambitious growth plans.

CORE VALUES Progressive's Core Values are pragmatic statements of what works best for us in the real world. Core Values govern our decisions and behavior. We want them understood and embraced by all Progressive people. Core Values are standards by which we measure ourselves. Growth and change provide new perspective and require regular refinement of Core Values.

INTEGRITY. We revere honesty. We adhere to high ethical standards, report completely, encourage disclosing bad news and welcome disagreement.

GOLDEN RULE. We respect all people, value the differences among them and deal with them in the way we want to be dealt with. This requires us to know ourselves and to try to understand others.

OBJECTIVES. We strive to be clear and open about Progressive's ambitious objectives and our people's personal and team objectives. We evaluate performance against all these objectives.

EXCELLENCE. We strive constantly to improve in order to meet and exceed the highest expectations of our customers, shareholders and people. "Quality" is Progressive's process for teaching and encouraging our people to improve performance and reduce the costs of what they do for customers. We base reward on results and promotion on ability.

PROFIT. The free-enterprise system rewards most those who most enhance the health and happiness of their customers, communities and people. Profit motivates Progressive to invest in new ways to do this. Enhancing people's health and happiness is the ultimate goal, and healthy, happy people do it best.

Q - IF I SPENT \$1,800 TO BUY 100 SHARES OF PROGRESSIVE STOCK IN THE INITIAL PUBLIC OFFERING IN 1971, WHAT WOULD IT BE WORTH TODAY?

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A - WHAT A GREAT INVESTMENT. AT THE END OF 1993, AFTER ALL OF THE STOCK SPLITS, YOU WOULD HAVE 7,689 SHARES WORTH OVER \$311,000 AND RECEIVED OVER \$9,000 IN DIVIDENDS -- A 25.5 PERCENT ANNUAL RETURN.

#### FINANCIAL OBJECTIVES

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 successive 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.

Most Progressive businesses are managed by a product manager, who is responsible to a Division President. Each business has different capital requirements, risks, growth rate, potential, competition, regulatory issues, cash flows and investment income. We consider these differences when reaching agreement with the product manager and Division President on their volume and profit plans.

RETURN ON SHAREHOLDERS' EQUITY Our most important financial goal is to achieve an after-tax return on shareholders' equity that is at least 15 percentage points greater than the rate of inflation (measured by the GDP deflator which was 2.8 percent in 1993, and averaged 3.9 percent over the past five years and ten years). Return on equity was 36.0 percent in 1993, averaged 24.8 percent over the past five years and 25.3 percent over the past ten years.

PROFITABILITY Progressive is driven by the goal of producing a four percent underwriting profit. The Core businesses had an underwriting profit of 10.5

percent in 1993, an underwriting profit of 5.8 percent for the past five years and 6.4 percent for the past ten years. Estimated industry results for the personal auto insurance market for the same periods were underwriting losses of 2.0 percent, 5.1 percent and 6.4 percent. Profitability in our Diversified businesses, which include service operations, is measured on a return on revenue basis. We seek a minimum of a ten percent return on revenue in these businesses. For 1993, the return on revenue was 33.7 percent.

**GROWTH** We seek increases in volume that are at least 15 percentage points greater than the rate of inflation. For the Core business, volume is measured by net premiums written, which increased 25.5 percent in 1993, 13.3 percent compounded annually over the past five years and 22.5 percent over the past ten years. Net premiums written in the personal auto insurance market for the same periods grew 5.2 percent, 6.0 percent and 8.7 percent. For Diversified businesses, volume is measured by operating revenues (net premiums earned plus service revenue). Operating revenues decreased 17.1 percent in 1993, decreased 14.7 percent compounded annually over the past five years and increased 22.1 percent over the past ten years.

**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 at our first public stock offering on April 15, 1971, owned 7,689 shares on December 31, 1993, with a market value of \$311,000, for a 25.5 percent annual return, compared to the seven percent return achieved by investors in the Standard & Poor's 500 during the same period. In addition, the shareholder received dividends, which were \$1,500 in 1993.

In the ten years since December 31, 1983, Progressive shareholders have realized compound returns of 28.2 percent, compared to 14.9 percent for the S&P 500. In the five years since December 31, 1988, Progressive shareholders' returns were 40.7 percent, compared to 14.6 percent for the S&P 500. In 1993, the returns were 39.8 percent on Progressive shares and 10.1 percent on the S&P 500.

The repurchase of Progressive stock is another way the Company increases shareholder value. Over the years, when we have adequate capital and Progressive's stock is attractively priced, we have repurchased our shares. Since 1971, we spent \$492.2 million to repurchase shares, at an average cost of \$6.15 per share.

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RETURN ON SHAREHOLDERS' EQUITY	1993	LAST 5 YEARS	LAST 10 YEARS
Goal . . . . .	17.8%	18.9%	18.9%
Companywide . . . . .	36.0	24.8	25.3
<b>UNDERWRITING PROFIT</b>			
Goal . . . . .	4.0	4.0	4.0
Core Business . . . . .	10.5	5.8	6.4
Industry-Personal Auto Insurance Market . . . . .	(2.0)	(5.1)	(6.4)
<b>GROWTH (ANNUALIZED)</b>			
Goal . . . . .	17.8	18.9	18.9
Net Premiums Written			
Core Business . . . . .	25.5	13.3	22.5
Industry-Personal Auto Insurance Market . . . . .	5.2	6.0	8.7
Operating Revenues			
Diversified Businesses . . . . .	(17.1)	(14.7)	22.1

Q - WHAT IS PROGRESSIVE'S MOST IMPORTANT FINANCIAL OBJECTIVE?

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Photograph: "Three Wheels," Zeke Berman, 1994

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Photograph: "Tires Diptych," Zeke Berman, 1993

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Photograph: "Tires Diptych," Zeke Berman, 1993

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Photograph: "Hubcap Diptych," Zeke Berman, 1993

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LETTER

TO

SHAREHOLDERS

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#### RESULTS

I am proud to describe Progressive's best ever financial results. We had record annual earnings and insurance premium volume, and achieved the 22nd annual underwriting profit since our founding in 1965. Return on shareholders' equity was 36.0 percent, compared to 34.7 percent in 1992. Net income increased 74 percent to \$267.3 million, or \$3.58 per share, compared to \$153.8 million, or \$2.05 per share, in 1992. Operating income increased 52 percent to \$197.3 million, or \$2.61 per share, compared to \$129.8 million, or \$1.72 per share, in 1992. Net premiums written increased 25 percent to \$1,819.2 million, compared to \$1,451.2 million in 1992. We achieved a 10.7 percent underwriting profit, compared to 3.5 percent in 1992. We reduced underwriting and loss adjustment expenses by almost six more percentage points in 1993, after a nine percentage point reduction in 1992.

Ninety-three percent of Progressive's net premiums written come from 14 Core divisions, which write insurance for private passenger autos and small commercial and recreational vehicles. Core business net premiums written grew 25 percent to \$1,700 million, compared to \$1,355 million in 1992. The Core business underwriting profit margin was ten percent, compared to eight percent in 1992.

Three smaller Diversified divisions, Financial Services, Risk Management Services and Motor Carrier, provide combinations of service and indemnity to businesses. Diversified divisions' net premiums written and underwriting profit margins were \$118 million and 14 percent, respectively, compared to \$107 million and minus 33 percent in 1992. The Diversified divisions produced service revenues and pretax profits of \$43.7 million and \$6.8 million, respectively, compared to \$53.3 million service revenue and a \$4.3 million pretax loss in 1992.

A - THE MOST IMPORTANT OBJECTIVE IS RETURN ON SHAREHOLDERS' EQUITY, WHICH WAS 36.0 PERCENT IN 1993. HOWEVER, WE ARE COMMITTED TO ACHIEVING ALL OUR FINANCIAL OBJECTIVES (ROE, PROFITABILITY AND GROWTH) OVER SUCCESSIVE FIVE-YEAR PERIODS.

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#### THE STATE OF OUR BUSINESSES

##### CORE BUSINESS

We are in the midst of a multi-year strategy to change and greatly enhance the Core business. We began as almost entirely a provider of niche products through independent insurance agents. Our goal is to become a low-cost provider of a full line of auto insurance and related services, distributed through many different channels. This full product line will be marketed under a distinctive brand based on our commitment to delight customers. The transition strategy is to build on the excellent people, customer-focused divisionalized product manager organization, superb claim service, broad independent agent distribution and creative rate segmentation that are the basis for our extraordinary results to date. In 1993, we made substantial

progress by reducing expenses, improving control of loss costs, expanding product offerings, testing new distribution methods and developing the Progressive brand experience.

**EXPENSES** The Core business underwriting expense ratio was reduced to 25.9 percent from 28.4 percent in 1992, compared to the personal auto insurance industry expense ratio of 22.7 percent. Our achievement in lowering expenses was in line with our goal of having a 20 percent expense ratio by the year 2000. The 1993 reductions came from process improvements developed by empowered work teams and from technology like our ProRater (registered trademark) Plus program where agents quote and submit applications electronically.

**LOSS COSTS** Payments for policyholders' losses and the expenses associated with handling them were 63.7 percent of 1993 earned premium. Immediate Response (Registered trademark) claims service begins with our customers' understanding that we are available around-the-clock, 24 hours a day, 365 days a year, and WANT THEM TO CALL 1-800-274-4499 immediately--from the scene of their accident or as soon as possible thereafter. During 1993, we improved on key claim service reporting measurements, including median hours between claims occurring and being reported, and the number of claims reported within four hours of occurrence.

Once a claim is reported, we try to communicate with all appropriate parties within hours to obtain necessary information, determine damages, assess fault and make a fair settlement offer. This often involves claim reps meeting personally with our insured or claimant within hours of the accident. The percentage of third-party property damage and first-party collision claims closed within seven days of the accident increased from 51 percent in 1992 to 56 percent in 1993.

Delivering this claim service cost 9.1 percent of 1993 earned premium, down from 10.7 percent in 1992 and 14.2 percent in 1991. We plan for ten percent loss adjustment expense long-term because we believe it achieves the optimum balance between the cost of adjusting and the costs of settlements, because it takes into account that loss ratios will increase and because we will write more policies with high liability limits.

**PRODUCT OFFERINGS** Our traditional nonstandard auto product provides coverage for people cancelled and rejected by other insurers. However, more insurers are surcharging and retaining the risks they formerly rejected, thereby shrinking the market available to Progressive. Also, there is more low-cost competition for nonstandard drivers. In response, we now, or soon will, offer consumers three different price levels, each with a different commission that produces the same amount net to Progressive. This way agents can choose the commission rate that matches their costs of servicing particular customers, promoting competition and consumer choice.

Progressive divides the \$94 billion United States personal auto insurance market, which includes recreational vehicles and pick-up trucks, into "nonstandard," "standard" and "preferred." Nonstandard private passenger auto insurance premiums, including all residual market mechanisms, are \$18 billion, 19 percent of the total. The other 81 percent is standard and preferred. In 1993, we continued testing standard and preferred products by writing \$64 million, 4.5 percent of our total private passenger auto premiums.

Q - HAS PROGRESSIVE'S PRODUCTIVITY INCREASED OVER THE LAST FIVE YEARS?

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We see the chance to become an increasingly important factor in the standard and preferred markets and will expand as we gain understanding of and confidence in our pricing, expense structure and service. Taken with our programs for recreational vehicles and small fleet commercial vehicles, plus auto insurance in Ontario, Canada, our potential market is approximately \$115 billion, making Progressive's share 1.5 percent, and leaving us much room to grow.

We continually revise rates in every program to reflect loss costs and expenses. During 1993, we became more competitive by reducing rates an average of .8 percent in existing private passenger auto programs. We did this by decreasing expenses and controlling loss costs. This compares with a 1.9 percent increase in 1992 and larger increases in prior years. Offering agents a choice of lower commissions and serving more customers are steps toward offering auto insurance to every auto owner and operator at prices that will be competitive for many.

**DISTRIBUTION** We want consumers to be able to buy Progressive insurance how, when and where THEY choose. We continued testing multiple distribution, which



we call "Community Marketing," in the Miami and Tampa markets. These experiments involve consumer advertising, telephone quoting, and allowing customers to buy from an agent, at a company office, over the phone or by mail. Test results are encouraging, have produced some premium in new channels and, most importantly, have dramatically increased premium volume from independent agents, who have been and continue to be Progressive's most important channel of distribution.

**PROCESS** We define a "process" as a collection of inputs, resources and activities focused on creating value for customers and shareholders. Resources include people, capital, technology, information and external suppliers. The key aspect of process management is the design of how inputs and resources work together to delight customers, by reducing the error rate, cost and cycle time of the process.

We have a system for Process Leadership where Division Presidents serve in the dual role of line manager for their division and Process Leader for a key element of our business, such as Policy Quoting, Billing and Claims. Working with cross-divisional and cross-functional teams of line people to address specific issues, Process Leaders make key decisions for the process and oversee the design and implementation of "best practices" for the entire Core business for their process. This additional responsibility reinforces Division Presidents becoming a team because they work together not only to decide and execute business strategy but also to integrate processes.

**EXPERIMENTATION** The transition from a niche provider of nonstandard auto to a broad-based provider of personal auto with compelling competitive advantages will take several years. Our approach is to test and refine our techniques in selected markets before expanding any aspect of the change. We have introduced disciplined experimental techniques and closely monitor the performance of all market tests against pre-agreed milestones.

**CONTROLS** Recognizing the challenge of growing fast and simultaneously improving products and processes, we monitor performance against detailed forecasts which are updated monthly, and against monthly customer and employee surveys. We will curtail growth if service levels deteriorate, or if underwriting profit drops below four percent.

**BRAND** We have begun to define a "Progressive Brand" for auto insurance, focusing on creating distinctive and delightful Buying, Ownership and Claims experiences for our customers. The purpose of brand development is to reduce the cost of acquiring a new customer and to increase customer retention. During 1993, we defined and improved internal methods that create positive customer experiences, and created an external communication package for the Progressive brand, by testing television, radio, print and targeted direct mail programs.

A - IT SURE HAS. OVER THAT PERIOD, OUR DIRECT PREMIUMS WRITTEN GREW 47 PERCENT WHILE THE NUMBER OF EMPLOYEES GREW ONLY FOUR PERCENT. AS A RESULT, OUR DIRECT PREMIUMS PER PERSON INCREASED FROM \$228,000 TO \$322,000.

#### DIVERSIFIED DIVISIONS

Diversified divisions account for seven percent of Progressive's total volume. Past efforts to manage core and diversified divisions in the same way did not recognize important differences between them and detracted from the results of both. In 1993, we separated the Diversified divisions' information, claim handling and incentive compensation systems from those used by the Core divisions, and Diversified divisions began to accept risk in one of our wholly-owned subsidiary insurers, instead of Progressive Casualty, to keep the emerging Progressive brand focused on auto insurance and to insulate the Core business from distractions caused by Diversified divisions' operations. In 1994, we expect to further reduce both the risk in these businesses and their distraction from the Core business.

**FINANCIAL SERVICES** Financial Services' principal product is collateral protection for automobile lenders. The division, enjoying its fourth consecutive profitable year, produced a 13 percent return on \$90 million revenue, compared to a 14 percent return on \$91 million revenue in 1992. During the year, we were privileged to begin serving Toyota Motor Services, First Interstate Bank and the Associates.

**RISK MANAGEMENT SERVICES** Risk Management Services' 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 insurer controlled by its bank customers. The program is sponsored by the American Bankers Association. In 1993, Risk Management Services produced a 69 percent return on \$16 million revenue, compared to 35 percent on \$14 million revenue in 1992.

MOTOR CARRIER The Motor Carrier Division manages involuntary commercial auto plans (CAIP) and pricing and risk management for select former customers of our defunct Transportation business as well as a growing number of intermediate size trucking companies, reinsuring them to limit Progressive's loss to \$100,000 per occurrence. The Division produced a 13 percent return on \$44 million revenue, compared to an 11 percent loss on \$44 million revenue in 1992.

#### INVESTMENTS AND CAPITAL MANAGEMENT

The balance of revenue and profit comes from interest, dividends and capital gains produced by Progressive's invested assets (\$2,786.4 million at December 31, 1993, compared to \$2,386.1 million at December 31, 1992). These funds are under the management of Progressive Partners, Inc., our investment and capital management subsidiary. Total investment income was \$242.4 million before taxes and \$177.2 million after taxes, compared to \$153.5 million before taxes and \$120.0 million after taxes in 1992. On December 31, 1993, our portfolio had \$70.2 million in total unrealized gains, compared to \$138.7 million at December 31, 1992. In 1993, we realized \$107.9 million in capital gains, of which \$74.3 million came from selling all the stock we owned in MBNA Corporation.

Progressive Partners, which became fully integrated as part of the Company during 1993, is guided by conservative investment and capital management policies which support Progressive's overriding focus on underwriting and are intended to assure that we always have enough capital to support all the insurance premium we can write profitably. In addition to the increase in capital from 1993's record earnings, we raised \$177 million by selling common stock, to support the anticipated rapid expansion of our insurance business and to reduce the financial leverage which resulted from previous years' stock repurchases. To assure adequate capital at relatively low cost, we also raised \$350 million during 1993 (the last \$200 million closed January 12, 1994) by issuing long-term debt securities at some of the lowest interest rates available during the last twenty years.

Q - HOW DOES PROGRESSIVE PLAN FOR THE FUTURE?

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Photograph: "Lens (Headlight, Hubcap, Grill)," Zeke Berman, 1994

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Photograph: "Headlight, Mirrors, Grill," Zeke Berman, 1993

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Photograph: "Steering-wheel and Shoe," Zeke Berman, 1993

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A - WE ANTICIPATE THAT CHANGE IS CONSTANT, ORGANIZE TO EMBRACE IT AND USE OUR ABILITY TO RESPOND QUICKLY AS A TACTICAL ADVANTAGE.

#### WHAT PROGRESSIVE HAS CHANGED AND WHY

Progressive's consistent success stems from our great people, clear Core Values, ambitious objectives, high standards, constant creativity, data-driven decision making, customer-focussed organization, excellent partners and unusual flexibility. Our Core Value of "Excellence" guides us to "strive constantly to improve." From our beginning, Progressive has constantly raised standards, added more excellent people, developed better systems and controls, and explored new markets. Our ambition to be a major factor in the extremely competitive private passenger auto insurance business requires creativity in developing ways to attract new customers AND to provide superior service.

Six years ago, Progressive was enjoying what was our greatest year until then. As 1987 ended, we were confident that we could sustain profitable growth by continuing to do what we were doing. Eleven months later, we learned just how fast our circumstances can change. In November 1988, we were shocked into action when California voters passed Proposition 103, threatening auto insurance as we knew it. It opened our eyes to auto insurance consumers' anger and mistrust, and our vulnerability to capricious legislation and regulation. Consumer dissatisfaction with auto insurance appeared to put Progressive's existence in danger; we knew we had to do something. We pulled back in California, but the situation required much more positive action.

About the same time, we learned that Allstate had passed us in total U.S. volume on OUR specialty of nonstandard auto insurance, making it our most threatening competitor. After 25 years of observing Progressive's success, Allstate and other competitors, like the Penn Central companies, recognized that our high expense ratios and wide profit margins gave them a perfect opportunity to take market share from us by mimicking our programs, operating at lower cost and accepting slimmer profit margins. We saw that Allstate, with its distribution and data advantages, could overwhelm us unless we acted quickly and decisively.

Auto owners and operators reward Progressive in direct proportion to how our service, quality and cost compare to their options. In five years of intensive study of U.S. auto owners and operators, we are learning their needs and attitudes. We have concluded that Progressive has an opportunity to continue to grow profitably IF we work within our highly regulated, highly competitive, very staid industry, figuring out how to lower consumers' cost and improve their experience sufficiently to turn their anger with auto insurance to delight.

"Re-engineering" is what we have been doing to respond to these threats and opportunities, as well as to the changing environment. The result is Progressive's new strategy for the 1990's. When we set on the path of change five years ago, not only were we uncertain where it would lead, but also did not realize how difficult it would be, how long it would take and how much of what we tried would not work. Our profitable growth has obscured many of the following profound, steady, incremental, continuing changes:

- bullet EXPENSE REDUCTION -- Our underwriting expenses were among the industry's highest, but we passed them along by constantly increasing prices. Continuing cost reduction is a critically important initiative. We went through painful layoffs in 1991 and 1992, dramatically reducing costs, and we continue to drive them down by implementing operating efficiencies.

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- bullet LOWER PROFIT MARGINS -- Our underwriting profit margins have been among the industry's highest. We have learned that margins greater than four percent are unsustainable and undesirable for the long-term, because good results lure effective competitors happy to operate at lower profit margins, as well as encouraging onerous regulation and legislation. We now strive to achieve our four percent target in each program, but not more, so as to keep prices attractive to customers and to make it more difficult for competitors to charge less and still make a profit. We expect to convert operating improvements into lower prices, written premium growth and subsequent earnings growth.

- bullet DIVERSIFICATION CURTAILED -- Our diversification efforts--both Transportation and Financial Services--were motivated by our not seeing the growth opportunities in personal auto insurance that we see today. In diversifying, we promoted many programs too fast, before fully

understanding all the risks and how to price them. We are now more restrained and disciplined in how we develop new businesses.

- bullet REDUCED VARIATION -- We encouraged individual, relatively undisciplined experimentation, resulting in unnecessarily expensive variation in our products and processes and some very unprofitable programs. Now we depend on cross-divisional and cross-functional teams, operating under careful control, to manage experiments while we seek to align our products and implement our best practices, driven by customer needs and wants.
- bullet REDEFINE OUR BUSINESS -- Our concept was that we were in the auto insurance business. Now we know we are in the business of reducing the human trauma and economic costs of auto accidents. Our attitude about auto accidents was that more accidents costing more created a larger auto insurance market and more profit per transaction for us. Now we act on our conviction that we and our customers will be healthier and happier if there are fewer accidents costing less.
- bullet IMMEDIATE RESPONSE (registered trademark) CLAIMS SERVICE -- Our previous claim service objective (and accomplishment) was to provide the best available from any auto insurer. Now we are creating a whole new standard for auto accident claim service by responding

Q - WHAT SERVICE LEVELS CAN CUSTOMERS EXPECT FROM PROGRESSIVE?

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THE TYPE OF SERVICE THAT CONSUMERS CAN'T EVEN IMAGINE IS POSSIBLE TODAY, BUT WILL BE COMMONPLACE IN THE FUTURE. WE PROVIDE IMMEDIATE RESPONSE TO THEIR REQUESTS FOR CLAIMS AND CUSTOMER SERVICE, 24 HOURS A DAY, SEVEN DAYS A WEEK, 365 DAYS A YEAR.

immediately on all claims in ways that delight our customers and claimants.

- bullet BROADENED MARKET -- Our target customer was cancelled and rejected auto insureds. Now it is all auto owners and operators that can be profitably underwritten.
- bullet MULTIPLE DISTRIBUTION -- We have historically depended almost entirely on the independent agents to distribute our products, despite knowing we could not stem the agency system's plummeting market share or the threat of that decline to Progressive. Now we are changing consumers' experience of auto insurance AND involving agents in a way that can REVERSE more than 30 years of market share loss by agents. At the same time, we have shifted our focus to the consumer and will distribute our products how, when and where the consumer wants to buy.
- bullet CONSUMER INFORMATION -- Consumers' comparison shopping for auto insurance required a tiresome, confusing, unreliable search of agents and/or companies to obtain quotes they often found to be inaccurate and difficult to compare. In several states, we now offer consumers comparable, competitive quotes for their specific situation from the companies with the largest market share in their state.
- bullet INVESTMENT AND CAPITAL MANAGEMENT -- Our philosophy, process and people for managing investments and capital involved policy setting and decision making by a committee comprised of independent money managers, investment bankers, consultants, operating managers and directors. Now investment professionals employed by Progressive are empowered to execute our clear, conservative investment philosophy and to lead it in different directions as circumstances change.
- bullet CORE AND DIVERSIFIED BUSINESSES -- We worked for years to have all our businesses function within one organization, with the result that each sacrificed something. We are now separating the "Core" and "Diversified" businesses operationally and corporately to achieve the focus that makes both more efficient and effective.
- bullet TEAMWORK -- Our organization was stable, structured and hierarchical. Now it involves interlocking and constantly changing teams established to understand and meet specific customer needs. Teams disband when their mission is complete. Our people interactions were top down, directive and internally competitive (win-lose). Now they are driven by people consulting and cooperating with each other to find better ways to serve our customers in a Total Quality Management environment (win-win).
- bullet NEW COMPENSATION SYSTEM -- Our compensation was based on individual

skills and scope of authority. It was more generous for the highest paid people, was predominantly salary and was applied inconsistently enough to irritate people. Now it is market-based with the same standards for all people and more aligned with shareholders' interest because total compensation can vary greatly from year to year depending on company, division, team and individual results. Our best performers earn at the top of the market in years we achieve our objectives and more when we surpass them. The new companywide bonus plan, which we call "gainsharing", reinforced these changes by paying Progressive's people \$23.4 million for 1993's extraordinary performance.

- bullet PROCESS LEADERSHIP -- Managing our important processes was impossible when doing so was a staff responsibility, because our excellent, strong-willed Division Presidents liked to do things their own way. Now we achieve regular cost savings and customer service improvements because most Division Presidents are individually responsible for a specific key process, and all have agreed to follow the others' leadership.
- bullet CONSUMER IDENTITY -- Progressive is virtually unknown except to our agents and customers. We are now defining our "brand" and its symbolism, and beginning to communicate a unified and consistent image in order to develop our consumer franchise.

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#### CHANGE AND COMPETITION

Making all these changes demanded much of our people. There were disappointments, failures and large costs, but what we have done may allow Progressive to offer all auto owners and operators lifetime insurance, easy comparison shopping, and superb service, as well as providing the lowest cost to many. Progressive will reduce its customers' and claimants' trauma and costs caused by auto accidents with immediate, around-the-clock service, in-person when appropriate on a claim.

These changes will work into our businesses slowly and unevenly. Our divisions and departments are in different stages of evolution toward Progressive's vision. The strategy is driven by our strong belief that lower prices, more information, more options and immediate service will delight customers and make it possible for us to achieve our ambitious objectives.

In Florida, we are testing how many of these changes operate together.

Consumers can now call 1-800-AUTO-PRO (service mark) 24 hours a day, seven days a week, and in ten minutes get an accurate list of the prices charged by State Farm, Allstate, Prudential and Progressive for the caller's particular insurance package. Progressive will accept and guarantee to renew every consumer who chooses to insure with us, and will help them purchase their auto insurance either through an independent insurance agent, at a Progressive operated location, by telephone or through the mail. We will tell callers who ask how to get in touch with the competitors.

Once insured with Progressive, our customers can call us at any time about claims, policy changes, payment status and other services. Whenever our customer, the claimant or Progressive feels it is appropriate, a Progressive person will almost always be face-to-face with our customer or the claimant within hours of our receiving the first call.

To the extent that competitors effectively copy (and improve on) our good ideas, Progressive will have less opportunity for rapid growth and unusually good profit margins. But that is the beauty of competitive free-enterprise for consumers and for society, and why the system should be honored, nurtured and sustained. If competitors follow Progressive's lead, auto insurance will become less of a political football. Auto insurers will be partners in changing insurance regulation and improving traffic safety, not victims of sometimes opportunistic finger-pointers. The system will work better for consumers, and everybody will win because there will be fewer, less costly accidents that cause less human trauma.

Q - WHAT DOES PROGRESSIVE SEE AS AN ESPECIALLY GREAT RISK?

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Photograph: "Belts Triptych," Zeke Berman, 1994

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A - INSURANCE LAWS AND REGULATIONS CHANGE CONTINUALLY. WE REACT PROMPTLY TO THESE CHANGES WHEN THEY PROHIBIT US FROM MAKING OUR TARGET PROFIT MARGINS.

RISKS

We perceive Progressive's opportunity as one which must be realized now. The risk of competitors copying and improving on what we are doing, or of new restrictive regulation (or both) inhibiting our ability to do it, leads us to want to develop and spread our new price levels, services and ways of doing business throughout the United States as quickly as possible. Here are factors shareholders need to understand concerning 1994 earnings and the risks in our strategy:

bullet LEGISLATIVE AND REGULATORY RISK -- Insurance laws and regulations change continually. We react promptly when they prohibit us from making our target profit margins. Such reaction could result in reduced volume.

bullet UNPREDICTABLE UNDERWRITING MARGIN AND GROWTH RATE - Margins in auto insurance are inherently unstable. In the short run, pricing to produce our long-time four percent underwriting profit goal means operating earnings may not increase in proportion to volume growth. Our growth rate will be influenced by agent and competitor reaction to our strategies, and by the trend in loss costs. WE CANNOT PREDICT WITH ANY PRECISION THE TIMING AND PACE OF THE DECREASE IN UNDERWRITING MARGINS NOR THE RATE OF GROWTH.

bullet OPERATING EARNINGS VOLATILITY -- Growth requires investment in training, new systems and improved processes, and rapid growth can generate expensive mistakes. This risk and our continuing to do nothing to influence current earnings or the price of our stock could make short-term earnings trends difficult to predict.

bullet UNPREDICTABLE INVESTMENT INCOME -- The average maturity of our \$2.6 billion fixed-income portfolio is approximately two years, meaning investment income is unusually sensitive to short-term interest rates. This could be a positive if rates go up as many predict.

bullet PRICING RISK -- We may not yet have learned quite enough to price standard and preferred auto insurance to produce our planned results. This risk is small because our commitment to the philosophy that "Progressive's alternative to making its targeted underwriting profit is not to do business" requires us to change rates immediately when experience dictates.

bullet GROWTH ITSELF -- To accomplish our objectives, we must build many new systems, train thousands of claim and telephone service people, continue to improve our claim handling and ability to sell by telephone, align our products, validate new pricing criteria AND simultaneously continue to reduce costs. We have experience managing our planned level of growth (including periods when we grew at 40 percent compounded) but not at our current size.

## THE FUTURE

Progressive can and will lead a wave of change in the United States system for dealing with auto accident injuries and property damage. We believe we will reduce accident victims' trauma and costs, improve how consumers feel about auto insurance and be rewarded handsomely for our leadership.

1993's results are significant, not only because a profit surge is always welcome, but because, heartened by our success, we will pursue our new strategy. We will expand our core private passenger auto insurance business at a pace that will test our ability to provide the service we guarantee, could reduce 1994 and 1995 earnings growth and may unnerve investors who focus disproportionately on short-term earnings. This approach is consistent with our strategy of creating long-term capital appreciation.

Much will be required to realize our vision. Thus we begin 1994 as we began all other years--excited, respectful of the challenge implicit in our objectives and strategy, humbled by our failures, proud of having responded to them and confident that our excellent people will continue to achieve superior results. At Progressive, it is always as if we are just beginning our business and looking at a future that is brighter than ever.

We deeply appreciate the customers we are privileged to serve. Thank you for your business, and thanks especially to the more than 30,000 independent insurance agents who chose to do business with Progressive in 1993. We are particularly grateful for our shareholders' continued confidence. Happily, 1993 was a year in which the men and women of Progressive rebounded from the stresses and anxieties implicit in any change. To you, thanks for all your contributions in 1993 and the promise you bring to our future.

Joy, Love and Peace

Peter B. Lewis, Chairman, President  
and Chief Executive Officer

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Photograph: "Road 1, Road 2," Zeke Berman, 1993

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Photograph: "Tour (Lightbulb and Steering-wheel Diptych)," Zeke Berman, 1993

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Photograph: "Tour (Lightbulb and Steering-wheel Diptych)," Zeke Berman, 1993

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

We have audited the accompanying consolidated balance sheets of The Progressive Corporation and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of The Progressive Corporation and subsidiaries' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Progressive Corporation and subsidiaries as of December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, in 1993, The Progressive Corporation and subsidiaries adopted the provisions of Statement of Financial Accounting Standards No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts."

Coopers & Lybrand

Cleveland, Ohio  
January 26, 1994

CONSOLIDATED STATEMENTS OF INCOME

(millions-except per share amounts)

For the years ended December 31,	1993	1992	1991
NET PREMIUMS WRITTEN	\$ 1,819.2	\$ 1,451.2	\$ 1,324.6
REVENUES			
Premiums earned	\$ 1,668.7	\$ 1,426.1	\$ 1,286.9
Investment income	134.5	139.0	144.8
Net realized gains on security sales	107.9	14.5	7.4
Service revenues	43.7	53.3	54.0
Proposition 103 reserve reduction	--	106.0	--
Total revenues	1,954.8	1,738.9	1,493.1
EXPENSES			
Losses and loss adjustment expenses	1,028.0	930.9	858.0
Policy acquisition costs	311.6	304.1	313.7
Other underwriting expenses	151.3	141.5	162.1
Investment expenses	10.2	17.0	22.5
Service expenses	36.9	57.6	56.1
Interest expense	39.7	44.5	47.8
Non-recurring items <sup>1</sup>	4.0	64.6	--
Total expenses	1,581.7	1,560.2	1,460.2
NET INCOME			
Income before Federal income taxes	373.1	178.7	32.9
Provision for Federal income taxes	105.8	39.1	--
Income before cumulative effect of accounting change	267.3	139.6	32.9
Cumulative effect of adopting SFAS 109	--	14.2	--
Net income	\$ 267.3	\$ 153.8	\$ 32.9
PER SHARE			
Income before cumulative effect:			
Primary	\$ 3.59	\$ 2.09	\$ .41
Fully diluted	3.58	1.85	.41



Cumulative effect of adopting SFAS 109:			
Primary	--	.23	--
Fully diluted	--	.20	--
Net income:			
Primary	\$ 3.59	\$ 2.32	\$ .41
Fully diluted	3.58	2.05	.41

<FN>

1See Note 5-Debt and Note 10-Related Party Transactions for discussion.

All per share amounts were adjusted for the December 8, 1992, 3-for-1 stock split.

See notes to consolidated financial statements.

## The Progressive Corporation and Subsidiaries

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### CONSOLIDATED BALANCE SHEETS

	(millions)	
December 31,	1993	1992
<b>ASSETS</b>		
Investments:		
Held-to-maturity:		
Fixed maturities, at amortized cost (market: \$327.4 and \$271.2)	\$ 309.1	\$ 250.4
Available-for-sale:		
Fixed maturities, at market (amortized cost: \$1,761.9 and \$1,408.0)	1,792.6	1,437.1
Equity securities, at market (cost: \$433.2 and \$310.3)	453.9	398.6
Short-term investments, at amortized cost (market: \$231.3 and \$300.5)	230.8	300.0
	-----	-----
Total investments	2,786.4	2,386.1
Cash	8.7	22.9
Accrued investment income	33.7	27.1
Premiums receivable, net of allowance for doubtful accounts of \$8.7 and \$8.9	380.6	312.0
Reinsurance recoverables	380.9	357.8
Prepaid reinsurance premiums	84.6	78.0
Deferred acquisition costs	124.6	101.3
Federal income taxes	78.5	58.5
Property and equipment, net of accumulated depreciation of \$107.1 and \$95.1	106.7	63.5
Other assets	26.6	33.7
	-----	-----
Total assets	\$ 4,011.3	\$ 3,440.9
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Unearned premiums	\$ 772.0	\$ 614.8
Loss and loss adjustment expense reserves	1,348.6	1,274.2
Policy cancellation reserve	60.1	52.1
Accounts payable and accrued expenses	355.6	302.3
Funded debt	477.1	568.5
	-----	-----
Total liabilities	3,013.4	2,811.9
	-----	-----
Shareholders' equity:		
Serial Preferred Shares (authorized 20.0)		
9 3/8% Serial Preferred Shares, Series A, no par value, cumulative, liquidation preference \$25.00 per share (issued and outstanding 3.6 and 4.0)	87.9	96.4
Common Shares, \$1.00 par value (authorized 200.0, issued 82.2 and 77.1, including treasury shares of 10.1 and 10.0)	72.1	67.1
Paid-in capital	357.6	180.7
Net unrealized appreciation on investment securities	33.5	77.5
Retained earnings	446.8	207.3
	-----	-----
Total shareholders' equity	997.9	629.0
	-----	-----
Total liabilities and shareholders' equity	\$ 4,011.3	\$ 3,440.9
	=====	=====

<FN>

See notes to consolidated financial statements.

## The Progressive Corporation and Subsidiaries

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### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(millions--except per share amounts)

For the years ended December 31,	1993	1992	1991
<b>PREFERRED SHARES, NO PAR VALUE</b>			
Balance, Beginning of year	\$ 96.4	\$ 96.4	--
Sale of Preferred Shares, Series A	--	--	\$ 96.4
Treasury shares purchased-cost basis	(8.5)	--	--
Balance, End of year	\$ 87.9	\$ 96.4	\$ 96.4
<b>COMMON SHARES, \$1 PAR VALUE</b>			
Balance, Beginning of year	\$ 67.1	\$ 21.1	\$ 23.1
Stock options exercised	.1	.5	--
Stock rights issued (cancelled)	--	(.1)	--
Sale of Common Shares	5.0	--	--
Treasury shares purchased	(.1)	(1.9)	(2.0)
Capitalization of stock split	--	38.5	--
Conversion of convertible debenture	--	9.0	--
Balance, End of year	\$ 72.1	\$ 67.1	\$ 21.1
<b>PAID-IN CAPITAL</b>			
Balance, Beginning of year	\$ 180.7	\$ 118.7	\$ 126.5
Stock options exercised	1.7	3.7	--
Stock rights issued	3.5	2.8	3.2
Sale of Common Shares	172.0	--	--
Treasury shares purchased	(.3)	(10.5)	(11.0)
Conversion of convertible debenture	--	66.0	--
Balance, End of year	\$ 357.6	\$ 180.7	\$ 118.7
<b>NET UNREALIZED APPRECIATION (DEPRECIATION) ON INVESTMENT SECURITIES</b>			
Balance, Beginning of year	\$ 77.5	\$ 20.7	\$ (28.3)
Change in net unrealized appreciation (depreciation)	(44.0)	56.8	49.0
Balance, End of year	\$ 33.5	\$ 77.5	\$ 20.7
<b>RETAINED EARNINGS</b>			
Balance, Beginning of year	\$ 207.3	\$ 208.8	\$ 287.2
Net income	267.3	153.8	32.9
Cash dividends on Preferred Shares (9 3/8% annually)	(9.2)	(9.4)	(5.7)
Cash dividends on Common Shares (\$.200, \$.191 and \$.172 per share, split effected)	(13.9)	(11.4)	(11.3)
Treasury shares purchased: Preferred Shares	(1.3)	--	--
Common Shares	(2.0)	(93.5)	(94.3)
Capitalization of stock split	--	(38.5)	--
Other, net	(1.4)	(2.5)	--
Balance, End of year	\$ 446.8	\$ 207.3	\$ 208.8
TOTAL SHAREHOLDERS' EQUITY	\$ 997.9	\$ 629.0	\$ 465.7

<FN>

The 9 3/8% Serial Preferred Shares, Series A, may be redeemed at the Company's option any time on or after May 31, 1996. There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.

See notes to consolidated financial statements.

## The Progressive Corporation and Subsidiaries

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### CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	1993	1992	1991
			(millions)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before cumulative effect of accounting change	\$ 267.3	\$ 139.6	\$ 32.9
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization	16.1	24.3	28.4
Net realized gains on security sales	(107.9)	(14.5)	(7.4)
Changes in:			
Unearned premiums	157.2	19.8	51.0
Loss and loss adjustment expense reserves	74.4	197.1	149.7
Accounts payable and accrued expenses	6.2	(154.9)	139.4
Policy cancellation reserve	8.0	(13.5)	(4.7)
Prepaid reinsurance	(6.6)	5.3	(12.7)
Reinsurance recoverables	(23.1)	(103.0)	(118.3)
Premiums receivable	(68.6)	11.3	(43.2)
Deferred acquisition costs	(23.3)	8.9	(5.7)
Federal income taxes	2.0	22.7	(32.9)
Other, net	21.8	7.5	14.1
Net cash provided by operating activities	323.5	150.6	190.6
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases:			
Held-to-maturity: fixed maturities	(118.1)	(135.0)	(1,083.0)
Available-for-sale: fixed maturities	(1,215.6)	(1,089.6)	--

Sales:	equity securities . . . . .	(358.4)	(123.3)	(198.6)
Available-for-sale:	fixed maturities . . . . .	323.7	419.4	--
	equity securities . . . . .	326.1	134.1	99.6
Maturities, paydowns, calls and other:				
Held-to-maturity:	fixed maturities . . . . .	59.5	262.2	813.6
Available-for-sale:	fixed maturities . . . . .	528.5	354.1	--
Net sales of short-term investments . . . . .		69.2	188.1	229.5
(Receivable) payable on securities . . . . .		55.9	(21.4)	22.6
Purchase of property and equipment . . . . .		(60.0)	(17.5)	(45.1)
Sale of property and equipment . . . . .		--	5.4	--
		-----	-----	-----
Net cash used in investing activities . . . . .		(389.2)	(23.5)	(161.4)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from exercise of stock options . . . . .	1.8	4.2	--
Proceeds from issuance of stock . . . . .	177.0	--	96.4
Proceeds from funded debt . . . . .	148.2	170.0	170.0
Payments of funded debt . . . . .	(240.2)	(170.9)	(170.8)
Dividends paid to shareholders . . . . .	(23.1)	(20.8)	(17.0)
Acquisition of treasury shares . . . . .	(12.2)	(105.9)	(107.3)
	-----	-----	-----
Net cash provided by (used in) financing activities . . . . .	51.5	(123.4)	(28.7)
	-----	-----	-----
Increase (decrease) in cash . . . . .	(14.2)	3.7	.5
Cash, Beginning of year . . . . .	22.9	19.2	18.7
	-----	-----	-----
Cash, End of year . . . . .	\$ 8.7	\$ 22.9	\$ 19.2
	=====	=====	=====

<FN>

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1993, 1992 and 1991

1. REPORTING AND ACCOUNTING POLICIES

**BASIS OF CONSOLIDATION AND REPORTING** The accompanying consolidated financial statements include the accounts of The Progressive Corporation and subsidiaries (the Company), all of which are wholly owned. All significant intercompany accounts and transactions are eliminated in consolidation. The Company's investments in subsidiaries exceeded their underlying book value at dates of acquisition by \$4.0 million. In the opinion of management, there is no present indication of diminished value; however, in accordance with generally accepted accounting principles, \$2.4 million of that amount is being amortized over 25 years.

**INVESTMENTS Held-to-maturity:** fixed maturity securities are securities which the Company has the positive intent and ability to hold to maturity. These securities are reported at amortized cost with the difference between the original cost and redemption value of these securities earned over the lives of the respective issues and included in investment income.

**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 other similar economic factors. These securities are carried at market value with the corresponding unrealized appreciation or depreciation, net of deferred income taxes, reflected in shareholders' equity.

**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 directly as unrealized appreciation or depreciation in shareholders' equity.

**Trading securities** are securities bought and held principally for the purpose of selling them in the near term and are reported at market value. Changes in market value are reflected in earnings. The Company has no trading securities as of December 31, 1993.

**Short-term investments** include certificates of deposit, commercial paper and other securities maturing within one year and are reported at amortized cost, which approximates market.

**Financial instruments with off-balance-sheet risk** are used in normal investment activities and include commitments to extend credit and various forward,

future and interest rate swap positions. Risk is individually evaluated for each position. The difference between the cost and market value of these instruments is included in "net realized gains (losses) on security sales" when realized.

Realized gains and losses on sales of securities are computed based on the first-in first-out method.

**PROPERTY AND EQUIPMENT** Property and equipment is recorded at cost.

Depreciation is provided over the estimated useful lives for assets using accelerated methods.

As of December 31, 1993, the Company had contractual commitments related to the construction of its new corporate office complex totalling \$69.4 million, of which \$50.5 million had been paid through 1993. Capitalized interest costs were \$2.7 million in 1993 and \$.3 million in 1992.

**INSURANCE PREMIUMS AND RECEIVABLES** Insurance premiums written are earned primarily on a pro rata basis over the period of risk. For products where more than 50 percent cancellations are anticipated, premiums written and earned are reduced, though cancellations have not yet occurred.

The Company provides insurance and related services to individuals, lenders and motor carriers throughout the United States and in Canada, and offers a variety of payment plans to meet individual customer needs. Generally, premiums are collected in advance of providing risk coverage, minimizing the Company's exposure to credit risk.

Prior to the second quarter 1992, the Company established a reserve for potential premium refunds under provisions of California Proposition 103; this reserve reduced premiums written and earned \$10.2 million in 1992 and \$49.7 million in 1991.

**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. Loss adjustment expense reserves represent the estimated expenses required to settle these claims and losses. These estimates are reported net of amounts recoverable from salvage and subrogation. The methods of making estimates and establishing these reserves are reviewed regularly, and resulting adjustments are reflected in income currently. A supplemental loss reserve provides 98 percent statistical confidence that reserves are adequate. The supplemental reserve was \$73.1 million (net of \$17.6 million of reinsurance recoverables) at both December 31, 1993 and 1992. See Management's Discussion and Analysis for further discussion.

**REINSURANCE** The Company's reinsurance transactions are primarily attributable to premiums written under state-mandated involuntary plans for commercial vehicles (Commercial Auto Insurance Plans-CAIP), for which the Company retains no indemnity risk. The remaining reinsurance arises from the Company seeking to reduce its loss exposure in its non-auto businesses. Prepaid reinsurance premiums are recognized on a pro rata basis over the period of risk.

**EARNINGS PER SHARE** Net income is reduced by Preferred Share dividends earned during the period for both the primary and fully diluted earnings per share calculations. Primary earnings per share are computed using the weighted number of Common Shares and equivalents, including stock options, assumed outstanding during the period. For 1992 and prior, fully diluted earnings per share assumed the conversion of the convertible debt instrument and the effects of related interest expense and income taxes.

The Progressive Corporation and Subsidiaries

**DEFERRED ACQUISITION COSTS** Deferred acquisition costs include commissions, premium taxes and other costs incurred in connection with writing business. These costs are deferred and amortized over the period in which the related premiums are earned. The Company considers anticipated investment income in determining the recoverability of these costs.

In 1993, the Company early adopted Statement of Position 93-7, "Reporting on Advertising Costs," which provides guidance on financial reporting of advertising costs. Included in "other assets" for 1993 are \$1.6 million of direct-response advertising costs, which are capitalized and amortized over the estimated period of the benefits. Direct-response advertising costs consist primarily of direct mail expenses and are amortized over a two- to four-year period.

**SERVICE REVENUES AND EXPENSES** Service revenues are earned on a pro rata basis over the term of the related policies; acquisition expenses are deferred and amortized over the period in which the related revenues are earned.

SUPPLEMENTAL CASH FLOW INFORMATION Cash includes only bank demand deposits. The Company paid Federal income taxes of \$91.0 million, \$4.0 million and \$30.4 million in 1993, 1992 and 1991, respectively. Total interest paid was \$38.3 million for 1993, \$44.2 million for 1992 and \$47.2 million for 1991. In 1992, the \$75.0 million Floating Rate Convertible Subordinated Debenture due 2008 was converted into 9.0 million Common Shares.

The Company effected a 3-for-1 stock split in the form of a dividend to shareholders on December 8, 1992. The Company reflected the issuance of the additional Common Shares by transferring \$38.5 million from retained earnings to the common stock account. All per share, average equivalent share amounts and stock prices were adjusted to give effect to the split. Treasury shares were not split.

RECLASSIFICATIONS Certain amounts in the financial statements for prior periods were reclassified to conform with the 1993 presentation.

## 2. INVESTMENTS

As of December 31, 1993, the Company elected to early adopt Statement of Financial Accounting Standards (SFAS) 115 "Accounting for Certain Investments in Debt and Equity Securities." For 1993, the adoption of SFAS 115 did not have any effect on the Company's results of operations or financial position.

The components of pretax investment income at December 31 were:

(millions)	1993	1992	1991
Held-to-maturity: fixed maturities . . . . .	\$ 17.4	\$ 23.2	\$ 92.2
Available-for-sale: fixed maturities . . . . .	88.7	82.4	--
equity securities . . . . .	19.8	23.4	21.4
Short-term investments . . . . .	8.6	10.0	31.2
Investment income . . . . .	134.5	139.0	144.8
Gross realized gains:			
Held-to-maturity: fixed maturities . . . . .	1.0	.5	16.2
Available-for-sale: fixed maturities . . . . .	20.9	14.9	--
equity securities . . . . .	102.3	4.5	8.8
Short-term investments . . . . .	--	--	.1
Gross realized losses:			
Held-to-maturity: fixed maturities . . . . .	--	--	(1.0)
Available-for-sale: fixed maturities . . . . .	(4.6)	(4.2)	--
equity securities . . . . .	(11.7)	(1.2)	(16.7)
Net realized gains on security sales . . . . .	107.9	14.5	7.4
	\$ 242.4	\$ 153.5	\$ 152.2

Changes in unrealized gains (losses) on fixed maturities and equity securities were:

(millions)	1993	1992	1991
Unrealized gains (losses):			
Held-to-maturity: fixed maturities . . . . .	\$ (2.5)	\$ (28.3)	\$ 35.6
Available-for-sale: fixed maturities . . . . .	\$ 1.6	\$ 29.1	\$ --
equity securities . . . . .	(67.6)	56.9	74.2
Deferred income taxes . . . . .	22.0	(29.2)	(25.2)
	\$ (44.0)	\$ 56.8	\$ 49.0

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The composition of the investment portfolio at December 31 was:

(millions)	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
1993				
Held-to-maturity:				
State and local government obligations . . . . .	\$ 309.1	\$ 19.8	\$ (1.5)	\$ 327.4
Available-for-sale:				
U.S. government obligations . . . . .	20.5	.3	--	20.8
State and local government obligations . . . . .	819.8	18.2	(2.3)	835.7
Foreign government obligations . . . . .	31.8	3.8	(1.8)	33.8
Corporate debt securities . . . . .	107.5	5.4	(.2)	112.7
Asset-backed securities . . . . .	732.8	8.3	(4.9)	736.2
Other debt securities . . . . .	49.5	4.7	(.8)	53.4

Equity securities . . . . .	1,761.9	40.7	(10.0)	1,792.6
Short-term investments . . . . .	433.2	21.1	(.4)	453.9
	230.8	.5	--	231.3
	<u>\$ 2,735.0</u>	<u>\$ 82.1</u>	<u>\$ (11.9)</u>	<u>\$ 2,805.2</u>
1992				
Held-to-maturity: . . . . .				
State and local government obligations . . . . .	\$ 250.4	\$ 21.2	\$ (.4)	\$ 271.2
Available-for-sale:				
U.S. government obligations . . . . .	56.0	.8	(.1)	56.7
State and local government obligations . . . . .	350.8	15.8	(.1)	366.5
Foreign government obligations . . . . .	31.7	.8	(.1)	32.4
Corporate debt securities . . . . .	88.4	2.3	(.2)	90.5
Asset-backed securities . . . . .	840.9	11.0	(.7)	851.2
Other debt securities . . . . .	40.2	.2	(.6)	39.8
	<u>1,408.0</u>	<u>30.9</u>	<u>(1.8)</u>	<u>1,437.1</u>
Equity securities . . . . .	310.3	93.0	(4.7)	398.6
Short-term investments . . . . .	300.0	.5	--	300.5
	<u>\$ 2,268.7</u>	<u>\$ 145.6</u>	<u>\$ (6.9)</u>	<u>\$ 2,407.4</u>

The composition of fixed maturities by maturity at December 31, 1993 was:

(millions)	HELD-TO-MATURITY		AVAILABLE-FOR-SALE	
	COST	MARKET VALUE	COST	MARKET VALUE
Less than one year . . . . .	\$ 42.7	\$ 43.0	\$ 464.6	\$ 477.2
One to five years . . . . .	213.4	223.1	1,057.5	1,070.0
Five to ten years . . . . .	24.3	26.1	185.3	188.6
More than ten years . . . . .	28.7	35.2	54.5	56.8
Total fixed maturities . . . . .	<u>\$ 309.1</u>	<u>\$ 327.4</u>	<u>\$ 1,761.9</u>	<u>\$ 1,792.6</u>

<FN>  
Securities which do not have a single maturity date are reported at average maturity.

At December 31, 1993, bonds in the principal amount of \$51.9 million were on deposit with various regulatory agencies to meet statutory requirements. As of December 31, 1993 and 1992, the Company had committed \$46.0 million in uncollateralized lines and letters of credits, of which \$0 and \$1.7 million, respectively, were outstanding and subject to credit risk as of December 31, 1993 and 1992. In addition, as of December 31, 1993 and 1992, the Company had forward and future positions with contract values of \$901.2 million and \$375.9 million, respectively, offset by short forward, future or interest rate swap positions (market values of \$3.5 million and \$1.7 million, respectively), and unmatched short foreign currency positions as of December 31, 1993 with contract values of \$80.9 million (market values of \$1.9 million); net cash requirements are limited to changes in market values which may vary based upon changes in interest rates and other factors.

### 3. REINSURANCE

In 1993, the Company adopted SFAS 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." SFAS 113 requires amounts related to ceded reinsurance to be shown gross on the financial statements. Prior practice allowed ceding enterprises to report insurance activities net of the effects of reinsurance. The implementation of SFAS 113 has resulted in the Company reporting ceded unearned premium reserves as "prepaid reinsurance premiums" on the balance sheet and reporting ceded unpaid losses and amounts recoverable on paid losses as "reinsurance recoverables." The balance sheet has been restated for the prior period. SFAS 113 also provides risk transfer criteria and prescribes the accounting and reporting standards for reinsurance contracts. The Company reviewed all contracts and determined that there was no impact to its results of operations. 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. See Management's Discussion and Analysis for further discussion. 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, 1993, 69 percent of the "prepaid reinsurance premiums" and 75 percent of the "reinsurance recoverables" relate to CAIP, for which the Company retains no indemnity risk.

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

(millions)	1993		1992		1991	
	WRITTEN	EARNED	WRITTEN	EARNED	WRITTEN	EARNED
Direct premiums . . . . .	\$1,966.4	\$1,808.8	\$1,636.8	\$1,619.4	\$1,536.8	\$1,486.3
Assumed . . . . .	9.2	9.7	4.3	1.9	.1	.2
Ceded . . . . .	(156.4)	(149.8)	(189.9)	(195.2)	(212.3)	(199.6)
Net premiums . . . . .	\$1,819.2	\$1,668.7	\$1,451.2	\$1,426.1	\$1,324.6	\$1,286.9

<FN>  
Losses and loss adjustment expenses are net of reinsurance ceded of \$138.8 million in 1993, \$196.7 million in 1992 and \$155.3 million in 1991.

#### 4. FEDERAL INCOME TAXES

The provision for Federal income taxes in the accompanying consolidated statements of income differs from the statutory rates as follows:

(millions)	1993		1992		1991	
Income before Federal income taxes . . .	\$ 373.1		\$ 178.7		\$ 32.9	
Tax at statutory rate . . . . .	\$ 130.6	35%	\$ 60.8	34%	\$ 11.2	34%
Tax effect of--						
Exempt interest income . . . . .	(15.4)	(4)	(12.9)	(7)	(16.5)	(50)
Dividends received deduction . . . . .	(4.3)	(1)	(6.4)	(4)	(8.9)	(27)
Deferred tax asset write-down . . . . .	--	--	--	--	14.2	43
Other items, net . . . . .	(5.1)	(2)	(2.4)	(1)	--	--
	\$ 105.8	28%	\$ 39.1	22%	\$ --	--%

The current portion of the Federal income tax provision was \$90.3 million in 1993, \$8.2 million in 1992 and \$20.5 million in 1991. For tax purposes, the alternative minimum tax (AMT) credit carryover was \$0 and \$13.3 million at December 31, 1993 and 1992, respectively. Due to strong underwriting earnings in the current year, the entire AMT credit carryover was used in 1993.

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Deferred Federal income taxes reflect the impact for financial statement reporting purposes of "temporary differences" between the financial statement carrying amounts and tax bases of assets and liabilities. At December 31, 1993 and 1992, the components of the net deferred tax asset were as follows:

(millions)	1993	1992
Deferred tax assets:		
Unearned premium reserve . . . . .	\$ 48.1	\$ 36.1
Non-deductible accruals . . . . .	25.4	23.1
AMT credit carryover . . . . .	--	13.3
Capitalized expenditures . . . . .	2.1	4.3
Loss discounting . . . . .	5.2	5.3
Other . . . . .	--	4.5
Deferred tax liabilities:		
Deferred acquisition costs . . . . .	(43.6)	(34.4)
Unrealized gains . . . . .	(18.0)	(40.0)
Other . . . . .	(5.5)	--
Net deferred tax asset . . . . .	\$ 13.7	\$ 12.2

Deferred Federal income taxes include noninterest bearing special estimated tax deposits made pursuant to Section 847 of the Internal Revenue Code of \$40.5 million, \$36.5 million and \$33.7 million at December 31, 1993, 1992 and 1991, respectively.

The Omnibus Budget Reconciliation Act of 1993 increased the maximum tax rate for corporations from 34 percent to 35 percent, effective for tax years beginning after December 31, 1992. As a result of this change in rate, the Company was able to write up the value of its deferred tax asset. The effect of this write-up was to increase net deferred tax assets which increased net income by \$2.1 million, or \$.03 per share, in 1993.

The \$14.2 million write-down of the deferred tax asset in 1991 was required under SFAS 96, "Accounting for Income Taxes," because, based on facts at December 31, 1991, the Company could not demonstrate absolute assurance that the benefit of AMT credit carryover for financial statement purposes would be realized in the future. Effective January 1, 1992, the Company adopted SFAS 109, "Accounting for Income Taxes," which changed the method of accounting for income taxes. Under SFAS 109, the Company was able to demonstrate that the benefit of deferred tax assets was fully realizable. The cumulative effect of adopting SFAS 109 was to restore deferred tax assets and increased net income \$14.2 million, or \$.20 per share, in 1992.

As of December 31, 1993, the Company included in "Federal income taxes" \$6.4 million of foreign tax credit carryover. Of this amount, \$1.9 million, \$2.8 million and \$1.7 million will expire at the end of 1996, 1997 and 1998, respectively, unless previously used.

## 5. DEBT

During 1993, the maximum amount of bank borrowings outstanding was \$170.0 million, and the daily average amount outstanding was \$3.4 million, at an average annual interest rate of 5.3 percent.

Funded debt at December 31 consisted of:

(millions)	1993	1992
Revolving credit agreements . . . . .	\$ --	\$ 50.0
Credit facilities . . . . .	--	120.0
7% Notes . . . . .	148.2	--
8 3/4% Debentures . . . . .	--	69.7
8 3/4% Notes . . . . .	28.8	28.6
10% Notes . . . . .	149.3	149.3
10 1/8% Subordinated Notes . . . . .	149.2	149.1
Other funded debt . . . . .	1.6	1.8
	-----	-----
	\$ 477.1	\$ 568.5
	=====	=====

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

In May 1990, the Company entered into a revolving credit arrangement with National City Bank, which is reviewed by the bank annually. Under this agreement, the Company had the right to borrow up to \$50.0 million. In February 1994, the Company reduced this revolving credit arrangement to \$20.0 million. See Note 12--Subsequent Events. 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. At December 31, 1993, the Company had no borrowings under this arrangement; at December 31, 1992, \$50.0 million was outstanding.

In May 1990, the Company also entered into a four-year credit facility with Morgan Guaranty Trust Company of New York under which the Company had the right to borrow up to \$75.0 million. By selecting from available credit options, the Company could have elected to pay interest at rates related to the London interbank offered rate, the bank's CD rate, a base lending rate or a quoted rate. A commitment fee was payable on any unused portion of the committed facility at the rate of .15 percent per annum. At December 31, 1993 and 1992, the Company had no borrowings under this agreement. In February 1994, the Company terminated this credit facility. See Note 12--Subsequent Events.



In October 1989, the Company entered into a five-year credit facility agreement with a group of banks under which the Company secured the right to borrow up to \$235.0 million and request an additional \$235.0 million. By selecting from available credit options, the Company could have elected to pay interest at rates related to the London interbank offered rate or the greater of the agent bank's base lending rate or a rate based on the Federal funds' rate. A commitment fee was payable on any unused portion of the committed facility at the rate of .125 percent per annum. The agreement provided for a utilization fee not to exceed .10 percent on the average amount of outstanding borrowings. At December 31, 1993, no borrowings were outstanding under this arrangement; at December 31, 1992, \$120.0 million was outstanding. In February 1994, the Company terminated this agreement. See Note 12--Subsequent Events.

In October 1993, the Company sold \$150.0 million of noncallable 7% Notes due 2013 with interest payable semiannually. The fair value of these Notes was \$145.3 million at December 31, 1993.

In February 1987, the Company sold \$100.0 million, \$70.0 million after the May 1989 debt exchange, of 8 3/4% Debentures due 2017 with interest payable semiannually. In December 1993, the Company redeemed the entire \$70.0 million principal amount of these Debentures. The Company redeemed the Debentures at 105.425 percent of the principal amount, plus accrued interest, with the proceeds of the sale of certain securities in its investment portfolios. A \$4.0 million charge on debt extinguishment was recorded as a "non-recurring item." The fair value of this debt was \$69.2 million at December 31, 1992.

In May 1989, the Company issued \$30.0 million of 8 3/4% Notes due 1999 in exchange for \$30.0 million of the 8 3/4% Debentures due 2017. These Notes are noncallable and interest is payable semiannually. The fair value of these Notes was \$33.7 million and \$31.8 million at December 31, 1993 and 1992, respectively.

In December 1988, the Company sold \$150.0 million of 10% Notes due 2000 and \$150.0 million of 10 1/8% Subordinated Notes due 2000. All such Notes are noncallable. Interest is payable semiannually on both issues. The fair values of the 10% Notes and 10 1/8% Subordinated Notes were \$180.6 million and \$181.2 million, respectively, at December 31, 1993 and \$170.4 million and \$169.1 million, respectively, at December 31, 1992.

As of December 31, 1993, the Company is in compliance with its financial debt covenants. The most restrictive financial covenant, which appeared under the recently terminated credit facilities, provided that senior indebtedness could not exceed 200 percent of long-term capital.

In January 1994, the Company sold \$200.0 million of its 6.60% Notes due 2004. See Note 12--Subsequent Events.

Aggregate principal payments on funded debt outstanding at December 31, 1993 are \$.4 million for 1994, 1995 and 1996, \$.3 million for 1997, \$.1 million for 1998 and \$480.0 million thereafter.

## 6. LITIGATION

The Company, or its subsidiaries, are named as defendant in various lawsuits generally relating to their business. Numerous legal actions arise from claims made under insurance policies issued by the subsidiaries or in connection with previous reinsurance agreements. These actions were considered by the Company in establishing its loss reserves. The Company believes that the ultimate disposition of these and other pending lawsuits will not materially impact the Company's operations or financial position.

## 7. STATUTORY FINANCIAL INFORMATION

At December 31, 1993, \$91.5 million of consolidated statutory policyholders' surplus represents net admitted assets of the Company's insurance subsidiaries that are not transferable in the form of dividends, loans or advances to the Company. Generally, the net admitted assets of insurance subsidiaries available for transfer to the Company are restricted by state law and are limited to those net admitted assets, as determined in accordance with statutory accounting principles, which exceed minimum statutory capital requirements.

During 1993, the insurance subsidiaries paid aggregate cash dividends of \$131.3 million, and one subsidiary returned \$32.9 million of previously contributed capital to the Company. Based on the dividend laws currently in effect, the insurance subsidiaries may pay aggregate dividends of \$117.1 million in 1994 without prior approval from regulatory authorities. These limitations may change during 1994, which could affect the dividends permitted to be paid without prior approval. Statutory policyholders' surplus was \$703.6 million and \$658.3 million at December 31, 1993 and 1992, respectively. Statutory net income was \$188.6 million, \$61.7 million and \$76.8 million for the years ended December 31, 1993, 1992 and 1991, respectively.

8. LEASE COMMITMENTS

The Company has operating lease commitments with terms greater than one year for equipment and office space, some with options to renew at the end of the lease periods. The minimum rental commitments under all such noncancelable leases at December 31, 1993 are as follows (in millions): 1994--\$20.2; 1995--\$14.5; 1996--\$8.8; 1997--\$2.6; 1998--\$.7; and thereafter--\$.1. Total rental expense incurred by the Company for 1993, 1992 and 1991 was \$31.3 million, \$35.4 million and \$33.4 million, respectively.

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9. EMPLOYEE BENEFIT PLANS

RETIREMENT PLANS In 1990, the Company adopted a defined contribution pension plan covering employees hired after December 31, 1988, who meet requirements as to age and length of service. The Company's funding policy was to contribute 1.3 percent of each eligible employee's compensation up to the Social Security wage base. Company contributions were \$.7 million in 1993, \$.5 million in 1992 and \$.3 million in 1991. Effective January 1, 1994, the plan was amended to include all employees who meet requirements as to age and length of service. Under the amended plan, contributions vary from one percent to five percent of compensation up to the Social Security wage base, based on years of eligible service.

The Company has a defined benefit pension plan which covered employees hired before January 1, 1989 who met requirements as to age and length of service. This plan was curtailed on December 31, 1993, and the Company recognized a \$1.5 million gain. The benefits accruals, based on years of service and the employee's career average compensation up to the Social Security tax base, were frozen as of December 31, 1993. The Company's funding policy is to contribute annually the maximum amount that can be deducted for Federal income tax purposes.

The following table sets forth the defined benefit plan information as of December 31:

(millions)	1993	1992	1991
Actuarial present value of benefit obligations:			
Vested benefit obligation . . . . .	\$ 15.8	\$ 9.2	\$ 5.5
Accumulated benefit obligation . . . . .	\$ 16.8	\$ 12.3	\$ 8.8
Projected benefit obligation for service rendered to date . . . . .	\$ 16.8	\$ 16.6	\$ 12.3
Plan assets at fair value, primarily government and corporate taxable bonds . . . . .	17.9	13.6	16.4
Plan assets net of projected benefit obligation . . . . .	1.1	(3.0)	4.1
Unrecognized actuarial gains . . . . .	(1.9)	(3.6)	(8.8)
Unrecognized prior service cost . . . . .	--	.7	.8
Unrecognized transition asset at January 1, 1987, recognized over 21 years . . . . .	(.3)	(.3)	(.4)
Pension liability recognized in the consolidated balance sheets . . . . .	\$ (1.1)	\$ (6.2)	\$ (4.3)
Net pension cost included the following components:			
Service cost-benefits earned during the period . . . . .	\$ 1.9	\$ 2.5	\$ 2.1
Interest cost on projected benefit obligation . . . . .	1.2	1.1	.9
Actual return on plan assets . . . . .	(1.2)	(1.3)	(2.2)
Net amortization and deferral . . . . .	(.5)	(.4)	.2
Net periodic pension cost . . . . .	\$ 1.4	\$ 1.9	\$ 1.0

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 7.0 percent for 1993, 8.0 percent for 1992 and 9.0 percent for 1991. The expected long-term rate of return on assets was 8.0 percent for 1993 and 1992 and 9.0 percent for 1991. The rate of increase in future compensation levels was 8.0 percent in 1992 and 1991.

POSTEMPLOYMENT BENEFITS The Company provides various postemployment benefits to former or inactive employees, their beneficiaries and covered dependents. Postemployment benefits include salary continuation and disability-related benefits including workers' compensation and continuation of health care benefits. In 1993, the Company early adopted SFAS 112, "Accounting for Postemployment Benefits," and recognized its obligation of \$.9 million at December 31, 1993. The Company's policy is to fund annually the maximum amount of its obligation that can be deducted for Federal income tax purposes.

POSTRETIREMENT BENEFITS The Company provides postretirement health and life benefits to all employees who met requirements as to age and length of service

at December 31, 1988. The Company recognized its obligation of \$.4 million at December 31, 1993 and 1992 and \$1.4 million at December 31, 1991. The Company's policy is to fund annually the maximum amount of its obligation 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.

**LONG-TERM SAVINGS PLAN** The Company has a Long-Term Savings Plan (LTSP) under which the Company matches, into Company stock purchase accounts, a maximum of 3.0 percent of an employee's eligible salary or wages contributed to the LTSP. Company contributions were \$3.8 million in 1993, \$3.6 million in 1992 and \$3.7 million in 1991.

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**INCENTIVE COMPENSATION PLANS** Under the Company's 1985 Restricted Stock Plan, key employees were awarded Common Shares which vested over future employment periods. An amount equal to the market value of the shares at the date of grant was charged to income over the vesting period. During 1993, the remaining 297,419 shares under this plan vested. No awards may be granted under this plan after December 31, 1993.

The Company's 1989 Incentive Plan provides for the granting of stock options and other stock-based awards to key employees of the Company. The 6,500,000 Common Shares authorized under the Incentive Plan have been registered. Outside of the Incentive Plan, the Company registered 1,425,000 Common Shares relating to stock options granted to key employees of the Company. The nonqualified stock options granted are for periods up to ten years, become exercisable at various dates not earlier than six months after the date of grant, and remain exercisable for specified periods thereafter. All options were granted at the fair market value at the date of grant.

A summary of all stock option activity (adjusted for the December 1992 3-for-1 stock split) during the three years ended December 31, follows:

OPTIONS OUTSTANDING	1993		1992		1991	
	NUMBER OF SHARES	OPTION PRICES PER SHARE	NUMBER OF SHARES	OPTION PRICES PER SHARE	NUMBER OF SHARES	OPTION PRICES PER SHARE
Beginning of year . . . . .	4,123,003	\$ 7.666 to 19.833	3,301,176	\$ 7.666 to 19.833	2,744,976	\$ 7.666 to 18.291
Add (deduct):						
Granted . . . . .	693,325	29.625	1,581,750	15.458 to 18.833	767,100	14.458 to 20.208
Exercised . . . . .	(96,443)	9.250 to 19.666	(531,497)	7.666 to 18.291	--	--
Cancelled . . . . .	(230,998)	9.125 to 29.625	(228,426)	9.125 to 19.375	(210,900)	9.250 to 20.208
End of year . . . . .	4,488,887	\$ 7.666 to 29.625	4,123,003	\$ 7.666 to 19.833	3,301,176	\$ 7.666 to 19.833
Exercisable, end of year . . .	934,592	\$ 7.666 to 19.833	759,238	\$ 7.666 to 19.666	788,997	\$ 7.666 to 18.291
Available, end of year . . . .	2,808,173		1,270,500		2,623,824	

The amounts charged to income for incentive compensation plans, including a cash bonus program for key members of management and a gainsharing payment to all other employees, were \$24.7 million in 1993, \$12.0 million in 1992 and \$4.7 million in 1991.

10. RELATED PARTY TRANSACTIONS

In April 1988, the Company sold to Alfred Lerner, then Chairman of the Company's Board of Directors, a \$75.0 million Floating Rate Convertible Subordinated Debenture due 2008 (convertible debenture). On December 16, 1992, the convertible debenture was converted into 9,000,000 Common Shares. On the same date, Mr. Lerner sold, in an underwritten public offering, 5,175,000 of the Common Shares received upon such conversion. In 1993, Mr. Lerner sold the remaining 3,825,000 shares. The public offering was completed pursuant to the terms of the registration rights provisions of the convertible debenture, under which the Company paid \$5.1 million in underwriting and other expenses of the offering, which were charged directly to shareholders' equity. In addition, Mr. Lerner ended his employment agreement with the Company, and the Company paid him \$10.0 million. Prior to the conversion, the Company incurred interest expense on the convertible debenture of \$4.5 million in 1992 and \$6.5 million in 1991.

As of June 30, 1992, the Company exercised its right to terminate the

Investment Management Agreement with Progressive Partners Limited Partnership (Progressive Partners) as part of its strategy to compete more effectively by lowering costs. Mr. Lerner had a 50 percent interest in Progressive Partners. Upon such termination, the Company paid Progressive Partners a one-time termination fee, and an additional incentive fee for the period ended June 30, 1992, in the aggregate amount of \$54.6 million, determined according to a formula contained in the Investment Management Agreement. Progressive Partners' investment staff became employed by a wholly-owned subsidiary of the Company and continues to provide the Company with investment and capital management services. Prior to the termination of the Agreement, the Company incurred investment management service fees to Progressive Partners of \$10.5 million for 1992 and \$19.1 million for 1991.

In January 1991, the Company purchased 4,851,000 shares (adjusted for the 2-for-1 stock split paid February 12, 1993), or 4.9 percent, of MBNA Corporation in connection with its initial public offering. At the time of the transaction, Mr. Lerner was Chairman of the Board and Chief Executive Officer of MBNA Corporation and owned 10 percent of its common stock. During 1993, the Company sold its entire holding of MBNA Corporation, recognizing realized gains of \$74.3 million.

## 11. SEGMENT INFORMATION

The operating segments of the Company and subsidiaries are classified into Insurance and Service. Expense allocations are based on assumptions and estimates; stated segment operating results would change if different methods were applied. The Company does not allocate assets to segments.

For the years ended December 31,

(millions)	1993		1992		1991	
	REVENUES	PRETAX PROFIT (LOSS)	REVENUES	PRETAX PROFIT (LOSS)	REVENUES	PRETAX PROFIT (LOSS)
Insurance operations . . .	\$ 1,668.7	\$ 177 .8	\$ 1,426.1	\$ 49.6	\$ 1,286.9	\$ (46.9)
Service operations . . .	43.7	6 .8	53.3	(4.3)	54.0	(2.1)
Total operations . . . .	1,712.4	184 .6	1,479.4	45.3	1,340.9	(49.0)
Proposition 103 reserve reduction . . .	--	--	106.0	106.0	--	--
Investment income . . . .	242.4	242 .4	153.5	153.5	152.2	152.2
Interest expense and other costs . . . . .	--	(53.9)	--	(126.1)	--	(70.3)
Total . . . . .	\$ 1,954.8	\$ 373 .1	\$ 1,738.9	\$ 178.7	\$ 1,493.1	\$ 32.9

## 12. SUBSEQUENT EVENTS

On January 12, 1994, the Company sold \$200.0 million of its 6.60% Notes due 2004 in an underwritten public offering. The Notes were priced to yield 6.62 percent. The Notes are noncallable, and interest is payable semiannually. Effective February 1, 1994, the Company cancelled its \$75.0 million credit facility with Morgan Guaranty Trust Company of New York and reduced its revolving credit arrangement with National City Bank to \$20.0 million from \$50.0 million. Effective February 10, 1994, the Company cancelled the remaining \$185.0 million under the credit facility agreement with a group of banks. Since the first half of 1993, the Company raised over \$500 million through the sale of its debt and equity securities in the public market and, therefore, is not currently in need of these credit facilities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The consolidated financial statements and the related notes on pages 34 through 46, together with the supplemental information on pages 50 through 55, should be read in conjunction with the following discussion of our consolidated financial condition and results of operations.

**FINANCIAL CONDITION** The Progressive Corporation is a holding company and does not have any revenue producing operations of its own. It receives cash through borrowings, equity sales, subsidiary dividends and other transactions, and may use the proceeds to contribute to the capital of its

insurance subsidiaries in order to support premium growth, to repurchase its Common Shares and other outstanding securities, to redeem debt, and for other business purposes. In 1993, the Company sold 4,950,000 Common Shares for net proceeds of \$177.0 million, \$150.0 million of its 7% Notes due 2013 and filed a shelf registration for \$200.0 million of its debt securities (in January 1994, the Company sold \$200.0 million of its 6.60% Notes due 2004 under the shelf registration statement). During 1993, the Company repurchased .4 million of its Serial Preferred Shares, Series A, for a cost of \$9.8 million, repaid \$170.0 million borrowed under its credit facilities and redeemed the entire \$70.0 million of its 8 1/4 % Debentures.

During the three-year period ended December 31, 1993, the Company also sold 4,000,000 Serial Preferred Shares, Series A, for net proceeds of \$96.4 million, repurchased 4.4 million Common and Serial Preferred Shares at a total cost of \$225.4 million, and decreased its aggregate borrowings \$167.3 million. During the same period, The Progressive Corporation received \$393.3 million from its insurance subsidiaries, net of capital contributions made to these subsidiaries. The regulatory restrictions on subsidiary dividends are described in Note 7 to the financial statements.

The Company has substantial capital resources and is unaware of any trends, events or circumstances that are reasonably likely to affect its capital resources in a material way. The Company also has available a \$20.0 million revolving credit agreement. The Company believes it has sufficient borrowing capacity and other capital resources to support current and anticipated growth.

The Company's insurance operations create liquidity by collecting and investing premiums written from new and renewal business in advance of paying claims. For the three years ended December 31, 1993, operations generated a positive cash flow of \$664.7 million, and cash flow is expected to be positive in both the short-term and reasonably foreseeable future. The Company's substantial investment portfolio is highly liquid, consisting almost entirely of readily marketable securities. The Company does not expect any material changes in its cash requirements and is not aware of any trends, events or uncertainties that are reasonably likely to have a material effect on its liquidity.

Total capital expenditures for the three years ended December 31, 1993, aggregated \$122.6 million. In spring 1992, construction began on the Company's new corporate office complex in Mayfield Village, Ohio, and in December 1993, the Company began occupying a portion of this complex. Construction is expected to be completed in 1994. The new facility will consist of approximately 520,000 square feet of space and will replace office space held under expiring leases in a number of locations in the Cleveland area. The cost of the project is currently estimated at \$74.8 million, and is being funded through operating cash flows. As of December 31, 1993, \$50.5 million of the project's cost had been paid.

In June 1992, the Company reached an agreement with the California Department of Insurance to refund approximately \$50 million of premiums (including interest) on business written between November 8, 1988 and November 7, 1989 to approximately 260,000 policyholders, thereby settling all rollback and refund exposure since Proposition 103 was adopted in November 1988. As a result, the Proposition 103 premium refund and rollback reserve was reduced by \$106.0 million.

During the second quarter 1992, the Company changed its financial arrangement with Progressive Partners Limited Partnership (Progressive Partners), its investment manager, as part of its strategy to compete more effectively for private passenger auto insurance by lowering costs. Under the new arrangement, Progressive Partners' people, now employed by a wholly-owned Progressive subsidiary, continue to provide the Company with investment and capital management. The transaction involved paying Progressive Partners a one-time fee for terminating the investment management contract, and an additional incentive fee for the period ended June 30, 1992, in the aggregate amount of \$54.6 million. This transaction reduced the Company's costs for investment and capital management.

In December 1992, Mr. Alfred Lerner, then Chairman of the Company, converted his \$75.0 million Floating Rate Convertible Subordinated Debenture due 2008 into 9,000,000 Common Shares and sold 5,175,000 of those Common Shares in an underwritten public offering. The public offering was completed pursuant to the registration rights provisions of the convertible debenture, under which the Company paid \$5.1 million in underwriting and other expenses of the offering. These expenses were charged directly to shareholders' equity in accordance with generally accepted accounting principles. On the

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same date, Mr. Lerner agreed to a termination of his employment agreement with the Company, and, in connection with these transactions, the Company paid Mr. Lerner \$10.0 million.

The Company invests in fixed maturity, short-term and equity securities. The

Company's investment strategy recognizes its need to maintain capital adequate to support its insurance operations. Therefore, the Company evaluates the risk/reward trade-offs of investment opportunities, measuring their effects on stability, diversity, overall quality and liquidity of the investment portfolio. The majority of the portfolio at December 31, 1993, was in short-term and intermediate-term, investment-grade fixed-income securities. Fixed maturity securities which are held-to-maturity and short-term securities are reported at amortized cost; amortized cost of short-term securities approximates market. Available-for-sale securities are held for indefinite periods of time and include fixed maturities and equity securities. The available-for-sale securities are reported at market value with the changes in market value, net of deferred income taxes, reported directly in shareholders' equity as unrealized appreciation or depreciation. As of December 31, 1993, the mark-to-market net gains in the Company's available-for-sale portfolio were \$51.4 million (\$33.5 million, net of deferred income taxes), compared to \$117.4 million (\$77.5 million, net of taxes). The weighted average fully taxable equivalent yield of the portfolio was 8.7 percent, 8.6 percent and 9.4 percent as of December 31, 1993, 1992 and 1991, respectively. (See Note 2--Investments, for a more detailed breakdown of the investment portfolio.)

As of December 31, 1993, the Company held \$122.5 million of Collateralized Mortgage Obligations (CMOs), compared to \$189.8 million last year. CMOs held by the Company are highly liquid with readily available quotes, and, at December 31, 1993, have an average life of 1.6 years. Eighty-nine percent of the CMOs held by the Company are rated AAA by Moody's and Standard & Poor's. As of December 31, 1993, the Company's total CMO portfolio had an unrealized loss of \$3.7 million, compared to an unrealized gain of \$.5 million last year.

Investments in the Company's portfolio have varying degrees of risk. Equity securities generally have greater risks than the non-equity portion of the portfolio since these securities are subordinate to the rights of debt holders and other creditors of the issuer. As of December 31, 1993, the mark-to-market net gains in the Company's equity portfolio were \$20.7 million (\$13.5 million, net of taxes), compared to \$88.3 million (\$58.3 million, net of taxes). The Company continually evaluates the creditworthiness of each issuer for all securities held in its portfolio. 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. It is the Company's general policy to dispose of securities when the Company determines that the issuer is unable to reverse its deteriorating financial condition and the prospects for its business within a reasonable period of time. In less severe circumstances, the Company may decide to dispose of a portion of its holdings in a specific issuer when the risk profile of the investment becomes greater than its tolerance for such risk.

**RESULTS OF OPERATIONS** Direct premiums written increased 20 percent to \$1,966.4 million in 1993, compared to \$1,636.8 million in 1992 and \$1,536.8 million in 1991. These amounts include premiums written under state-mandated involuntary Commercial Auto Insurance Plans (CAIP), for which the Company retains no indemnity risk, of \$98.0 million in 1993, \$142.2 million in 1992 and \$180.0 million in 1991. The Company provides policy and claim processing services to 28 state CAIPs, compared to 26 in 1992 and 25 in 1991; the size of the CAIP market continues to decrease. Net premiums written increased 25 percent to \$1,819.2 million, compared to \$1,451.2 million in 1992 and \$1,324.6 million in 1991. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 17 percent in 1993, compared to 11 percent in 1992 and 8 percent in 1991. In 1989, the Company established a reserve for potential premium rollbacks and refunds under provisions of Proposition 103 and added to the reserve in subsequent years; the reserve reduced premiums written and earned \$10.2 million and \$49.7 million in 1992 and 1991, respectively. In 1992, the Company settled its financial responsibility under California Proposition 103 and reduced its reserve as described above.

In 1993, the Company's Core business' net premiums written grew 25 percent, driven by an increase in unit sales. The Company anticipates continued growth in its Core business in 1994; however, it has begun to price so underwriting margins move down to four percent. As a result, in the short run, operating earnings may not increase in proportion to volume growth.

Claim costs, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. These costs include a loss estimate for future assignments and assessments, based on current business, under state-mandated involuntary automobile

programs. Claims costs are influenced by inflation and loss severity and frequency, the impact of which is mitigated by adequate pricing. Increases in the rate of inflation increase loss payments which are made after premiums are collected. 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 62 percent in 1993, compared to 65 percent in 1992 and 67 percent in 1991. The personnel reductions in late 1991 and early 1992, along with other cost-cutting measures and the favorable run-off of the Transportation business, reduced the Company's losses and loss adjustment expenses. Policy acquisition and other underwriting expenses as a percentage of premiums earned were 28 percent in 1993, compared to 31 percent in 1992 and 37 percent in 1991. The decrease re-

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fects the cost-cutting measures discussed above, as well as process improvements, changed workflows and lower commission programs. Service revenues were \$43.7 million in 1993, compared to \$53.3 million in 1992 and \$54.0 million in 1991; the decrease in revenues is in conjunction with the decrease in CAIP premiums written. Service businesses generated a pretax operating profit of \$6.8 million in 1993, compared to a pretax loss of \$4.3 million in 1992 and a pretax loss of \$2.1 million in 1991. During 1992, we increased loss adjustment expense reserves \$6.2 million. Recurring investment income (interest and dividends) decreased 3 percent to \$134.5 million in 1993, 4 percent to \$139.0 million in 1992 and 5 percent to \$144.8 million in 1991, primarily due to lower prevailing interest rates. Net realized gains on security sales were \$107.9 million in 1993, \$14.5 million in 1992 and \$7.4 million in 1991. A significant portion of the 1993 realized gains resulted from the sale of certain equity securities held in the Company's investment portfolio. President Clinton signed the Omnibus Budget Reconciliation Act of 1993, which, among other items, increased the statutory tax rate to 35 percent. Effective January 1, 1992, the Company adopted SFAS 109 and was able to demonstrate that the benefit of deferred tax assets was fully realizable. The cumulative effect of adopting SFAS 109 increased net income \$14.2 million, or \$.20 per share. In 1991, the deferred tax asset write-down, as required under SFAS 96, was included in the Federal income tax provision.

**ENVIRONMENTAL AND PRODUCT LIABILITY EXPOSURES** Because the Company has been 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 and, in addition, has a supplemental reserve that is in an amount substantially in excess of the potential exposure for such claims. The Company does not believe that these claims will have a material impact on the Company's liquidity, results of operations or financial condition.

However, the ultimate costs of the environmental and product liability claims are inherently difficult to project due to numerous uncertainties, including causation and policy coverage issues, the possible uncollectability of related reinsurance and third party indemnity arrangements, unsettled and sometimes conflicting case law, difficulties in determining the scope of any contamination or injury and the nature and cost of the appropriate remedial action and the number and financial condition of responsible parties and their insurers, among other factors.

Most of the Company's exposure for such claims results from Progressive's acquisition in 1985 of American Star Insurance Company, since renamed National Continental Insurance Company. When American Star was acquired, the seller agreed to administer all claims asserted under policies previously written by American Star and to pay all losses incurred under such policies, including those covered by reinsurance then in place on some of the policies. The seller encountered major financial difficulties as a result of losses in Hurricane Andrew and, despite having paid all losses and adjusted all claims on the old business since 1985, has contested its obligation to administer these claims and to pay the losses not being paid by some of the reinsurers. The dispute has been submitted to arbitration and is scheduled to be heard by an arbitration panel during the second quarter. If it is determined that the seller is responsible for all of these losses, the amounts could be material to it. According to a recent study by independent actuaries for the seller, aggregate reserves on this business are about \$19.2 million. Of that amount, about \$6.3 million is being contested in the arbitration, \$7.8 million is the admitted obligation of the seller and the balance is the responsibility of reinsurance sources that are paying their obligations.

The Company will continue to monitor these exposures, adjust the related reserves appropriately as additional information becomes known and disclose

any material developments.

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TEN YEAR SUMMARY -- FINANCIAL HIGHLIGHTS

Not covered by report of independent accountants

(millions-except per share amounts and number of people employed)

	1993	1992
INSURANCE COMPANIES' SELECTED FINANCIAL INFORMATION AND OPERATING STATISTICS-STATUTORY BASIS		
Reserves:		
Loss and loss adjustment expense . . . . .	\$1,053.7	\$ 994.7
Unearned premiums . . . . .	688.9	538.5
Policyholders' surplus . . . . .	703.6	658.3
Ratios:		
Net premiums written to policyholders' surplus . . . . .	2.6	2.2
Loss and loss adjustment expense reserves to policyholders' surplus . . . . .	1.5	1.5
Loss and loss adjustment expense . . . . .	62.6	68.3
Underwriting expense . . . . .	25.4	29.8
Statutory combined ratio . . . . .	88.0	98.1

SELECTED CONSOLIDATED FINANCIAL INFORMATION-GAAP BASIS

	1993	1992
Total revenues . . . . .	\$1,954.8	\$1,738.9
Total assets <sup>1</sup> . . . . .	4,011.3	3,440.9
Total shareholders' equity . . . . .	997.9	629.0
Common Shares outstanding . . . . .	72.1	67.1
Book value per Common Share . . . . .	\$ 12.62	\$ 7.94
Return on average shareholders' equity <sup>2</sup> . . . . .	36.0%	34.7%
Funded debt outstanding . . . . .	\$ 477.1	\$ 568.5
Ratio of funded debt to capital . . . . .	32%	47%
GAAP underwriting margin . . . . .	10.7	3.5
Number of people employed . . . . .	6,101	5,591

<FN>

1 Pursuant to SFAS 113, amounts for 1990 through 1992 were restated. (See Note 3--Reinsurance)

2 Net income minus preferred share dividends divided by average common shareholders' equity.

All share and per share amounts were adjusted for stock splits.

The Progressive Corporation and Subsidiaries

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	1991	1990	1989	1988	1987	1986	1985	1984
\$ 901.7	\$ 827.4	\$ 787.7	\$ 685.5	\$ 496.1	\$ 342.0	\$ 226.6	\$ 153.3	\$ 153.3
513.6	474.1	467.6	505.0	446.8	323.9	219.4	141.1	141.1
676.7	636.7	578.1	495.0	452.0	312.0	230.1	118.9	118.9
2.0	1.9	2.0	2.6	2.5	2.5	2.3	2.6	2.6
1.3	1.3	1.4	1.4	1.1	1.1	1.0	1.3	1.3
65.7	62.1	65.9	62.9	58.3	61.0	65.6	65.0	65.0
33.5	31.1	31.4	33.2	35.8	34.3	33.6	37.4	37.4



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99.2	93.2	97.3	96.1	94.1	95.3	99.2	102.4
\$ 1,493.1	\$ 1,376.2	\$ 1,392.7	\$ 1,355.8	\$ 1,066.2	\$ 749.4	\$ 507.1	\$ 303.3
3,317.2	2,912.4	2,643.7	2,316.3	1,782.5	1,259.2	810.8	538.1
465.7	408.5	435.2	417.2	395.0	311.4	118.4	74.8
63.3	69.3	76.2	80.7	86.1	84.0	65.1	65.1
\$ 5.83	\$ 5.89	\$ 5.71	\$ 5.17	\$ 4.59	\$ 3.71	\$ 1.82	\$ 1.15
6.7%	21.5%	17.4%	25.9%	24.7%	26.9%	36.9%	18.0%
\$ 644.0	\$ 644.4	\$ 645.9	\$ 479.2	\$ 216.9	\$ 100.8	\$ 158.7	\$ 102.4
58%	61%	60%	53%	35%	24%	57%	58%
(3.7)	1.0	(1.2)	2.9	5.6	4.3	0.0	(2.4)
6,918	6,370	6,049	5,854	5,879	4,711	3,266	2,243

TEN YEAR SUMMARY -- GAAP CONSOLIDATED OPERATING RESULTS

Not covered by report of independent accountants

(millions-except per share amounts)

	1993	1992
Direct premiums written:		
Personal lines . . . . .	\$1,548.9	\$1,214.6
Commercial lines . . . . .	417.5	422.2
Total direct premiums written . . . . .	1,966.4	1,636.8
Reinsurance assumed . . . . .	9.2	4.3
Reinsurance ceded . . . . .	(156.4)	(189.9)
Net premiums written . . . . .	1,819.2	1,451.2
Net change in unearned premiums reserve . . . . .	(150.5)	(25.1)
Premiums earned . . . . .	1,668.7	1,426.1
Expenses:		
Losses and loss adjustment expenses . . . . .	1,028.0	930.9
Policy acquisition costs . . . . .	311.6	304.1
Other underwriting expenses . . . . .	151.3	141.5
Total underwriting expenses . . . . .	1,490.9	1,376.5
Underwriting profit (loss) before taxes . . . . .	177.8	49.6
Provision (benefit) for Federal income taxes . . . . .	62.2	16.9
Underwriting profit (loss) after taxes . . . . .	115.6	32.7
Service operations profit (loss) after taxes . . . . .	4.4	(2.8)
Investment income after taxes . . . . .	120.0	29.9
Net realized gains (losses) on security sales after taxes . . . . .	107.1	110.4
Interest expense after taxes . . . . .	70.1	9.6
Proposition 103 reserve reduction after taxes . . . . .	(25.8)	(29.4)
Non-recurring items after taxes . . . . .	--	70.0
Other income (expense) after taxes 2 . . . . .	(2.6)	(42.6)
Other income (expense) after taxes 2 . . . . .	(1.5)	(8.3)
Income before Federal tax adjustments and cumulative effect of accounting change . . . . .	267.3	139.6
Federal tax adjustments 3 . . . . .	--	--
Cumulative effect of accounting change 4 . . . . .	--	14.2
Net income . . . . .	\$ 267.3	\$ 153.8
Per share		
Net income . . . . .	\$ 3.58	\$ 2.05
Dividends . . . . .	.200	.191
Average equivalent shares		
Primary . . . . .	71.8	62.3

Fully diluted . . . . .	72.0	71.9
Common Share Price Range		
High . . . . .	\$ 46 1/8	\$ 29 3/8
Low . . . . .	26 5/8	14 3/4

<FN>

1 Amount represents change in unearned premiums reserve less change in prepaid reinsurance premiums.

2 Reflects investment expenses after taxes and other tax adjustments.

3 1991 reflects a deferred tax asset write-down; 1990 reflects a fresh start tax benefit; and 1985 reflects benefits from capital loss carry forwards.

4 1992 reflects adoption of SFAS 109, "Accounting for Income Taxes," and 1987 reflects adoption of SFAS 96, "Accounting for Income Taxes."

All share and per share amounts were adjusted for stock splits.

The Progressive Corporation and Subsidiaries

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1991	1990	1989	1988	1987	1986	1985	1984
\$ 1,047.4	\$ 876.0	\$ 800.1	\$ 817.0	\$ 690.2	\$ 526.2	\$ 396.4	\$ 264.1
489.4	482.8	487.0	521.0	488.0	303.9	145.0	47.1
1,536.8	1,358.8	1,287.1	1,338.0	1,178.2	830.1	541.4	311.2
.1	.1	7.2	9.4	19.5	9.2	1.6	.1
(212.3)	(162.6)	(134.0)	(72.4)	(81.2)	(58.4)	(20.1)	(2.8)
1,324.6	1,196.3	1,160.3	1,275.0	1,116.5	780.9	522.9	308.5
(37.7)	(5.1)	36.2	(59.6)	(122.1)	(103.7)	(78.1)	(35.0)
1,286.9	1,191.2	1,196.5	1,215.4	994.4	677.2	444.8	273.5
858.0	762.9	799.3	752.0	571.9	406.6	288.4	176.2
313.7	292.7	296.7	321.3	292.6	190.2	130.1	82.5
162.1	123.7	114.9	106.6	74.4	51.8	26.4	21.4
1,333.8	1,179.3	1,210.9	1,179.9	938.9	648.6	444.9	280.1
(46.9)	11.9	(14.4)	35.5	55.5	28.6	(.1)	(6.6)
(15.9)	4.0	(2.9)	10.0	12.2	13.1	(.7)	(3.8)
(31.0)	7.9	(11.5)	25.5	43.3	15.5	.6	(2.8)
(1.4)	2.8	2.5	(1.3)	(1.0)	--	--	--
(32.4)	10.7	(9.0)	24.2	42.3	15.5	.6	(2.8)
121.1	126.4	135.3	91.3	59.3	49.4	35.9	20.9
4.9	(8.4)	(.4)	12.3	(1.9)	5.1	5.4	(2.3)
(31.6)	(32.0)	(32.5)	(10.5)	(6.5)	(3.3)	(4.8)	(3.3)
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
(14.9)	(13.2)	(15.4)	(9.2)	(3.4)	(2.0)	(1.7)	1.4
47.1	83.5	78.0	108.1	89.8	64.7	35.4	13.9
(14.2)	9.9	--	--	--	--	.2	--
--	--	--	--	3.7	--	--	--
\$ 32.9	\$ 93.4	\$ 78.0	\$ 108.1	\$ 93.5	\$ 64.7	\$ 35.6	\$ 13.9
\$ .41	\$ 1.19	\$ .94	\$ 1.23	\$ 1.08	\$ .77	\$ .52	\$ .21
.172	.160	.147	.133	.077	.019	.017	.016
66.6	72.9	79.8	84.0	86.7	85.5	70.5	65.1
75.6	82.5	89.1	90.9	86.7	85.5	70.5	65.1
\$ 20 5/8	\$ 18 3/4	\$ 14 1/2	\$ 10 3/4	\$ 11 7/8	\$ 12 7/8	\$ 7	\$ 3 3/4
15	11	7 1/2	7 1/4	8 1/2	6 3/4	3 3/8	3

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LOSS

RESERVES

Not covered by report of independent accountants

GAAP COMBINED RATIO

ADJUSTED TO

YEAR	YEAR-END RESERVE AMOUNT1 (MILLIONS)	CURRENT ESTIMATE OF TOTAL REDUNDANCY2	% YEAR-END RESERVE AMOUNT UNPAID AT DECEMBER 31, 1993	AS REPORTED	REFLECT LOSS RESERVE DEVELOPMENT
1993	\$1,349	NA	100%	89.3	NA
1992	1,274	6%	52	96.5	96.4
1991	1,077	7	29	103.7	104.4
1990	858	8	18	99.0	99.1
1989	750	9	13	101.2	99.7
1988	654	7	6	97.1	99.0
1987	475	15	3	94.4	93.0

<FN>

The chart represents what the underwriting results for prior years would have been if year-end reserves were as subsequent payments and current reserves now suggest. For example, the 96.5 GAAP combined ratio as reported for 1992 was negatively impacted 0.1 points because reserve redundancy which existed at December 31, 1991 increased by \$1.8 million during 1992.

1 Pursuant to SFAS 113, amounts for 1990 through 1992 were restated. (See Note 3-Reinsurance.)

2 The percentage will change as claims unpaid at December 31, 1993 are ultimately settled or the reserves adjusted.

NA = Not applicable

DIRECT	PREMIUMS		WRITTEN		(millions)					
	1993	1992	1991	1990	1989					
Not covered by report of independent accountants										
Florida	\$ 265.6	13.5%	\$ 195.3	11.9%	\$ 173.9	11.3%	\$ 169.3	12.5%	\$ 160.4	12.5%
Ohio	175.9	8.9	140.7	8.6	137.1	8.9	116.8	8.6	92.9	7.2
New York	170.4	8.7	156.8	9.6	132.1	8.6	105.2	7.7	79.9	6.2
Texas	146.6	7.4	117.0	7.2	96.2	6.3	64.4	4.7	46.9	3.7
Georgia	120.0	6.1	114.6	7.0	122.9	8.0	106.4	7.8	93.3	7.2
Pennsylvania	113.0	5.8	70.1	4.3	52.8	3.4	53.0	3.9	43.8	3.4
California	80.2	4.1	90.6	5.5	156.1	10.2	177.8	13.1	262.5	20.4
All Other	894.7	45.5	751.7	45.9	665.7	43.3	565.9	41.7	507.4	39.4
Total	\$ 1,966.4	100.0%	\$1,636.8	100.0%	\$1,536.8	100.0%	\$1,358.8	100.0%	\$1,287.1	100.0%

## The Progressive Corporation and Subsidiaries

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QUARTERLY FINANCIAL AND COMMON SHARE DATA

Not covered by report of independent accountants

(millions--except per share amounts)

YEAR	QUARTER	NET INCOME			OPERATING INCOME2		HIGH-LOW PRICE4	DIVIDENDS PER SHARE	STOCK PRICE APPRECIATIONS5
		OPERATING REVENUES	TOTAL	PER SHARE1	TOTAL3	PER SHARE1			
1993	1	\$ 382.8	\$ 51.6	\$ .71	\$ 39.9	\$ .54	\$ 36 1/8-26 5/8	\$ .050	
	2	423.3	79.7	1.11	54.5	.75	36 1/4-27 1/2	.050	
	3	442.8	82.6	1.09	54.7	.71	44 1/4-31 3/4	.050	
	4	463.5	53.4	.68	49.3	.63	46 1/8-38 3/8	.050	
		1,712.4	267.3	3.58	197.3	2.61	46 1/8-26 5/8	.200	39.8%
1992	1	346.4	36.1	.47 (6)	18.0	.22	18 7/8-14 3/4	.047	
	2	365.7	40.1	.53	32.4	.41	19 -15 5/8	.047	
	3	373.7	44.7	.62	42.0	.58	22 -18 7/8	.047	
	4	393.6	32.9	.45 (7)	37.4	.51	29 3/8-21 3/8	.050	
		1,479.4	153.8	2.05	129.8	1.72	29 3/8-14 3/4	.191	63.3%
1991	1	318.3	25.7	.34	35.5	.47	20 1/4-15 3/8	.043	
	2	338.6	9.7	.13	18.6	.24	20 5/8-17 3/8	.043	
	3	349.3	11.2	.13	25.8	.33	18 3/4-15 1/2	.043	
	4	334.7	(13.7)	(.25) (8)	5.2	.04	18 -15	.043	
		1,340.9	32.9	.41	85.1	1.19	20 5/8-15	.172	6.4%

<FN>

All per share amounts and stock prices were adjusted for the December 8, 1992, 3-for-1 stock split.

1 Presented on a fully diluted basis. For 1993 and 1992, the sum does not equal the total because the average equivalent shares differ in the periods. For 1991, the sum of the quarterly earnings per share does not equal the total because fourth quarter earnings per share were antidilutive and, therefore, reported on a primary basis.

2 Represents net income less realized gains and losses and one-time non-operating items.

3 For 1993, the sum of the quarterly operating income does not equal the total due to the retroactive impact of the Omnibus Budget Reconciliation Act of 1993.

4 Prices as reported on the New York Stock Exchange.

5 Represents annual rate of return on Progressive Common Shares, including quarterly dividend reinvestment.

6 For the first quarter 1992, income before cumulative effect of accounting change was \$21.9 million, or \$.28 per share.

7 Adjustments which adversely impacted earnings during the fourth quarter 1992 were the payment to Alfred Lerner (see Note 10-Related Party Transactions for further discussion) and reserve adjustments based on routine actuarial analysis completed during the quarter.

8 Adjustments which adversely impacted earnings during the fourth quarter 1991 were an additional write-down of a deferred tax asset due to the Company's inability to realize this asset under the provisions of SFAS 96, an accrual for severance costs as part of the program finalized during the fourth quarter to further align staffing with declining California volume and to streamline other operations, and reserve adjustments based on routine actuarial analysis completed during the period.

## The Progressive Corporation and Subsidiaries

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### DIRECTORS

Milton N. Allen<sup>1,2,3</sup>  
Director,  
Various Corporations

B. Charles Ames  
Partner,  
Clayton, Dubilier & Rice, Inc.  
(management consulting)

Stephen R. Hardis<sup>1,2</sup>  
Vice Chairman, Chief  
Financial and Administrative  
Officer,  
Eaton Corporation  
(manufacturing)

Peter B. Lewis<sup>2</sup>  
Chairman of the Board,  
President and Chief  
Executive Officer

Norman S. Matthews<sup>3</sup>  
Consultant,  
Formerly President,  
Federated Department  
Stores, Inc.  
(retailing)

Donald B. Shackelford<sup>1,3</sup>  
Chairman,  
State Savings Bank  
(savings and loan)

Dr. Paul B. Sigler<sup>1</sup>  
Professor, Yale University and  
Investigator,  
Howard Hughes Medical  
Institute  
(education)

1 Audit Committee member

2 Executive Committee member

3 Executive Compensation Committee member

### CORPORATE OFFICERS

Peter B. Lewis, Chairman,  
President and Chief  
Executive Officer  
David M. Schneider, Secretary  
Daniel R. Lewis, Treasurer

### CORPORATE SUPPORT TEAM

Charles B. Chokel  
Peter B. Lewis  
Bruce W. Marlow  
Michael C. Murr  
David M. Schneider

Tiona M. Thompson

DIVISION PRESIDENTS, PRODUCT AND PROCESS LEADERS

Alan R. Bauer  
William P. Cadden  
G. Edward Combs  
Jeffrey J. Dailey  
Allan W. Ditchfield  
W. Thomas Forrester  
Steven B. Gellen  
William H. Graves  
Michael J. Hanerty  
Stephen G. Klug  
Moirra A. Lardakis  
Daniel R. Lewis  
Robert E. Mathe  
Robert J. McMillan  
Glenn M. Renwick  
Andrew W. Rogacki  
David L. Roush  
Gregory J. Trapp  
Robert T. Williams

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 22, 1994, at 10:00 a.m. There were 4,859 shareholders of record on December 31, 1993.

PRINCIPAL OFFICE

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

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: (216) 575-2498 or (800) 622-6757

COUNSEL

Baker & Hostetler, Cleveland, Ohio

COMMON AND PREFERRED SHARES

The Progressive Corporation's Common Shares (symbol PGR) and Series A Preferred Shares (symbol PGRPrA) are traded on the New York Stock Exchange. Dividends are customarily paid on the last day of each quarter.

INTERIM REPORT DISTRIBUTION

The Progressive Corporation has discontinued its practice of automatically mailing quarterly reports to shareholders whose shares are registered in the name of a bank, broker or nominee. Any such shareholder wishing to receive copies of the Company's quarterly shareholder reports may annually send a letter requesting the reports to The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box E61, Mayfield Village, Ohio 44143. All requests must be received by April 15 of the year for which such reports are requested.