

PROGRESSIVE CORP/OH/  
Form PRE 14A  
February 27, 2004

**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**

Filed by the Registrant   
Filed by a Party other than the Registrant   
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
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- Soliciting Material Pursuant to Section 240.14a-11c or Section 240.14a-12

THE PROGRESSIVE CORPORATION

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement)

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- No fee required.
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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD APRIL 16, 2004**

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 16, 2004, at 10:00 a.m., Cleveland time, for the following purposes:

1. To elect three directors;
2. To approve an amendment to the Company's Code of Regulations to allow the Board of Directors to authorize the Company to issue shares without issuing physical certificates;
3. To approve The Progressive Corporation 2004 Executive Bonus Plan;
4. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent auditor for 2004; and
5. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on February 18, 2004, will be entitled to notice of and to vote at said meeting or any adjournment thereof.

By Order of the Board of Directors.

Charles E. Jarrett, *Secretary*

March     , 2004

**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 ( Company ), to be held at 10:00 a.m., Cleveland time, on Friday, April 16, 2004, at 6671 Beta Drive, Mayfield Village, Ohio 44143, and at any adjournment thereof. This statement, the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2003, which is attached hereto as an Appendix, and the accompanying proxy will be sent to shareholders on or about March , 2004.

The close of business on February 18, 2004, 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 217,031,564 Common Shares, each of which will be entitled to one vote.

### **ITEM 1: ELECTION OF DIRECTORS**

The Company's Code of Regulations provides that the number of directors shall be fixed at no fewer than five or more than twelve. The number of directors has been fixed at twelve and there are currently twelve directors on the Board. The Code of Regulations provides that the directors are to be divided into three classes as nearly equal in number as possible and that the classes are to be elected for staggered terms of three years each. Directors of one class are elected annually. At the meeting, the shares represented by the proxies obtained hereby, unless otherwise specified, will be voted for the election as directors of the three nominees hereinafter named, each to serve for a three-year term and until his or her successor is duly elected and qualified. If, by reason of death or other unexpected occurrence, any one or more of the nominees herein 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.

Based upon a recommendation from the Nominating and Governance Committee, the Board has nominated the three nominees named below for reelection to the Board. Since the terms of four directors will expire on the date of the Annual Meeting, a vacancy on the Board will be created. Vacancies on the Board may be filled by a majority vote of the remaining directors and, in such event, the new director will serve for the remainder of the unexpired term of the class of directors to which he or she is assigned. Assignments will be made so that the directors are distributed among the several classes as nearly equally as possible. No decision has been made to fill the vacancy, nor has the Nominating and Governance Committee recommended or the Board selected any candidates to fill the vacancy.

Proxies cannot be voted at the Annual Meeting for a greater number of persons than the three nominees named in this proxy statement. No shareholder nominations for the election of directors have been received within the time period required by Section 13 of Article II of the Company's Code of Regulations.

If notice in writing is given by any shareholder to the President, a Vice President or the Secretary not less than 48 hours before the time fixed for holding the Annual Meeting that he or she 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 such voting power as he or she possesses 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 number of votes among two or more nominees, as he or she sees fit. If the enclosed proxy is executed and returned and voting for the election of directors is cumulative, the persons named in the enclosed proxy will have the authority to cumulate votes and to vote the shares represented by such proxy, and by other proxies held by them, so as to elect as many of the three nominees named below as possible.

The following information is set forth with respect to each person nominated for election as a director and for those directors whose terms will continue after the Annual Meeting. Unless otherwise indicated, each such nominee or director has held the principal occupation indicated for more than the last five years. Each such nominee is currently a director of the Company.

*Nominees for Election at the Annual Meeting*

<b>Name, Age, Principal Occupation and Last Five Years Business Experience</b>	<b>Director Since</b>	<b>Term Expires</b>
Peter B. Lewis, Age 70 Chairman of the Board of the Company; President of the Company prior to January 2001; Chief Executive Officer during 2000 and prior to January 1999; Chief Executive Officer Insurance Operations during 1999; President, Chairman of the Board and Chief Executive Officer of Progressive Casualty Insurance Company prior to March 2000	1965	2007
Glenn M. Renwick (1), Age 48 President and Chief Executive Officer of the Company since January 2001; Chief Executive Officer-Insurance Operations during 2000; Chief Information Officer from January 1998 to March 2000; President, Chairman of the Board and Chief Executive Officer of Progressive Casualty Insurance Company since March 2000	1999	2007
Donald B. Shackelford (2), Age 71 Chairman of the Board, Fifth Third Bank, Central Ohio (successor to State Savings Bank), Columbus, Ohio (commercial bank) since June 1998	1976	2007

*Directors whose terms will continue after the annual meeting*

<b>Name, Age, Principal Occupation and Last Five Years Business Experience</b>	<b>Director Since</b>	<b>Term Expires</b>
Milton N. Allen (3), Age 76 Consultant to or director or trustee of various for-profit and not-for-profit organizations	1978	2005

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Name, Age, Principal Occupation and Last Five Years Business Experience	Director Since	Term Expires
Charles A. Davis (4), Age 55 Vice Chairman, Marsh & McLennan Companies, Inc., New York, New York (financial services) since September 1999; Chairman and Chief Executive Officer, MMC Capital, Inc., New York, New York (global private equity firm) since April 1998	1996	2005
Bernadine P. Healy, M.D. (5), Age 59 Medical & Science Columnist, U.S. News & World Report, Washington, D.C. (publishing) since September 2002; President and Chief Executive Officer, American Red Cross, Washington D.C. (emergency services) from September 1999 to December 2001; Dean of the College of Medicine and Public Health and Professor of Medicine, The Ohio State University, Columbus, Ohio (education) prior to 1999	2002	2005
Jeffrey D. Kelly (6), Age 50 Executive Vice President and Chief Financial Officer, National City Corporation, Cleveland, Ohio (commercial banking)	2000	2005
Stephen R. Hardis (7), Age 68 Chairman of the Board, Axcelis Technologies, Inc., Beverly, Massachusetts (semiconductor equipment manufacturing) since May 2000; Chairman of the Board and Chief Executive Officer, Eaton Corporation, Cleveland, Ohio (manufacturing) prior to July 2000	1988	2006
Philip A. Laskawy (8), Age 62 Retired since September 2001; Chairman and Chief Executive Officer, Ernst & Young LLP, New York, New York (professional services) prior to September 2001	2001	2006



Name, Age, Principal Occupation and Last Five Years Business Experience	Director Since	Term Expires
Norman S. Matthews (9), Age 71 Consultant, New York, New York	1981	2006
Bradley T. Sheares, Ph.D., Age 47 President, U.S. Human Health Division of Merck & Co., Inc., Whitehouse Station, New Jersey (pharmaceutical products and services) since March 2001; Vice President, Hospital Marketing and Sales, U.S. Human Health Division of Merck & Co., Inc. prior to March 2001	2003	2006

- (1) Mr. Renwick is also an officer and director of other subsidiaries of the Company and a director of Fiserv, Inc., which is publicly held.
- (2) Mr. Shackelford is also a director of The Limited Brands, Inc., which is publicly held.
- (3) Mr. Allen is also a director of Phoenix Venture Partners and Del Rio Investment Corporation, which are privately held.
- (4) Mr. Davis is also a director of Marsh & McLennan Companies, Inc., Media General, Inc. and Merchants Bancshares, Inc., which are publicly held, and AXIS Specialty, Ltd., which is privately held.
- (5) Dr. Healy is also a director of Ashland Inc., National City Corporation and Invacare Corporation, which are publicly held, and a trustee of Battelle Memorial Institute, a not-for-profit corporation.
- (6) Mr. Kelly is also a director of National Processing Co., Inc., which is publicly held.
- (7) Mr. Hardis is also a director of Nordson Corporation, Lexmark International, Inc., American Greetings Corporation, STERIS Corporation, Apogent Technologies Inc. and Marsh & McLennan Companies, Inc., all of which, as well as Axcelis Technologies, Inc., are publicly held.
- (8) Mr. Laskawy is also a director of General Motors Corporation, Loews Corporation and Henry Schein, Inc., which are publicly held.
- (9) Mr. Matthews is also a director of Toys R Us, Inc., Sunoco, Inc., Finlay Fine Jewelry, Inc., Henry Schein, Inc. and Galyan's Trading Company, Inc., which are publicly held.

#### **Board of Directors Independence Standards and Determinations**

The Board of Directors has adopted and approved categorical independence standards which, if satisfied by a director, will permit a determination that such director is independent for purposes of the New York Stock Exchange (NYSE) Listing Standards. Under the Company's standards, an individual director may be determined to be independent if he or she satisfies each of the following requirements:

He or she is not currently an officer or employee of the Company or any of its subsidiaries, and has not been an officer or employee of the Company or any of its subsidiaries at any time during the past three years.

No member of his or her immediate family is an executive officer of the Company or has been an executive officer of the Company at any time during the past three years.

Neither he or she, nor any member of his or her immediate family, receives, or has received at any time within the past three years, more than \$100,000 per year in direct compensation from the Company or any of its subsidiaries, other than director or committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent on continued service). For purposes of this requirement, compensation received by an immediate family member for service as a non-executive employee of the Company will not be considered.

He or she is not, and has not been at any time within the past three (3) years, affiliated with or employed by a present or former auditor of the Company or any of its subsidiaries.

No member of his or her immediate family is, or has been at any time within the past three (3) years, affiliated with or employed in a professional capacity by a present or former auditor of the Company or any of its subsidiaries.

Neither he or she, nor any member of his or her immediate family, is or has been at any time during the past three (3) years, employed as an executive officer of another company where any of the executive officers of the Company serve on the compensation committee of such other company.

Neither he or she, nor any member of his or her immediate family, has a direct business or other relationship with the Company or any of its subsidiaries (as a lawyer, consultant or otherwise), other than as a director of the Company, or has had any such business or other relationship with the Company at any time during the past three years. For purposes of this requirement, service by an immediate family member as a non-executive employee of the Company will not be considered to be a prohibited relationship.

Neither he or she, nor any member of his or her immediate family, is a member of or of counsel to any law firm that the Company has retained during the last fiscal year or proposes to retain during the current fiscal year.

Neither he or she, nor any member of his or her immediate family, is a partner or executive officer of any investment banking firm that has performed services for the Company (other than as a participating underwriter in a syndicate) during the last fiscal year or that the Company proposes to have perform such services during the current fiscal year.

He or she is not an executive officer or employee of, and no member of his or her immediate family is an executive officer of, and neither he or she nor any member of his or her immediate family holds a one percent (1%) or greater equity interest in, any other company or organization that has, or has had at any time within the past three (3) years, a material business or other relationship with the Company or any of its subsidiaries. For purposes of this standard, a relationship will be deemed to be material if the total amount of the payments made or received by the Company or any of its subsidiaries in connection with such business or other relationship during the relevant fiscal year was, or for the current fiscal year is expected to be, more than the greater of (1) \$1 million; or (2) two percent (2%) of the consolidated gross revenues of such other entity.

Contributions by the Company to a charitable or non-profit organization in which a director or his or her spouse serves as a director, trustee or executive officer or in an equivalent position will be deemed immaterial under the Company's standards if the Company's contributions to such organization in any calendar year do not exceed \$25,000 (excluding matching gifts made by The Progressive Insurance Foundation in response to employee contributions to such organization). If the Company makes annual contributions in excess of the stated amount to any such organization, the effect, if any, on the director's independence will be considered on a case by case basis.

The materiality of any other relationships will be determined by a disinterested majority of directors on a case-by-case basis. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. The ownership of even a significant amount of stock, by itself, however, is not a bar to a finding of independence.

The Board of Directors has considered the independence of each of the directors under the foregoing standards and, based on such considerations and the recommendations of the Nominating and Governance Committee of the Board of Directors, and after

due inquiry into the facts and circumstances of each director's relationships with the Company (if any), has determined that each of the following directors (i) satisfies the Company's independence standards as described above, (ii) has no relationship with the Company or its subsidiaries, or with any charitable organization that received a contribution from the Company, which would require an individual determination as to such director's independence, and (iii) is independent under the applicable NYSE Listing Standards:

Milton N. Allen  
B. Charles Ames (retiring as of the 2004 Annual Meeting)  
Charles A. Davis  
Stephen R. Hardis  
Bernadine P. Healy, M.D.  
Jeffrey D. Kelly  
Philip A. Laskawy  
Norman S. Matthews  
Donald B. Shackelford  
Bradley T. Sheares, Ph.D.

#### **Meetings of the Board of Directors and Attendance**

Six meetings of the Board of Directors were held during 2003.

Pursuant to the Company's Corporate Governance Guidelines, directors are expected to attend the Company's Annual Meeting of Shareholders. Normally, a meeting of the Board will be scheduled to coincide with the Annual Meeting of Shareholders. The Company's 2003 Annual Meeting of Shareholders was attended by all eleven of the directors who were either nominated for election as a director at such meeting or whose term continued after the meeting.

#### **Meetings of the Non-Management Directors**

Pursuant to the Company's Corporate Governance Guidelines, the Company's non-management directors meet in executive session at least quarterly. The Chairman of the Board, provided that he or she is not an executive officer of the Company, presides at these meetings. In the event that a non-executive Chairman is not available to lead these meetings, the non-management director who presides will be chosen by the non-management directors. In 2003, the non-management directors met in executive session six times. Mr. Peter B. Lewis, the Chairman of the Board, presided at each of those meetings.

In addition, if there is at least one director among the non-management directors who does not meet the criteria for independence required by the NYSE, the independent non-management directors will meet in executive session at least once annually. Mr. Lewis currently does not meet the required criteria for independence. In 2003, the independent non-management directors met in executive session on one occasion.

#### **Board Committees**

The Board has named an Executive Committee, an Audit Committee, an Investment and Capital Committee, a Compensation Committee, and a Nominating and Governance Committee, as described below. Complete Charters of the Audit Committee, Investment and Capital Committee, Compensation Committee, and Nominating and Governance Committee can be found on the Company's Web site at [progressive.com/governance](http://progressive.com/governance).

##### *Executive Committee*

Messrs. Allen, Hardis, Lewis and Renwick 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 2003, the Executive Committee did not meet, but adopted resolutions by written action pursuant to Ohio corporation law on nine occasions.

*Audit Committee*

Messrs. Allen, Ames and Laskawy are the current members of the Board's Audit Committee, which assures that the organizational structure, policies, controls and systems are in place to monitor performance. The Audit Committee monitors the integrity of the Company's financial statements, the Company's financial reporting processes and internal controls, compliance by the Company with legal and regulatory requirements and the public release of financial information. The Committee also is responsible for confirming the independence of, and for the appointment, compensation, retention and oversight of the work of, the Company's independent accountant. The Committee provides an independent channel to receive appropriate communications from employees, shareholders, auditors, legal counsel, bankers, consultants and other interested parties. The Board of Directors has determined that each of the members of the Audit Committee has no relationship to the Company that may interfere with the exercise of his independence from management and the Company, and is independent as defined in the applicable NYSE Listing Standards. During 2003, the Audit Committee met five times and participated in two conference calls to review the Company's financial and operating results.

*Audit Committee Financial Expert.* The Board of Directors has determined that Philip A. Laskawy, the Chairman of the Audit Committee, is an audit committee financial expert, as that term is defined in the applicable SEC regulations, and that he has accounting or related financial management expertise, as required by the NYSE Listing Standards. Mr. Laskawy is a former Chairman and CEO of Ernst & Young LLP, and is a member or chairman of the audit committees of three other public companies. The Board has determined that through appropriate education and experience, Mr. Laskawy has demonstrated that he possesses the following attributes:

An understanding of generally accepted accounting principles and financial statements;

The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level of complexity that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;

An understanding of internal controls over financial reporting; and

An understanding of audit committee functions.

*Effectiveness of Philip A. Laskawy.* The Board of Directors does not have a policy limiting the number of public company audit committees on which a director may serve. Philip A. Laskawy, the Chairman of the Audit Committee, also serves on the audit committees of three other public companies. The Board has determined, however, that Mr. Laskawy's simultaneous service on multiple audit committees would not impair Mr. Laskawy's ability to serve effectively on the Company's Audit Committee. Among other factors, the Board considered that, since his appointment to the Audit Committee in April 2002, Mr. Laskawy has attended all meetings of the Committee, participated in all conference calls held to review operating results, and has been well prepared for and actively participated in all of the Committee's activities. In addition, since he was appointed as Chairman of the Audit Committee in April 2003, Mr. Laskawy has: participated in the planning of Committee meetings; actively led the Committee's meetings in a professional and efficient manner, asking insightful questions and covering all agenda items; consulted frequently with the Company's inside and outside auditors regarding accounting, internal controls and financial reporting matters; and helped lead the Company's efforts to comply with the Sarbanes-Oxley Act of 2002, SEC regulations and NYSE Listing Standards and to revise the Committee's Charter. The Board believes that Mr. Laskawy's participation on the audit committees of three other public companies enhanced, and would likely continue to enhance, his knowledge and

understanding of the role and functioning of audit committees in general, the issues faced by such committees and various approaches to corporate governance matters. The Board determined that Mr. Laskawy's professional, energetic and thorough approach to the Chairman's duties, as

well as the auditing, accounting and financial reporting experience that he brings, are significant benefits to the Committee and to the Company.

#### *Investment and Capital Committee*

Messrs. Hardis, Kelly and Shackelford are the current members of the Board's Investment and Capital Committee, which monitors and advises the Company on its investment and capital management policies. During 2003, the Investment and Capital Committee met six times and adopted resolutions by written action pursuant to Ohio corporation law on one occasion.

#### *Compensation Committee*

Messrs. Davis and Matthews and Dr. Healy are the current members of the Board's Compensation Committee, which reviews and approves the Company's equity and other compensation plans and awards thereunder and monitors the operation of the Company's compensation programs, including the various cash and stock incentive programs in which directors, officers and/or employees of the Company participate. The Board has determined that each of the members of the Committee is independent under applicable NYSE Listing Standards. During 2003, the Compensation Committee met six times and adopted resolutions by written action pursuant to Ohio corporation law on six occasions.

#### *Nominating and Governance Committee*

Messrs. Davis, Hardis and Matthews are the current members of the Board's Nominating and Governance Committee and have been determined by the Board to be independent as defined in the applicable NYSE Listing Standards. The Committee considers the qualifications of individuals who are proposed as possible nominees for election to the Board and makes recommendations to the Board with respect to such possible nominees, and reviews and makes recommendations on corporate governance issues.

The Committee may retain one or more third-party executive search firms, from time to time, to assist in identifying or evaluating potential nominees for director. Such search firms may be retained to identify and narrow the pool of potential nominees, to investigate a potential nominee's willingness to serve or to otherwise investigate and make recommendations to the Committee on the talents, background or other factors entering into the Committee's consideration of a potential nominee.

During 2003, the Nominating and Governance Committee met four times and reviewed the qualifications of potential candidates for the Board. The Committee recommended Bradley T. Sheares, Ph.D., to fill the vacancy on the Board that existed in 2003. Dr. Sheares, who was identified for the Committee's consideration by a third-party search firm, was elected by the Board to fill the vacancy, effective August 2003. In addition, the Committee recommended the three nominees named above for reelection to the Board, each of whom is currently a director.

*Shareholder-Proposed Candidate Procedures.* In January 2004, the Committee approved Procedures for Shareholders to Propose Candidates for Directors (the Shareholder-Proposed Candidate Procedures). Pursuant to the Shareholder-Proposed Candidate Procedures and the Committee's Charter, the Committee has adopted a policy of considering director candidates who are recommended by shareholders of the Company.

Any shareholder desiring to propose a candidate for election to the Board may do so by mailing to the Company's Secretary a written notice which identifies the candidate and includes the information required below. Upon receipt, the Secretary will forward to the Committee the notice and the other information provided. The notice and supporting information should be sent to the Secretary at the following address:



Charles E. Jarrett, Secretary  
The Progressive Corporation  
6300 Wilson Mills Road  
Mayfield Village, Ohio 44143

The written notice must include the following:

The name of the nominating shareholder, and the address(es) and phone number(s) at which the nominating shareholder can be contacted;

Evidence of the number of the Company's Common Shares, \$1.00 par value, held by the nominating shareholder, a statement of how long the nominating shareholder has held those shares, and a statement that the nominating shareholder will continue to hold those shares at least through the Company's next Annual Meeting of Shareholders;

The candidate's full name, together with address(es) and phone number(s) where the candidate can be contacted;

A statement of the candidate's qualifications and experiences, and any other qualities that the nominating shareholder believes that the candidate would bring to the Board;

A statement, signed by both the nominating shareholder and the candidate: (i) that the nominating shareholder and the candidate currently do not have, and in the prior three (3) years have not had, directly or indirectly, any business, professional or other relationship, and that the nominating shareholder and the candidate do not have any agreement, arrangement or understanding with respect to the candidate's proposed service as a Director of the Company; or (ii) if either of the foregoing statements is incorrect in any way, describing in detail the business, professional or other relationship or the agreement, arrangement or understanding, as applicable;

The candidate's resume, which must include at a minimum a detailed description of the candidate's business, professional or other appropriate experience for at least the last ten (10) years, a list of other boards of directors of public companies (if any) on which the candidate currently serves or on which he or she served in the last five (5) years, undergraduate and post-graduate educational information (if applicable) and at least three (3) business, professional or personal references for the candidate (in addition to the nominating shareholder); and

A written statement, signed by the candidate, agreeing that if he or she is selected by the Committee and the Board, he or she will (i) be a nominee for election to the Board, (ii) provide all information necessary for the Company to include in the Company's Proxy Statement under applicable SEC or NYSE rules, and (iii) serve as Director if he or she is elected by shareholders.

The nominating shareholder may also include any additional information that the shareholder believes is relevant to the Committee's consideration of the candidate. If a shareholder proposes a candidate without submitting all of the foregoing items, the Committee may, in its discretion, reject the proposed candidate, request more information from the nominating shareholder, or consider the proposed candidate while reserving the right to request more information. In addition, the Committee further reserves the right to limit each shareholder to one (1) proposed candidate in any calendar year and not to consider any additional candidate(s) proposed by such shareholder or affiliates of such shareholder.

Shareholders may propose candidates to the Committee pursuant to the Shareholder-Proposed Candidate Procedures at any time. However, to be considered by the Committee in connection with the Company's next Annual Meeting of Shareholders (held in April of each year), the Secretary must receive the shareholder's proposal and the information required above on or before November 30th of the year immediately preceding such Annual Meeting.

It is the policy of the Committee to review and evaluate each candidate for nomination submitted by shareholders in accordance with the Shareholder-Proposed Candidate Procedures on the same basis as candidates that are suggested by the Company's Board members or executive officers or by other sources, which may include professional search firms retained by the Committee. The Committee will give strong preference to candidates that are likely to be deemed independent from the Company under SEC and NYSE rules. Likewise, as to shareholder-proposed

candidates, the Committee may give more weight to candidates who are unaffiliated with the shareholder proposing their nomination and to candidates who are proposed by long-standing shareholders with significant share ownership (i.e., greater than 1% of the Company's Common Shares that have been owned for more than 2 years).

In considering Director nominations generally, the Committee will consider: the current composition of the Board and how it functions as a group; the talents, personalities, strengths and any weaknesses of current Board members; the value of contributions made by individual Board members; the need for a person with specific skills, experiences or background to be

added to the Board; any available or anticipated vacancies due to retirement or other reasons; and other factors which may enter into the nomination decision. Upon the expiration of a Director's term on the Board, the current Director will be given preference for nomination when the Director indicates his or her willingness to continue serving and, in the Committee's judgment, the Director has made and is likely to continue to make a significant contribution to the Board and the Company.

When considering an individual candidate's suitability for the Board, the Committee will evaluate each individual on a case-by-case basis. The Committee does not prescribe minimum qualifications or standards for directors, but instead looks for directors who have demonstrated the ability to satisfy the fundamental criteria set forth in the Committee's Charter: Integrity, Judgment, Commitment, Preparation, Participation and Contribution. In addition, the Committee will review the extent of the candidate's demonstrated excellence and success in his or her chosen business, professional or other career and the skills and talents which the candidate would be expected to add to the Board. The Committee may choose, in individual cases, to conduct interviews with the candidate and/or contact references, business associates, other members of boards on which the candidate serves or other appropriate persons to obtain additional information. Such background inquiries may also be conducted, in whole or in part, on the Committee's behalf by third parties, such as professional search firms. The Committee will make its determinations on whether to nominate an individual candidate based on the Board's then-current needs, the merits of each such candidate and the qualifications of other available candidates. If a candidate is not nominated, the Committee will have the discretion to reconsider his or her candidacy in connection with future vacancies on the Board.

The Committee's decision not to nominate a particular individual for election to the Board will not be publicized by the Company, unless required by applicable laws or NYSE rules. The Committee will have no obligation to respond to shareholders who propose candidates that the Committee has determined not to nominate for election to the Board, but the Committee may choose to do so in its sole discretion.

These Shareholder Proposed Candidate Procedures are in addition to any rights that a shareholder may have under the Company's Code of Regulations or under any applicable laws or regulations in connection with the nomination of directors for the Company's Board.

## Communications with the Board of Directors

The Board of Directors has adopted procedures for security holders to send written communications to the Board as a group. Such communications must be clearly addressed to the Board of Directors and sent to any of the following, at the election of the security holder:

Peter B. Lewis  
Chairman of the Board  
The Progressive Corporation  
6300 Wilson Mills Road  
Mayfield Village, OH 44143  
E-mail: peter\_lewis@progressive.com

Philip A. Laskawy  
Chairman of the Audit Committee  
The Progressive Corporation  
c/o Ernst & Young  
5 Times Square  
New York, New York 10036  
E-mail: philip\_laskawy@progressive.com

Charles E. Jarrett  
Secretary  
The Progressive Corporation  
6300 Wilson Mills Road  
Mayfield Village, OH 44143  
E-mail: chuck\_jarrett@progressive.com

Communications so received will be forwarded by the recipient to the full Board of Directors.

## Certain Relationships and Related Transactions

During 2003, a company owned by Mr. Peter B. Lewis paid to the Company the amount of \$457,411 for: (a) the salaries and all other payroll expenses of three pilots and a part-time mechanic who were then employees of a subsidiary of the Company and supported the operation of an airplane independently owned by Mr. Lewis's company (this arrangement was terminated in January 2004); (b) the salary and related employee costs of an employee of a subsidiary of the Company who acted as Mr. Lewis's executive assistant (this arrangement was terminated in February 2003); and (c) a portion of the rental costs and certain other expenses incurred by a subsidiary of the Company in connection with the lease of an airplane hangar, the use of which is shared by a subsidiary of the Company and Mr. Lewis's company.

In January and September 2003, the Company purchased 400,000 and 200,000, respectively, of the Company's Common Shares from PBL Investments, LP, which is wholly owned, directly or indirectly, by Mr. Lewis, for \$52.23 and \$71.00 per share. With respect to each such transaction, the price per share equaled the then current market price of the Company's Common Shares as quoted on the NYSE.

Mr. Jeffrey Kelly, a director of the Company, is also an Executive Vice President and the Chief Financial Officer of National City Corporation, the parent company of National City Bank. During 2003, the Company had a \$10 million revolving credit arrangement with National City Bank. The Company had no borrowings under this arrangement at December 31, 2003. During 2003, the Company paid a total of \$12,674 to National City Bank for the commitment

fees under this revolving credit arrangement. This arrangement was replaced with a new \$10 million revolving credit line from National City Bank in January 2004. The material terms of the new credit line are substantially similar to those of the previous line.

National City Bank is also the Transfer Agent and Registrar of the Company's Common Stock and received fees of \$107,651 for such services during 2003, which represents its customary rates. Additionally, the Company uses National City Bank for commercial banking services, and paid \$1,145,910 in service charges during 2003.

During 2003, the Company paid \$537,900 to Mercer Management Consulting, Inc. (Mercer), a subsidiary of Marsh & McLennan Companies, Inc., for property management services provided at the Company's Albany, New York building. Mr. Charles Davis, a director of the Company, is the Vice Chairman of Marsh & McLennan Companies, Inc. The fees paid to Mercer were customary rates for services rendered in such capacities. This arrangement was terminated in February 2004.

Mr. Davis, along with Mr. W. Thomas Forrester, a named executive officer of the Company, serve as directors of AXIS Specialty Ltd. (AXIS), a subsidiary of Marsh & McLennan Companies, Inc. Beginning in July 2003, AXIS reinsured part of the Company's outstanding risks under its directors' and officers' liability insurance, trust errors and omissions insurance, and bond products. AXIS provides reinsurance coverage of \$6.0 million on policy limits of \$15 million, for losses incurred in excess of the first million dollars. AXIS is one of several companies that the Company uses to reinsure this non-auto line of business. During 2003, the Company ceded \$2,079,867 in premiums to AXIS for this coverage. At December 31, 2003, the Company had \$843,367 of reinsurance recoverables on unpaid losses under this arrangement. The terms of this reinsurance arrangement are consistent with those between the Company and the other reinsurers.

In addition, the Company uses various subsidiaries of Marsh & McLennan Companies, Inc., for brokerage services in the ordinary course of the Company's auto and non-auto businesses. During 2003, the Company paid \$1,180,565 for these services. These commissions were at customary rates for services rendered in such capacities.

The Company paid \$3,595 to Fiserv, Inc., for comparative rating software during 2003. Mr. Glenn Renwick, President, Chief Executive Officer and a director of the Company, is also a director of Fiserv, Inc.

#### **Compensation Committee Interlocks and Insider Participation**

Messrs. Davis, Matthews and Dr. Healy served as members of the Company's Compensation Committee during 2003. There are no Compensation Committee interlocks.

## REPORT OF THE AUDIT COMMITTEE

*The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.*

The Audit Committee of the Board of Directors (the Committee) oversees the Company's financial reporting process on behalf of the Board. The Company's management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed and discussed with management the Company's audited financial statements for the year ended December 31, 2003, including a discussion of the quality, not just the acceptability, of the accounting principles, reasonableness of significant judgments, and clarity of disclosures in the financial statements.

The Committee has discussed with the independent accountants, who are responsible for expressing an opinion on the conformity of the financial statements with accounting principles generally accepted in the United States of America, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under Statement on Auditing Standards No. 61 (Communication with Audit Committees). In addition, the Committee has received the written disclosures and letter from the independent accountants required by Independence Standards Board Standard No. 1 and has discussed with the independent accountants their independence from management and the Company.

The Committee discussed with the Company's internal and independent accountants the overall scope and plans for their respective audits. The Committee meets with the internal and independent accountants, with and without management present, to discuss the results of their examinations, evaluations of the Company's internal controls and the overall quality of the Company's financial reporting. During 2003, the Committee held five meetings and participated in two conference calls to review the Company's financial and operating results. Also, during 2003, the Committee reassessed the adequacy of the Audit Committee's Charter and recommended that the Charter be updated and revised to comply with recently adopted New York Stock Exchange corporate governance standards. The revised Charter was approved by the Board in December 2003 and is included as Appendix A.

Based on the reviews and discussions referred to above, the Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, for filing with the Securities and Exchange Commission. The Committee has selected and retained PricewaterhouseCoopers LLP to serve as the independent accountants for the Company and its subsidiaries for 2004.

### AUDIT COMMITTEE

Philip A. Laskawy, Chairman  
Milton N. Allen  
B. Charles Ames



## 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 December 31, 2003, or other date indicated below, of more than 5% of the Company's Common Shares:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Ruane, Cunniff & Co., Inc. 767 Fifth Avenue New York, New York 10153-4798	27,390,805(2)	12.7%
The TCW Group, Inc. 865 South Figueroa Street Los Angeles, California 90017	25,175,039(3)	11.6%
Peter B Lewis 6300 Wilson Mills Road Mayfield Village, Ohio 44143	19,390,260(4)	8.9%
Davis Selected Advisers, L.P. 2949 East Elvira Road, Suite 101 Tucson, Arizona 85706	19,139,134(5)	8.8%
AXA Financial, Inc. 1290 Avenue of the Americas New York, New York 10104	14,002,213(6)	6.5%

- (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, including related footnotes, is based on the Schedule 13G filings made by the beneficial owners identified herein.
- (2) The Common Shares are held in investment accounts maintained with Ruane, Cunniff & Co., Inc. as of December 31, 2003, and it disclaims any beneficial interest in such shares. Ruane, Cunniff & Co., Inc. has advised that it has sole voting power as to 11,863,745 of these shares, no voting power as to the balance of these shares, and sole investment power as to all of these shares.
- (3) The Common Shares are held in investment accounts maintained with The TCW Group, Inc. as of December 31, 2003, and it disclaims any beneficial interest in such shares. The TCW Group, Inc. has advised that it has shared voting power as to 21,942,092 of these shares, no voting power as to the balance of these shares, and shared investment power as to all of these shares.
- (4) Includes 49,647 Common Shares held for Mr. Lewis by a trustee under the Company's Retirement Security Program, 661,627 Common Shares subject to currently exercisable stock options and 3,052 restricted Common Shares granted to Mr. Lewis in his capacity as Chairman of the Board. Also includes: 30,600 shares held by a charitable corporation of which Mr. Lewis serves as a trustee and an officer, as to which Mr. Lewis disclaims any beneficial interest; and 4,131,489 Common Shares held by two limited partnerships in which Mr. Lewis directly or indirectly holds general partner interests, and three limited liability companies in which Mr. Lewis directly or indirectly holds membership interests, as to which shares Mr. Lewis disclaims any beneficial interest, except to the extent of his own pecuniary interest therein.

(5)

The Common Shares are held in investment accounts maintained with Davis Selected Advisors, L.P. as of December 31, 2003, and it disclaims any beneficial interest in such shares. Davis Selected Advisors, L.P. has advised that it has sole voting and sole investment power as to all of these shares. Mr. Charles Davis, a director of the Company, has no affiliation with Davis Selected Advisors, L.P.

(6) The Common Shares are held in investment accounts maintained with subsidiaries of AXA Financial, Inc., as of December 31, 2003, and it disclaims any beneficial interest in such shares. AXA Financial, Inc. has advised that it has sole voting power as to 7,319,129 of these shares, shared voting power as to 2,416,874 of these shares, no voting power as to the balance of these shares, and sole investment power as to 13,914,439 of these shares and shared investment power as to 87,774 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 December 31, 2003 (including stock options exercisable 60 days thereafter), by all directors and nominees for election as directors of the Company, each of the named executive officers (as identified on page 17) and by all directors and all individuals who were executive officers of the Company on December 31, 2003, as a group:

Name	Common Shares	Common Shares	Other	Total		Units	Total Interest
	Subject to Restricted Stock Awards(1)	Subject to Currently Exercisable Options(2)	Common Shares Beneficially Owned(3)	Common Shares Beneficially Owned	Percent of Class(4)	Equivalent to Common Shares(5)	in Common Shares and Unit Equivalents
Milton N. Allen	1,450	40,767	58,987(6)	101,204	*	664	101,868
B. Charles Ames	1,450	46,767	169,215	217,432	*	7,015	224,447
Alan R. Bauer	12,205	294,564	41,749(7)	348,518	*	N/A	348,518
Charles A. Davis	1,450	28,767	30,000	60,217	*	5,873	66,090
W. Thomas Forrester	15,248	311,949	64,481(8)	391,678	*	N/A	391,678
Stephen R. Hardis	1,450	40,767	26,669	68,886	*	30,611	99,497
Bernadine P. Healy, M. D.	1,450	N/A	6,000	7,450	*	155	7,605
Jeffrey D. Kelly	1,450	14,919	9,000	25,369	*	2,484	27,853
Philip A. Laskawy	1,450	2,619	3,000(9)	7,069	*	1,297	8,366
Peter B. Lewis	3,052	661,627	18,725,581(10)	19,390,260	8.9%	N/A	19,390,260
Norman S. Matthews	1,450	46,767	39,603	87,820	*	3,933	91,753
Brian J. Passell	11,224	134,613	8,352	154,189	*	N/A	154,189
Glenn M. Renwick	68,656	459,546	180,601(11)	708,803	*	N/A	708,803
Donald B. Shackelford	1,450	46,767	181,113(12)	229,330	*	5,754	235,084
Bradley T. Sheares, Ph.D.		N/A			*	64	64
Robert T. Williams	12,661	198,126	17,490(13)	228,277	*	N/A	228,277
All 23 Executive Officers and Directors as a Group	184,429	2,597,968	19,632,574	22,414,971	10.2%	57,851	22,472,821

\* Less than 1% of the outstanding Common Shares of the Company.

N/A = not applicable

- (1) Includes Common Shares held for executive officers and directors pursuant to restricted stock awards issued under various incentive plans maintained by the Company. The beneficial owner has sole voting power and no investment power with respect to these shares during the restriction period.
- (2) Includes currently exercisable stock options issued under various incentive plans maintained by the Company. The beneficial owner has no voting power or investment power with respect to these shares prior to exercising the options.
- (3) Includes, among other shares, Common Shares held for executive officers or their spouses under The Progressive Retirement Security Program or pursuant to The Progressive Corporation Executive Deferred Compensation Plan. Unless otherwise indicated below, beneficial ownership of the Common Shares reported in the table includes 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.
- (4) Percentage based solely on Total Common Shares Beneficially