PROGRESSIVE CORP/OH/
Form DEF 14A
March 21, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

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

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

THE PROGRESSIVE CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials:

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The Progressive Corporation will hold its Annual Meeting of Shareholders on Friday, May 16, 2014, at 10:00 a.m., local time, at Studio 96, 6671 Beta Drive, Mayfield Village, Ohio. At the Annual Meeting, shareholders will be asked to:

1. Elect as directors the seven nominees identified in the attached Proxy Statement, each to serve for a term of one year;
2. Cast an advisory vote to approve our executive compensation program;
3. Ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2014; and
4. Transact such other business as may properly come before the meeting.

The foregoing items of business are described more fully in the Proxy Statement accompanying this Notice. Only shareholders of record of The Progressive Corporation (NYSE:PGR) at the close of business on March 18, 2014, are entitled to receive notice of and to vote at the meeting or any adjournment or postponement of the meeting.

Your vote is important. Whether or not you plan to be present at the meeting, please vote by Internet or telephone (following the instructions on the enclosed proxy card), or by completing and returning the proxy card in the enclosed postage-paid envelope. If you later choose to revoke your proxy, you may do so before voting occurs at the Annual Meeting by following the procedures described in the Questions and Answers about the Annual Meeting and Voting section in the attached Proxy Statement.

By Order of the Board of Directors.

Charles E. Jarrett, *Secretary*

March 21, 2014

The Proxy Statement and the 2013 Annual Report to Shareholders

are also available at progressiveproxy.com.

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THE PROGRESSIVE CORPORATION

PROXY STATEMENT

GENERAL INFORMATION REGARDING PROXY MATERIALS AND THE ANNUAL MEETING OF SHAREHOLDERS

The Board of Directors of The Progressive Corporation (NYSE:PGR) provides this Proxy Statement to you to solicit your proxy to act upon the matters outlined in the accompanying Notice of Annual Meeting of Shareholders, each described in more detail below.

The Annual Meeting will take place on Friday, May 16, 2014, at 10:00 a.m., local time, at Studio 96, 6671 Beta Drive, Mayfield Village, Ohio 44143. Your proxy also may be voted at any adjournment or postponement of the meeting.

The form of proxy (proxy card), this Proxy Statement, and Progressive s 2013 Annual Report to Shareholders are being mailed to shareholders beginning on or about March 28, 2014.

All proxies that are properly completed and submitted over the Internet or by telephone, and all properly executed written proxies, will be voted at the meeting in accordance with the directions given by the shareholder, unless the shareholder properly revokes his or her proxy before voting occurs at the meeting.

Only shareholders of record of The Progressive Corporation at the close of business on March 18, 2014, the record date, are entitled to receive notice of and to vote at the meeting or any adjournment or postponement thereof. Each shareholder on the record date is entitled to one vote for each of our common shares, $1.00 par value, held by such shareholder. On the record date, we had 594,286,063 common shares outstanding.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Why did I receive these materials?

You received these materials because you were a shareholder of The Progressive Corporation on the record date. We hold a meeting of our shareholders annually. This year s meeting will be held on Friday, May 16, 2014. At the meeting, shareholders will be asked to vote on several items of business. Since it is not practical or convenient for all shareholders to attend the meeting in person, our Board of Directors is seeking your proxy to vote on these matters.

What is a proxy?

A proxy is the legal authority that you give to another person to vote the shares you own at our Annual Meeting. The person you designate to vote your shares also is referred to as your proxy. If you designate someone as your proxy in a written document, that document sometimes is referred to as a proxy or proxy card. When you submit a proxy card or you submit your vote over the Internet or by phone, the person named as your proxy is required to vote your shares at the Annual Meeting in the manner you have instructed. By voting via proxy, each shareholder is able to ensure that his or her vote is counted without having to attend the Annual Meeting in person.

Who is soliciting my proxy?

This solicitation of proxies is made by and on behalf of our Board of Directors. The Board has approved the matters to be acted upon at the Annual Meeting (described in more detail below). The Board recommends that you vote FOR each director nominee named in this Proxy Statement and FOR each of the other proposals listed in the Notice of Annual Meeting of Shareholders. However, you control your vote, and the voting instructions that you provide will be followed.

What is the purpose of the Annual Meeting?

At the Annual Meeting, shareholders will act upon the matters listed in the Notice of Annual Meeting of Shareholders. Also, once the business of the Annual Meeting is concluded, management will be available to respond to appropriate questions from shareholders.

What is a proxy statement?

This document (excluding the 2013 Annual Report to Shareholders, which is attached as an appendix) is our Proxy Statement. A proxy statement is a document that Securities and Exchange Commission (SEC) regulations require us to

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give shareholders when we are soliciting shareholders proxies to vote their shares. This Proxy Statement and the Annual Report contain important information about The Progressive Corporation and its subsidiaries and affiliates, and about the matters that will be voted on at the Annual Meeting. Please read these materials carefully so that you have the information you need to make informed decisions.

Who is entitled to vote at the Annual Meeting?

Holders of our common shares at the close of business on March 18, 2014, the record date, are entitled to receive the Notice of Annual Meeting and Proxy Statement and to vote their shares at the Annual Meeting. As of the record date, we had 594,286,063 common shares outstanding and entitled to vote. Each share is entitled to one vote on each matter properly brought before the meeting.

What is the difference between a shareholder of record and a shareholder who holds shares in street name?

If you hold Progressive shares directly in your name with our transfer agent, American Stock Transfer & Trust Company, LLC, you are a shareholder of record (also known as a registered shareholder). The Notice of Annual Meeting, Proxy Statement, Annual Report to Shareholders, and proxy card have been sent directly to you by Progressive or our representative.

If you own your shares indirectly through a broker, bank, or other financial institution, your shares are said to be held in street name. Technically, your bank or broker is the one that votes those shares. In this case, the Notice of Annual Meeting, Proxy Statement, Annual Report to Shareholders, and a voting instruction form have been forwarded to you by your broker, bank, other financial institution, or their designated representative. Through this process, your bank or broker collects the voting instructions from all of its customers who hold Progressive shares and then submits those votes to us.

Under New York Stock Exchange (NYSE) rules, your broker will NOT be able to vote your shares with respect to the election of directors or the vote on our executive compensation program UNLESS you provide voting instructions to your broker (see the question What are broker discretionary voting and broker non-votes? below for more information). We strongly encourage you to complete and return your voting instruction form and exercise your right to vote.

What methods can I use to vote?

By Telephone or Internet. All shareholders of record can vote via the Internet or by touch-tone telephone from the U.S. and Canada, following the directions set forth on the proxy card. Telephone and Internet voting for street-name holders is typically made available by brokers, banks, or other financial institutions. If applicable to you, voting instructions will be included in the materials you receive from them.

<u>If you vote by telephone or on the Internet, you do not have to return your proxy card or voting instruction form.</u>

By Mail. All shareholders of record can vote using the enclosed proxy card. Please be sure to complete, sign, and date the proxy card and return it in the enclosed, prepaid envelope. If you are a street-name holder, you will receive a voting form and instructions from your bank or broker.

In Person. All shareholders of record may vote in person at the Annual Meeting. Street-name holders may vote in person at the Annual Meeting only if they bring a legal proxy from their bank or broker. If you are a street-name holder and you plan to vote in person, you must request the legal proxy from your bank or broker well in advance of the meeting date. A photo identification is required to vote in person. 401(k) plan holders are not eligible to vote in person at the Annual Meeting.

401(k) Plan Holders. If you hold shares in our 401(k) plan, you will receive separate information on how to instruct the plan trustee to vote the shares held on your behalf under the plan. If your voting instructions are received on a timely basis, your 401(k) plan shares will be voted according to the instructions received. If you do not specify your voting instructions in the manner required, your shares will not be voted. To allow the trustee sufficient time to process instructions, you must submit your voting instructions by 11:59 p.m., eastern time, on Tuesday, May 13, 2014.

If I submit a proxy, may I later change or revoke it?

If you are a shareholder of record, you can revoke your proxy at any time before votes are cast at the Annual Meeting by:

providing written notice to the Secretary of the company;

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timely delivering a valid, later-dated, and signed proxy card or a later-dated vote by telephone or via the Internet; or

voting in person at the Annual Meeting.

If you are a street-name holder of shares, you may submit new voting instructions by contacting your bank, broker, or other financial institution. You may also vote in person at the Annual Meeting, if you obtain a legal proxy as described in the answer to the previous question.

If you hold shares in our 401(k) plan, you can change your voting instructions at any time prior to 11:59 p.m., eastern time, on Tuesday, May 13, 2014; voting for 401(k) plan shares in person at the Annual Meeting is not permitted.

Only your last vote will be counted. All shares that have been properly voted and not revoked will be voted at the Annual Meeting as instructed.

Who counts the votes?

Votes will be tabulated by or under the direction of the Inspectors of Election, some of whom may be regular employees of Progressive. The Inspectors of Election will certify the results of the voting at the Annual Meeting.

What are my voting options and what vote is needed to pass the proposals included in this Proxy Statement?

You have the right to vote FOR or AGAINST each director nominee and each other proposal, or to ABSTAIN from voting. The following table summarizes the vote required for approval regarding the director elections and each other proposal, as well as the Board s voting recommendation.

Item Number	Proposal	Board Recommendation	Affirmative Vote Required for Approval	Broker Discretionary Voting Allowed[1]	Effect of Abstentions and Broker Non-Votes[1]
1	Elect as directors the seven nominees identified in this Proxy Statement, each to serve for a term of one year	FOR each nominee	Majority of votes cast	No	See note 2
2	Cast an advisory vote to approve our executive compensation program	FOR	Majority of votes cast	No	See note 2
3	Ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2014	FOR	Majority of votes cast	Yes	See note 2

[1] See the question below entitled What are broker discretionary voting and broker non-votes? for additional explanation.

[2] Abstentions and unvoted shares (including broker non-votes) will not be taken into account.

What are broker discretionary voting and broker non-votes?

For shares held in street name, when a broker or bank does not receive voting instructions from its customers, the question arises whether the broker or bank nonetheless has the discretion to vote those shares. For us, the answer to that question depends on whether the NYSE classifies the matter being voted on as routine or non-routine.

For routine matters, the NYSE gives brokers and banks the discretion to vote, even if they have not received voting instructions from their customers (sometimes referred to as the beneficial owners). Each bank or broker has its own policies that control whether or not it casts votes for routine matters. In this Proxy Statement, only the ratification of our independent registered public accounting firm (Item 3) is expected to be considered routine by the NYSE.

For non-routine matters, the NYSE prohibits banks and brokers from casting votes on behalf of the beneficial owners if they have not received voting instructions. When the bank or broker is unable to vote under these rules, it reports the number of unvoted shares to us as broker non-votes. In this Proxy Statement, the election of directors (Item 1) and the advisory vote on our executive compensation program (Item 2) are expected to be considered non-routine by the NYSE. As a result, on each of those items, if you hold your shares in street name, your shares will be voted only if you give instructions to your bank or broker.

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The NYSE will make final determinations about our proposals and will inform the banks and brokers whether each proposal is considered routine or non-routine. To ensure that your shares are voted, we strongly encourage you to provide your bank or broker with your voting instructions.

Can I access the Notice of Annual Meeting, Proxy Statement, Annual Report on Form 10-K, and the Annual Report to Shareholders on the Internet?

The Notice of Annual Meeting, Proxy Statement, and 2013 Annual Report to Shareholders are available on a dedicated website at progressiveproxy.com. Our Annual Report on Form 10-K is available at the Investor Relations section of our website at progressive.com/sec. We will also provide a copy of any of these documents to any shareholder free of charge, upon request by email to investor_relations@progressive.com, by calling (440) 395-2222, or by writing to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, OH 44143.

If you hold your shares in street name, your bank or broker may also provide you copies of these documents electronically. Please check the information provided in the proxy materials delivered to you by your bank or broker regarding the availability of this service.

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, THE BOARD OF DIRECTORS STRONGLY ENCOURAGES YOU TO VOTE YOUR SHARES BY PROXY PRIOR TO THE MEETING. YOUR VOTE IS IMPORTANT. PLEASE FOLLOW THE VOTING INSTRUCTIONS CAREFULLY TO MAKE SURE THAT YOUR SHARES ARE VOTED APPROPRIATELY.

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ITEM 1: ELECTION OF DIRECTORS

Seven of our directors have been nominated for election this year. Information about the structure of our Board of Directors, the process for selecting nominees for director positions, and our individual directors follows.

Board Structure. Our Code of Regulations establishes the number of directors at no fewer than five and no more than 13. The number of directors has been fixed at 10, and there are currently 10 directors on the Board.

At our Annual Meeting in 2012, shareholders approved a change requiring the annual election of directors beginning in 2013. Accordingly, the seven nominees for director named below, if elected by shareholders, each will serve a term of one year. Our other current directors were elected by shareholders in 2012 for three-year terms. Each of those existing terms will continue after the Annual Meeting and will expire in 2015, and each nominee for election (or re-election) at that time will then be subject to election for a one-year term to the board. As a result of this process, beginning in 2015, the full board will be elected for annual one-year terms.

At the Annual Meeting, the shares represented by the proxies obtained in response to this Proxy Statement, unless otherwise specified, will be voted for the election as directors of the seven nominees named below, each to serve for a one-year term, and until their respective successors are duly elected. If, by reason of death or other unexpected occurrence, any one or more of the nominees named below is not available for election, the proxies will be voted for substitute nominee(s), if any, as the Board of Directors may propose.

Nominees for Director. Based upon a recommendation from the Board s Nominating and Governance Committee, the Board has nominated the following persons for election to the Board:

Stuart B. Burgdoerfer

Charles A. Davis

Lawton W. Fitt

Jeffrey D. Kelly

Heidi G. Miller, Ph.D.

Patrick H. Nettles, Ph.D., and

Glenn M. Renwick.

Each of the seven nominees for director is currently a director of the company.

Voting Requirements. Proxies cannot be voted at the Annual Meeting for a greater number of persons than the seven nominees named in this Proxy Statement.

If written notice 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 be cumulative, and if an announcement of the giving of such notice is made at the meeting by the Chairman or Secretary or by or on behalf of the shareholder giving such notice, each shareholder will have the right to cumulate his or her voting power in the election of directors. Under cumulative voting, each shareholder may 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 distribute such number of votes among the seven nominees, as the shareholder sees fit. If the enclosed proxy is executed and returned, or you submit your proxy by telephone or over the Internet, 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 seven nominees named above as possible.

A nominee for director in an uncontested election will be elected as a director only if he or she receives a majority of the votes cast, which is sometimes referred to as a majority voting standard. If the election for directors is contested (that is, there are more nominees than the number of director positions up for election), the majority voting standard does not apply, and the nominees receiving the highest number of votes will be elected (a plurality voting standard). The election of directors at this year s Annual Meeting is an uncontested election, so each nominee must receive a majority of the votes cast to be elected.

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If an incumbent director is not elected by a majority of the votes cast in an uncontested election, the director is not automatically removed from the Board, but under our Corporate Governance Guidelines, he or she is expected to tender a resignation from the Board within 10 days after the certification of the shareholder vote. If that resignation is not made contingent on the Board s determination to accept or reject such resignation, the resignation will be effective immediately. If the resignation is contingent on Board action, the Board will review the resignation under procedures set forth in our Corporate Governance Guidelines and announce its determination whether to accept or reject the resignation within 120 days from the certification of the shareholder vote. If a director is not elected by a majority of the votes cast, but fails to tender his or her resignation during the 10-day period after certification, his or her term of office will expire automatically upon the expiration of the 10 days.

Selection of Nominees for Director. The Nominating and Governance Committee evaluates each director candidate individually when considering whether he or she should be nominated to serve on the Board. The Committee looks for candidates who have demonstrated the ability to satisfy the fundamental criteria set forth in the Committee s charter integrity, judgment, commitment, preparation, participation, and contribution and who possess the general qualities required to serve successfully as a director, including intelligence, thoughtfulness, and diligence. The Committee reviews the extent of the candidate s demonstrated excellence and success in his or her chosen career and the specific skills the candidate would be expected to add to the Board.

The Committee also considers the Board s needs, the qualifications of other available candidates, and how the addition of the candidate to the Board would enhance the Board s overall diversity and capabilities. The Board seeks to include individuals with a wide variety of talents, skills, experiences, and perspectives, in addition to considering demographic criteria such as gender, race, and age. It is the Board s policy to include among its members individuals of both genders, and from different racial and ethnic groups, whenever possible. The directors believe that such diversity provides the Board with broader perspectives, a wide array of thoughts and ideas, and insight into the views and priorities of our diverse customer, agent, and employee bases. To evaluate the impact of the addition of a candidate on the diversity of the Board, the Committee considers how distinct the candidate s background, experience, skills, and personal characteristics are from those of the incumbent directors and whether the candidate would bring a unique perspective to the Board. The Committee assesses the effectiveness of its practices for consideration of diversity in nominating director candidates by periodically analyzing the diversity of the Board as a whole and, based on that analysis, determining whether it may be desirable to add to the Board a director with a certain type of background, talent, experience, personal characteristics, skills, or a combination thereof. Currently, Progressive s Board includes a mixture of long-tenured and newer directors with strong operating experience in a wide variety of industries, such as financial services, healthcare, communications, retailing, and manufacturing, and with substantial experience working in a variety of functions, including consumer marketing, technology, investments, capital management, finance, accounting and control, and risk analysis. Our directors also have a wealth of experience serving on an array of public, private, and non-profit boards.

Director Information. The following information is provided for each person nominated for election as a director, and for those directors whose terms will continue after the Annual Meeting, and includes descriptions of each director s specific experience, qualifications, attributes, and skills that led the Nominating and Governance Committee and the Board to conclude that he or she should serve on the Board of Directors. Unless otherwise indicated, each such nominee or director has held the principal occupation indicated for more than the last five years.

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Nominees for Election at the Annual Meeting

Name (Age)	Principal Occupation, Last Five Years Business Experience, and Qualifications	Last Five Years Other Directorships
Stuart B. Burgdoerfer (50)	Executive Vice President and Chief Financial Officer, L Brands, Inc., Columbus, Ohio (retailing)	Current: None
Director since: 2009 Term expires: 2014 (2015 if re-elected)	Mr. Burgdoerfer has been selected to serve as a director of the company because he has substantial experience working in leadership roles as a financial professional, including his current role as the Chief Financial Officer of L Brands, Inc. (formerly Limited Brands, Inc.) and, before that, as Senior Vice President of Finance of The Home Depot, Inc. Mr. Burgdoerfer enhances the Board s financial expertise and is a valuable member of our Audit Committee as an Audit Committee Financial Expert.	Former: None
Charles A. Davis (65)	Chief Executive Officer, Stone Point Capital LLC, Greenwich, Connecticut (private equity investing)	Current: AXIS Capital Holdings Limited and The Hershey Company
Director since: 1996 Term expires: 2014 (2015 if re-elected)	Mr. Davis has broad financial, investment, and capital management expertise developed through his work at Goldman Sachs Group, investment management experience at MMC Capital, Inc., service as Chief Executive Officer of Stone Point Capital LLC and his position as a member of the Advisory Committee of Deutsche Bank (Americas). The Board values Mr. Davis s extensive knowledge of Progressive s business and history, which he has gained through his service as a director of the company since 1996. He also has substantial experience serving on the boards of other public and private companies.	Former: None
Lawton W. Fitt (60)	Corporate Director	Current: Ciena Corporation, The Carlyle Group, and Thomson Reuters Corporation
Director since: 2009 Term expires: 2014 (2015 if re-elected)	Ms. Fitt was chosen to serve on the Board because she has substantial experience in the areas of investment banking and risk analysis, including insight into the operation of capital markets, as a result of her work as a partner at Goldman Sachs Group. In addition, she attained executive management experience through her work as the Secretary of the Royal Academy of Arts in London. Ms. Fitt s service as a director at various other for-profit and non-profit organizations also factored into the decision to select her to serve on the Board of Directors.	Former: Frontier Communications Corporation

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Name (Age)	Principal Occupation, Last Five Years Business Experience, and Qualifications	Last Five Years Other Directorships
Jeffrey D. Kelly (60)	Executive Vice President and Chief Financial Officer, RenaissanceRe Holdings Ltd., Pembroke, Bermuda (reinsurance services) since July 2009	Current: None
Director since: 2012 Prior service: 2000-2009 Term expires: 2014 (2015 if re-elected)	Mr. Kelly brings a strong history of executive management, investment management, capital markets, and operational experience in the financial services industry. Among other responsibilities, he has served as the principal financial officer at a major commercial bank and now at a large reinsurer. Mr. Kelly was highly regarded by Board members during his prior tenure with the Board and its committees, and this experience gives him valuable insight into our insurance and investment operations. Due to his current role as CFO at RenaissanceRe, Mr. Kelly also brings to the Board a different perspective about our industry.	Former: None
Heidi G. Miller, Ph.D. (60)	Retired; President of International, JPMorgan Chase & Co., New York, New York (financial services) from June 2010 through January 2012; Chief Executive Officer, J.P. Morgan Treasury & Securities Services, New York, New York (financial services) prior to June 2010	Current: General Mills, Inc.
Director since: 2011 Term expires: 2014 (2015 if re-elected)	Dr. Miller was elected to the Board as a result of her deep financial, executive management, and international business experience acquired during her career in the financial services and other industries. Most recently, as JPMorgan s President of International, she led the firm s global expansion efforts and spearheaded the development of its international business strategy. She also jointly led J.P. Morgan Global Corporate Bank and had previously served as the chief financial officer at three major financial institutions. She has been appointed as a member of our Audit Committee and is recognized by the Board as an Audit Committee Financial Expert.	Former: None
Patrick H. Nettles, Ph.D. (70)	Executive Chairman of the Board, Ciena Corporation, Linthicum, Maryland (telecommunications)	Current: Axcelis Technologies, Inc. and Ciena Corporation
Director since: 2004 Term expires: 2014 (2015 if re-elected)	Dr. Nettles s extensive technical experience, including his experience working as an engineer, engineering manager, and his position as Chairman of the Board of Ciena Corporation, are chief among the reasons he was selected to serve on the Board of Directors. His experience and education, which includes a Ph.D. in physics, along with his significant operational experience as the Chief Executive Officer of Ciena, give him a unique perspective that enables him to make significant and distinct contributions to our Board. In addition, his past experience as a chief financial officer enables him to add great value to the Audit Committee as the Committee Chairman and an Audit Committee Financial Expert. Dr. Nettles s service as a director at other public companies also factored into the decision to select him to serve on our Board of Directors.	Former: None

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Name (Age)	Principal Occupation, Last Five Years Business Experience, and Qualifications	Last Five Years Other Directorships
Glenn M. Renwick (58) Director since: 1999 Term expires: 2014 (2015 if re-elected)	Chairman of the Board, The Progressive Corporation, Mayfield Village, Ohio (auto insurance) since November 2013; President and Chief Executive Officer, The Progressive Corporation; officer and director of various other subsidiaries and of an affiliate of Progressive Mr. Renwick has over 25 years of experience working in significant management positions at Progressive. He served as Chief Executive Officer of insurance operations in 2000 and has served as the Chief Executive Officer of the company since 2001. Mr. Renwick has served in a variety of operating roles during his tenure at Progressive, including product manager, the head of the company s marketing organization, and business technology leader. This experience enables him to provide unparalleled insight on the company s operations and the property and casualty insurance industry. Mr. Renwick also has gained significant experience working in an oversight role through his service as an independent director of other corporate boards.	Current: Fiserv, Inc. and UnitedHealth Group Incorporated Former: None

The Board of Directors recommends that shareholders vote FOR the election of each nominee.

Directors Whose Terms will Continue after the Annual Meeting

Name (Age)	Principal Occupation, Last Five Years Business Experience, and Qualifications	Last Five Years Other Directorships
Roger N. Farah (61) Director since: 2008 Term expires: 2015	Executive Vice Chairman, Ralph Lauren Corporation, New York, New York (lifestyle products) since November 2013; President and Chief Operating Officer, Ralph Lauren Corporation prior to November 2013 Mr. Farah was chosen to serve as a director principally due to his experience serving in various executive officer positions, and as a director, of Ralph Lauren Corporation. The executive management and operational experience Mr. Farah has attained enables him to add significant value to the Board, particularly in the area of brand development and management. He brings a unique retail perspective to the Board as a result of his experience working in an executive management role in a consumer-focused industry that is different than the property and casualty insurance industry.	Current: Aetna, Inc. and Ralph Lauren Corporation Former: None
Stephen R. Hardis (78) Director since: 1988 Term expires: 2015	Lead Independent Director, The Progressive Corporation, Mayfield Village, Ohio (auto insurance) since November 2013; Non-Executive Chairman of the Board, Marsh & McLennan Companies, Inc., New York, New York (financial services) prior to May 2011; Retired Chairman and Chief Executive Officer, Eaton Corporation, Cleveland, Ohio (manufacturing)	Current: Axcelis Technologies, Inc. and Lexmark International, Inc. Former: Marsh & McLennan

Mr. Hardis was chosen to serve as a director of the company primarily because of his leadership experience at Eaton Corporation, where he served as both Chief Executive Officer and Chief Financial Officer, and because of his extensive experience managing, or serving as a director of, various other large companies in a variety of industries. These experiences allowed him to develop the skills and insights necessary to add significant value to the Board. Mr. Hardis has also served as a director of the company since 1988, which makes him an especially valuable resource to the Board.	Companies, Inc. and Nordson Corporation

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Name (Age)	Principal Occupation, Last Five Years Business Experience, and Qualifications	Last Five Years Other Directorships
Bradley T. Sheares, Ph.D. (57)	Corporate Director; Former Chief Executive Officer, Reliant Pharmaceuticals, Inc., Liberty Corner, New Jersey (pharmaceutical products)	Current: Covance Inc., Henry Schein, Inc., and Honeywell International, Inc.
Director since: 2003 Term expires: 2015	Dr. Sheares has substantial executive management experience he attained in his tenure as President of the U.S. Human Health Division of Merck & Co., Inc. and as Chief Executive Officer of Reliant Pharmaceuticals, Inc. These roles enabled Dr. Sheares to gain valuable sales, marketing, advertising, brand management, healthcare, mergers and acquisitions, research and development, and risk management experience. The Board also benefits from the technical perspective Dr. Sheares brings, due in part to his having earned a Ph.D. in biochemistry and his background in the sciences. In addition, the Board values the significant experience Dr. Sheares has gained through his service on the boards of a diverse set of public companies.	Former: IMS Health Incorporated

OTHER BOARD OF DIRECTORS INFORMATION

Board of Directors Independence Determinations

We are required to have a majority of independent directors under the NYSE Listing Standards. The NYSE s standards prescribe specific independence tests and require the Board to make affirmative independence determinations regarding our directors. At its meeting in January 2014, the Board considered the independence of each of the Board members, taking into account relevant facts and circumstances of each director s relationships (if any) with the company and its subsidiaries described below under Certain Relationships and Related Transactions. Based on this review, the Board determined that each of our current directors is independent under the NYSE Listing Standards, with the exception of Glenn M. Renwick. Mr. Renwick is not independent due to his status as an executive officer of the company.

Leadership Structure

Glenn M. Renwick serves as the company s Chairman of the Board, President, and Chief Executive Officer. At the recommendation of the Nominating and Governance Committee, the Board appointed Mr. Renwick to the position of Chairman in November 2013, after the death of our prior non-executive Chairman, Peter B. Lewis. The Board of Directors had been engaged in succession planning for the Chairman role in anticipation of the impending retirement of Mr. Lewis, which was scheduled to occur in May 2014. Mr. Lewis s unexpected death accelerated the Board s decision.

The Board unanimously determined that Mr. Renwick is the best person to serve as our Chairman, due to his strong leadership of the company as CEO, his in-depth understanding of the company s operations and the operating environment, and his vision for the company s future. Mr. Renwick has worked for the company since 1986 in a variety of leadership roles, including the president of a number of our operating units, the head of our consumer marketing group, and our Chief Information Officer. He was appointed CEO of Insurance Operations in 2000 and then named President and CEO in 2001. His operational history and hands-on leadership of the company provide him a unique perspective to consider and develop responses to the challenges facing the company.

Just as importantly, the Board has had the opportunity to view Mr. Renwick s performance as CEO for the past 13 years and the way in which he handles his relationships with the Board and individual directors. Mr. Renwick has shown that he respects the oversight and advisory roles of the Board, and he has actively engaged the Board to consider and act on significant strategic and governance matters. Further, Mr. Renwick has sought to ensure that the Board has the appropriate information upon which Board action is to be based, and he has ensured that follow-up on issues raised by Board members has been prompt and responsive. The Board fully expects that this effective working relationship between Mr. Renwick and the other directors will continue as he leads the Board as its Chairman.

In deciding to combine the roles of CEO and Chairman, the Board was also keenly aware of the need to continue the strong voice of independent directors that has historically existed on this Board. To that end, as recommended by the

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Nominating and Governance Committee, the Board also created a new position of Lead Independent Director, and our independent directors elected director Stephen R. Hardis to that position. Pursuant to our Corporate Governance Guidelines (the Guidelines), Mr. Hardis, as the Lead Independent Director, is expected to work collaboratively with the Chairman and management on Board governance, process, and communication matters. The Lead Independent Director s responsibilities specifically include:

- presiding at all meetings of the Board at which the Chairman is not present or from which the Chairman is excused;
- having the authority to call meetings of the Board or of the independent directors;
- presiding at all meetings and executive sessions of the independent or non-management directors;
- serving as the principal liaison to facilitate communications between the Chairman and the independent directors on Board-related issues, without inhibiting direct communications between the Chairman and other directors;
- working with the Chairman to establish Board meeting schedules to ensure that there is sufficient time to discuss all agenda items;
- consulting with the Chairman on the matters to be included on the Board s meeting agendas and approving those agendas;
- approving the type of information to be provided to directors for Board meetings, and advising the Chairman and management of any director concerns regarding the information provided; and
- being available to serve as a liaison to major stockholders where appropriate, upon reasonable request, with prior notice to the CEO that a meeting will take place.

In addition, the Lead Independent Director will consult periodically with the Chairs of the various Board Committees to keep apprised of critical issues facing the company as they develop, and he will carry out other appropriate duties as may be requested by the independent directors, the Board, or any of the Board Committees. The Lead Independent Director will be elected annually by, and will serve at the discretion of, the independent directors. The Guidelines also provide that the Lead Independent Director will typically be a member of the Board s Nominating and Governance Committee, which Mr. Hardis satisfies (along with his ongoing roles as a member of the Board s Executive Committee and Chairman of its Investment and Capital Committee).

The independent directors concluded that Mr. Hardis was the best candidate to serve as the Lead Independent Director due to his extensive leadership experience on boards of directors over many years and his long history of representing shareholders interests as an independent director. Mr. Hardis served as Chairman and CEO of Eaton Corporation, and as Chairman of the Boards of Axcelis Technologies, Inc. and Marsh & McLennan Companies, Inc. In addition, he has served as the Lead Director at Axcelis and as an independent outside director at a number of other companies. Mr. Hardis s knowledge of our businesses acquired as a Board and Committee member over many years, his demonstrated willingness to challenge management and the status quo, and his effective working relationship with Mr. Renwick, also contributed to the decision. The independent directors believe that Mr. Hardis, acting as the Lead Independent Director, along with the active participation of the other directors, will maintain a strong independent presence on this Board.

Risk Oversight

The Board assigns the bulk of its risk oversight responsibilities to the Audit Committee, which oversees our Enterprise Risk Management (ERM) program. The Audit Committee s responsibilities with respect to risk oversight include the review of the guidelines, policies, and procedures that govern how we assess and manage our exposure to risk, and meeting periodically with management including leaders and other representatives of the risk management department, compliance & ethics group, law department, control & analysis (internal audit), security and information technology groups, external auditors, and other business units as necessary to review our major operational, financial, reputational, and other risk exposures, as well as the steps management has taken to identify, monitor, assess, and manage or avoid such exposures. Our Management Risk Committee (MRC), which comprises members of management representing a cross-section of business units and functions, regularly performs an enterprise risk assessment and, with input from executive management, identifies the most critical risks facing the company. The MRC then formulates recommendations for managing those risks, which it presents to the Audit Committee for review. The Audit Committee reports to the full Board of Directors on our ERM program and MRC risk assessment.

The Board also assigns some risk oversight responsibilities to the Investment and Capital Committee and the Compensation Committee. The Investment and Capital Committee oversees our investment policy, which is designed to

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enable us to meet our business and financial objectives with a reasonable balance among risk, return, and cost. The Investment and Capital Committee also is responsible for ensuring that we have a capital plan that takes risk factors into consideration. The Compensation Committee regularly reviews the risks of our compensation plans and programs. Both of these committees regularly report to the full Board.

The assignment of the Board s risk oversight function as described above enables the Board to function more effectively because the whole Board is required to focus only on those risk issues deemed most critical by the Audit Committee or the other Committees. On the other hand, the Committees provide a deeper focus on overseeing management with respect to the full range of risks we confront. As mentioned above, the Lead Independent Director will consult with the Committee Chairs as necessary to ensure that significant issues are brought to the attention of the independent directors. Otherwise, the Board s administration of its risk oversight function has not affected the Board s leadership structure.

Meetings of the Board of Directors and Attendance

The Board of Directors held eleven meetings during 2013, six of which were held by conference call.

All of the current directors were on the Board throughout 2013 and attended at least 75% of their scheduled Board and Committee meetings.

Pursuant to our Corporate Governance Guidelines, directors are expected to attend our Annual Meeting of Shareholders whenever possible. Normally, a meeting of the Board is scheduled on the date of the Annual Meeting. Progressive s 2013 Annual Meeting was attended by all of the then current directors, except for Roger N. Farah, who had a prior commitment.

A full copy of our Corporate Governance Guidelines can be found on our website at progressive.com/governance, or may be requested in print by writing to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, OH 44143.

Meetings of the Non-Management and Independent Directors

Our non-management directors meet in executive session periodically throughout the year, typically at the conclusion of regularly scheduled Board meetings. Each such meeting also constitutes a meeting of our independent directors. Mr. Lewis, our former non-executive Chairman of the Board, presided at these meetings until November 2013, and Stephen R. Hardis, our current Lead Independent Director, has presided over these meetings since December 2013. In the event that Mr. Hardis is not available to lead these meetings, the presiding director would be chosen by the non-management directors in attendance. In 2013, the non-management directors met in executive session five times.

Board Committees

The Board has named an Executive Committee, an Audit Committee, a Compensation Committee, an Investment and Capital Committee, and a Nominating and Governance Committee, as described below. The complete written charters for each of the Committees (other than the Executive Committee, which does not have a charter) can be found on our website at progressive.com/governance, or may be requested in print by writing to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, OH 44143.

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The following table summarizes the Board s current Committee assignments:

Name	Executive	Audit	Compensation	Investment and Capital	Nominating and Governance
Stuart B. Burgdoerfer		ü*			
Charles A. Davis				ü	C
Roger N. Farah			ü		
Lawton W. Fitt	ü			ü	ü
Stephen R. Hardis	ü			C	ü
Jeffrey D. Kelly			ü		
Heidi G. Miller, Ph.D.		ü*			
Patrick H. Nettles, Ph.D.		C*			
Glenn M. Renwick	C				
Bradley T. Sheares, Ph.D.			C		

ü Member of the Committee

C Chairman of the Committee

* Audit Committee Financial Expert

Executive Committee. The Executive Committee exercises all powers of the Board between Board meetings, except the power to fill vacancies on the Board or its Committees and the power to adopt amendments to our Code of Regulations. During 2013, the Executive Committee adopted resolutions by written action pursuant to Ohio corporation law on nine occasions.

Audit Committee. The Audit Committee is responsible for ensuring that the organizational structure, policies, controls, and systems are in place to monitor and accurately report performance. The Audit Committee monitors the integrity of Progressive s financial statements, our financial reporting processes, internal control over financial reporting, and the public release of financial information, and oversees our compliance and ethics and risk management programs. The Committee also is responsible for confirming the independence of, and the selection, appointment, compensation, retention, and oversight of the work of, our independent registered public accounting firm. 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 Progressive that may interfere with the exercise of his or her independence from management and Progressive, and is independent as defined in the applicable SEC rules and NYSE Listing Standards. During 2013, the Audit Committee met in person five times and participated in four conference calls to review our financial and operating results.

Audit Committee Financial Experts The Board of Directors has determined that each of Patrick H. Nettles, Ph.D., Stuart B. Burgdoerfer, and Heidi G. Miller, Ph.D., is an audit committee financial expert, as that term is defined in the applicable SEC regulations, and that each has accounting or related financial management expertise, as required by the NYSE Listing Standards. Dr. Nettles is the current Executive Chairman of the Board of Ciena Corporation and its former Chief Executive Officer, and has been a member of our Audit Committee since 2005. Dr. Miller is the retired President of International at JPMorgan, was formerly the CEO of J.P. Morgan Treasury & Securities Services, and had previously served as the chief financial officer at three major financial institutions. Dr. Miller is also a trustee of The IFRS Foundation, which is responsible for the governance and oversight of the International Accounting Standards Board. Mr. Burgdoerfer is the Chief Financial Officer of L Brands, Inc. and was formerly the Senior Vice President of Finance of The Home Depot, Inc. The Board has determined that through appropriate education and experience, Drs. Nettles and Miller and Mr. Burgdoerfer each has demonstrated that they possess the following attributes:

- an understanding of accounting principles generally accepted in the United States of America and financial statements;

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

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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 our financial statements, or experience actively supervising one or more persons engaged in such activities;

an understanding of internal control over financial reporting; and

an understanding of audit committee functions.

Compensation Committee. The Compensation Committee is composed entirely of independent directors, each of whom the Board has determined, also satisfies the additional requirements for independence of a compensation committee member under NYSE rules. The Compensation Committee makes all final determinations regarding executive compensation, including salary, equity-based awards, and non-equity incentive compensation (cash bonus) targets, and related performance goals, formulae, and procedures. The Committee (or in certain circumstances, the full Board of Directors, based on the Committee s recommendation) also approves the terms of the various compensation and benefit plans in which executive officers and other employees may participate. Committee decisions are made after considering third-party compensation data for comparable companies, internal analyses, and recommendations presented by management. The executive compensation decisions represent the culmination of extensive analysis and discussion, which typically take place over the course of multiple Committee meetings and in meetings between the Committee and management, including our Chief Executive Officer, our Chief Human Resource Officer, members of our compensation and law departments, and other Progressive personnel. In addition, the Committee frequently reports to the full Board of Directors on executive compensation matters.

The Committee s determinations regarding incentive compensation for executive level employees (for example, performance criteria and standards relating to Gainsharing, our annual cash bonus program) also apply to incentive plans covering non-executive employees. Under this arrangement, executives and non-executives alike are motivated to achieve the same performance objectives. The Committee has delegated to management the authority to implement such plans, and make other compensation-related decisions (such as salary and equity-based awards), for non-executive level employees. During 2013, the Compensation Committee met in person five times, and adopted resolutions by written action pursuant to Ohio corporation law on six occasions.

Compensation Consultants The Committee has the authority under its charter to hire its own compensation consultants, at Progressive s expense. The Committee did not retain a consultant during 2013.

During 2013, management retained the services of Pearl Meyer & Partners, which provided comparative compensation information and analyses for our executive officers and directors, among other assignments. In early 2013 and 2014, the Committee reviewed the independence of Pearl Meyer and reviewed this relationship for potential conflicts of interest. In 2013, Pearl Meyer did not provide us or the Committee with any services other than their consulting on executive and director compensation matters. In addition, based on information provided by the consultants, the company, and our executives and directors, the Committee found no other facts or circumstances that raised any concerns regarding this relationship. Accordingly, the Committee determined that Pearl Meyer & Partners was independent from Progressive and that no conflict of interest concerns had been raised.

Investment and Capital Committee. The Investment and Capital Committee s responsibilities include monitoring: whether the company has adopted and adheres to rational and prudent investment and capital management policies; whether management s investment and capital management actions are consistent with our investment policy, financial objectives, and business goals; our compliance with legal and regulatory requirements, as well as internal guidelines, pertaining to investment and capital management; the competence, performance, and compensation of the company s internal and external money managers; and such other matters as the Board or the Committee deems appropriate. The Committee, which is currently composed of independent directors, does not make operating decisions about money manager selection or compensation, asset allocation, market timing, sector rotation, or security selection, which are the responsibilities of management. The full Board of Directors must approve significant changes to the company s capital structure, dividend policy, or portfolio asset allocation. During 2013, the Investment and Capital Committee met in person five times and participated in one conference call.

Nominating and Governance Committee. The Nominating and Governance Committee is composed entirely of independent directors. Among other responsibilities, 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 potential candidates.

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The Committee also is responsible for monitoring corporate governance matters as they affect the Board and the company. The Committee regularly reviews Progressive s Corporate Governance Guidelines and related matters to ensure that they continue to correspond to and support the Board s governance philosophy. The Committee considers and, where appropriate, recommends to the Board for approval, changes to the Corporate Governance Guidelines based on suggestions from its members, other Board members, or management. During 2013, the Nominating and Governance Committee met in person five times and participated in one conference call.

Shareholder-Proposed Candidate Procedures Pursuant to the Nominating and Governance Committee s charter, the Board has adopted a policy of considering director candidates who are recommended by Progressive s shareholders. In addition, the Committee has adopted procedures for shareholders to propose candidates for positions on our Board.

Any shareholder desiring to propose a candidate for election to the Board under these procedures may do so by mailing to Progressive s Secretary a written notice identifying the candidate. The written notice must also include the supporting information required by the shareholder-proposed candidate procedures, the complete text of which can be found on our website at progressive.com/governance. 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, OH 44143. Upon receipt, the Secretary will forward the notice, and the other information provided, to the Committee.

If a shareholder proposes a candidate without submitting all of the foregoing items, the Committee, in its discretion, may 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 may limit a shareholder and its affiliates to one proposed candidate in any calendar year.

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 Progressive s next Annual Meeting of Shareholders, the Secretary must receive the shareholder s proposal, and the required information described above, on or before November 30th of the year immediately preceding such Annual Meeting.

It is the Committee s policy to review and evaluate each candidate for nomination submitted by shareholders in accordance with the shareholder-proposed candidate procedures on the same basis as all other candidates, as previously discussed on page 6. Other candidates may be suggested by our Board members, executive officers, or other sources, which may include professional search firms retained by the Committee. The Committee will give strong preference to candidates who are likely to be deemed independent from Progressive under SEC and NYSE rules. 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 Progressive s common shares that have been owned for more than two years). Upon the expiration of a director s term on the Board, that 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, significant contributions to the Board and Progressive.

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 also may 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 that 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 Progressive, 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.

Our shareholder-proposed candidate procedures are in addition to any rights that a shareholder may have under our Code of Regulations or under any applicable laws or regulations in connection with the nomination of directors for our Board.

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Communications with the Board of Directors

The Board of Directors has adopted procedures for shareholders or other interested parties to send written communications to the entire Board or to the non-management directors. Such communications must be clearly addressed to the Board or the non-management directors, as appropriate, and sent to either of the following:

Stephen R. Hardis, Lead Independent Director, email: stephen_hardis@progressive.com.

Charles E. Jarrett, Secretary, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, OH 44143 or email: chuck_jarrett@progressive.com.

The recipient will promptly forward communications so received to the full Board of Directors or to the non-management directors, as specified by the sending party.

Certain Relationships and Related Transactions

Transactions between The Progressive Corporation or its subsidiaries and any director or executive officer, certain of his or her relatives, or any entity in which one or more of our directors or executive officers is a substantial owner, director, or executive officer, must be disclosed to and, if required, approved by our Board of Directors under our Code of Business Conduct and Ethics. This policy is carried out by the Secretary of the company as transactions with such persons or entities, or proposals for such transactions, are identified by management or disclosed by members of the Board. The Board reviews these transactions on an annual basis and as they are identified.

In addition, if such relationships or transactions exceed $120,000 per year, the Board of Directors takes them into account in determining whether the director in question is independent under applicable rules and regulations. The following discussion sets forth those relationships and transactions considered by the Board in January 2014 when determining the independence of the applicable directors. Each of these relationships and transactions was approved by the Board.

Lawton W. Fitt, our director, is also a director of Thomson Reuters Corporation (Thomson). Progressive purchases tax compliance and other software products, periodicals, and research products from subsidiaries of Thomson. In 2013, we paid $1,687,421 for such products and services at customary rates for the products purchased or services rendered.

Glenn M. Renwick, Chairman of the Board, President, Chief Executive Officer, and a director of Progressive, is also a director of Fiserv, Inc. (Fiserv). We paid $134,910 to Fiserv, or its subsidiaries, for e-bill, check-clearing, and claims processing services during 2013, representing the customary rates for the products purchased.

Charles A. Davis, our director, is also a director of AXIS Capital Holdings Limited (AXIS). Prior to July 31, 2009, AXIS reinsured part of our directors and officers liability insurance, trust errors and omissions insurance, and bond products. This business is currently in run-off and no new policies are being reinsured under the arrangement. During 2013, we ceded $28,770 in premiums to AXIS and collected $2,608,985 on paid losses related to this coverage. At December 31, 2013, we had $12,919,525 of reinsurance recoverables under this arrangement.

Roger N. Farah, our director, is also a director of Aetna, Inc. (Aetna). Aetna is the principal administrator of the health and welfare plans that we provide to our employees. In 2013, we paid $14,469,366 to Aetna for its plan administration services, and for related products and services, in each case at rates that are customary. In addition, we paid a total of $8,546,546 to two subsidiaries of Aetna to access voluntary network provider pricing for certain claims related payments.

John W. Domeck, the brother of Brian C. Domeck, our CFO, works as an attorney in our Law Department. In determining the dollar value of this relationship for 2013, we used the same methodology that is used to determine compensation for named executive officers in the Summary

Compensation Table below, under which total compensation includes salary paid in 2013, Gainsharing and other cash bonuses earned in 2013, grant date fair value of restricted stock unit awards, company-matching contributions to our 401(k) plan, and other compensation, but excludes health and welfare benefits that are available generally to all salaried employees. The dollar value of the employment relationship for 2013 was less than $195,000. We believe that this level of compensation is appropriate in view of the individual s position, responsibilities, and experience and is consistent with our companywide compensation structure.

A company owned by Peter B. Lewis (the Lewis Company), our former non-executive Chairman of the Board until his death in November 2013, subleases space at an airplane hangar leased by one of our subsidiaries, to house the airplane owned by the Lewis Company and related personnel and equipment. The sublease has an expiration date of September 30, 2016, although the Lewis Company has the right to terminate the sublease on September 30th of each year by providing the appropriate written notice and paying a required termination fee. If the sublease has not been terminated, the Lewis Company has options to extend the sublease for two additional 5-year terms. Under the sublease, the Lewis Company rents approximately two-thirds of the hangar space and one-half of the office space at the facility, and it further reimburses one-half of other occupancy costs (such as common area maintenance, insurance, taxes, etc.) and one-half of certain construction and capital expenses. In addition, the Lewis Company reimburses Progressive for fuel for its aircraft, based on actual fuel used, plus one-half of the fuel flow fee incurred by us under our lease for the hangar. During 2013, the Lewis Company paid our subsidiary a total of $392,895 for fuel and $120,728 for rent and other occupancy expenses in accordance with the terms of the sublease.

During December 2013, the company repurchased 4,000,000 common shares from a trust established by Peter B. Lewis prior to his death (the Peter B. Lewis Trust) that held over 5% of our outstanding common shares at the time of the repurchase. We paid the Peter B. Lewis Trust $25.50 per common share, or $102 million in the aggregate. On December 16, 2013, the day before we agreed to purchase the shares, the closing price of our common shares was $26.32.

Compensation Committee Interlocks and Insider Participation

Bradley T. Sheares, Ph.D., Roger N. Farah, and Jeffrey D. Kelly served as members of the Board s Compensation Committee during 2013. There are no Compensation Committee interlocks.

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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 Progressive filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent Progressive specifically incorporates this Report by reference therein.

The Audit Committee of the Board of Directors (the Audit Committee or the Committee) consists of the three Directors named below, each of whom the Board has determined meets the independence and experience requirements of the New York Stock Exchange and the Securities and Exchange Commission (SEC). In addition, the Board has determined that each of the Committee members is an Audit Committee Financial Expert, as that term is defined by the SEC.

The Audit Committee is responsible, on behalf of the Board, for ensuring that the organizational structure, policies, controls, and systems are in place to monitor and accurately report the company s performance. The Committee monitors the integrity of the company s financial statements, its financial reporting processes, its system of internal control over financial reporting, and the public release of financial information. In addition, the Committee oversees the company s compliance and ethics and enterprise risk management programs. During 2013, the Committee held five meetings and participated in four conference calls to review these matters and conduct other business.

The Committee also is directly responsible for the appointment, compensation, retention and oversight of the company s independent registered public accounting firm and for reviewing that firm s independence. For 2013, the Committee appointed PricewaterhouseCoopers LLP (PwC) as the company s independent registered public accounting firm and approved PwC s new lead audit partner (the lead audit partner is required to be rotated every five years under applicable rules). The Committee s appointment of PwC was ratified by shareholders at the company s 2013 Annual Meeting of Shareholders.

In supervising the work of PwC on the 2013 audit, the Committee has received the written disclosures and letter from PwC concerning its independence as required by the applicable requirements of the Public Company Accounting Oversight Board (PCAOB), and the Committee has discussed with PwC its independence. In addition, the Committee has reviewed, and discussed with PwC, among other matters: PwC s report on its internal quality control procedures, including issues raised by governmental investigations of PwC in the preceding five years; the PCAOB s report on its most recent inspection of PwC, and PwC s response to the report; regulatory developments during the year that impacted PwC s audit work or its communications with the Committee; and the other matters that PwC is required to communicate to the Committee under Auditing Standard No. 16, Communication with Audit Committees, as adopted by the PCAOB.

The Committee s role relating to the financial statements is one of oversight. The company s management has the primary responsibility for the financial statements and the reporting process, including the system of internal control over financial reporting. Management reports to the Committee on financial, accounting and operational developments that may impact the financial statements, and on issues relating to the company s internal controls, among other matters. The Committee also oversees the work of PwC and the company s internal auditors, although PwC alone is responsible for expressing its opinion on the conformity of the company s year-end financial statements with accounting principles generally accepted in the United States of America and its assessment of the effectiveness of the company s internal control over financial reporting. During 2013, the Committee discussed with PwC and the internal auditors the overall scope and plans for their respective audits. The Committee then met with PwC and the internal auditors at various times throughout the year, 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.

In fulfilling its oversight responsibilities, the Committee reviewed and discussed with management the company s audited consolidated financial statements for the year ended December 31, 2013. These discussions included assessments of the quality, not just the acceptability, of the accounting policies used by the company, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. In addition, the Committee has discussed with PwC its judgment as to the quality, not just the acceptability, of the company s accounting policies.

Based on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited consolidated financial statements be included in The Progressive Corporation s Annual Report on Form 10-K for the year ended December 31, 2013, for filing with the SEC.

The Committee has selected and retained PwC to serve as the independent registered public accounting firm for Progressive and its subsidiaries for 2014. Shareholders will be given the opportunity to vote on the ratification of this selection at the 2014 Annual Meeting of Shareholders.

The Committee operates under a written charter, the terms of which are reviewed annually by the Committee. The current charter, as approved by the Board, is posted on the company s website at progressive.com/governance.

AUDIT COMMITTEE

Patrick H. Nettles, Ph.D., *Chairman*

Stuart B. Burgdoerfer

Heidi G. Miller, Ph.D.

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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 of more than 5% of Progressive s common shares, $1.00 par value, as of December 31, 2013.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership[1]	Percent of Class
Daniel R. Lewis 4000 Ponce de Leon Boulevard, Suite 510 Coral Gables, Florida 33146	48,552,301[2]	8.1%
Davis Selected Advisers, L.P. 2949 East Elvira Road, Suite 101 Tucson, Arizona 85756	36,423,950[3]	6.1%
Capital Research Global Investors, a division of Capital Research and Management Company 333 South Hope Street Los Angeles, California 90071	32,091,990[4]	5.4%
BlackRock, Inc. and subsidiaries 40 East 52nd Street New York, New York 10022	30,854,461[5]	5.2%

[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] Mr. Lewis reports that he has sole voting and dispositive power over these shares, which include 36,482,184 shares held by the Peter B. Lewis Trust and additional shares held by Mr. Lewis, his family members, entities he owns, and charitable entities and family trusts for which Mr. Lewis or his wife acts as trustee or director. The company was informed by Mr. Lewis in January 2014 that 16 million of the shares held by the Peter B. Lewis Trust were sold after year end.

[3] The common shares are owned by Davis Selected Advisers, L.P. s investment advisory clients and none are owned directly or indirectly by Davis Selected Advisers, L.P., which states that its filing of the Schedule 13G should not be construed as an admission that it is the beneficial owner of any of the common

shares. Davis Selected Advisers, L.P. has sole voting power over 34,856,034 shares, no voting power with respect to 1,567,916 shares, sole dispositive power over 32,423,950 shares and shared dispositive power over 4,000,000 shares. Charles A. Davis, our director, has no affiliation with Davis Selected Advisers, L.P.

[4] Capital Research Global Investors, an investment advisor to registered investment companies, disclaims beneficial ownership of these shares.

[5] BlackRock, Inc. and its subsidiaries have sole dispositive power over these shares and sole voting power over 25,919,930 shares. On February 7, 2014, BlackRock, Inc. filed an amendment to its Schedule 13G indicating that its beneficial ownership of Progressive common shares had dropped below 5%.

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Security Ownership of Directors and Executive Officers

The following information summarizes the beneficial ownership of Progressive s common shares as of January 31, 2014, by each director and nominee for election as a director of Progressive, each of the named executive officers (as identified on page 40) and all directors and executive officers as a group. In addition, to provide a more complete picture of the financial interests of certain individuals in Progressive shares, the final two columns include certain units held in our benefit and equity incentive plans that are equal in value to a share of our stock, but do not technically qualify as beneficially owned under the applicable regulations, also as of January 31, 2014.

Name	Common Shares Subject to Restricted Stock Awards[1]	Beneficially Owned Common Share Equivalent Units[2]	Other Common Shares Beneficially Owned[3]	Total Common Shares Beneficially Owned	Percent of Class[4]	Units Equivalent to Common Shares[5]	Total Interest in Common Shares and Unit Equivalents
Stuart B. Burgdoerfer	8,782		31,188	39,970	*		39,970
William M. Cody	45,030	34,080	137,944	217,054	*	73,788	290,842
Charles A. Davis	9,355	13,990	270,243	293,588	*	3,411	296,999
Brian C. Domeck	20,405	9,555	171,184	201,144	*	55,628	256,772
Roger N. Farah	8,592	48,100	7,500	64,192	*		64,192
Lawton W. Fitt	9,164	28,163	9,389	46,716	*		46,716
Susan Patricia Griffith	43,095		223,497	266,592	*	62,911	329,503
Stephen R. Hardis	9,822	22,520	256,635	288,977	*	197,990	486,967
Jeffrey D. Kelly	8,592		44,280	52,872	*		52,872
Heidi G. Miller, Ph.D.	8,782	9,359	8,187	26,328	*		26,328
Patrick H. Nettles, Ph.D.	9,546	75,709		85,255	*		85,255
Glenn M. Renwick	486,575		1,707,324	2,193,899	*	2,239,696	4,433,595
John P. Sauerland	21,185		246,580	267,765	*	62,910	330,675
Bradley T. Sheares, Ph.D.	9,164	39,304		48,468	*	39,715	88,183
All 21 Executive Officers and Directors as a Group	816,965	391,885	3,630,086	4,838,936	*	3,311,393	8,150,329

* Less than 1% of Progressive s outstanding common shares.

[1] Represents common shares held pursuant to unvested restricted share awards issued under various incentive plans we maintain. The beneficial owner has sole voting power and no investment power with respect to these shares during the restriction period.

[2] These units have been credited to the individual s accounts under our 2003 Equity Incentive Plan and the 2010 Equity Incentive Plan or certain of our deferred compensation plans and are included in shares beneficially owned due to the plan features described below. Each unit is equal in value to one Progressive common share.

For non-employee directors, the number represents units that have been credited to his or her account under The Progressive Corporation Directors Restricted Stock Deferral Plan, as amended and restated (the Directors Restricted Stock Deferral Plan), under which each director has the right to defer restricted stock awards. Distributions from the Directors Restricted Stock Deferral Plan will be made in Progressive common shares at the expiration of the deferral period under the plan. The plan provides that, upon the termination of a director s service as a director, certain shares will be distributed promptly to the director. As to the number of shares that will be so distributed, the director is considered to have investment power (although not voting power) over those shares, and those shares are deemed beneficially owned. See page 59 for a description of the Directors Restricted Stock Deferral Plan.

For executive officers, the number represents units, if any: that have been credited to the participant s account under our 2003 Equity Incentive Plan and 2010 Equity Incentive Plan and are scheduled to vest within 60 days of January 31, 2014; or that have been credited to the participant s account under The Progressive Corporation Executive Deferred Compensation Plan, as amended and restated (the EDCP), upon the deferral of cash bonus awards and restricted stock awards granted prior to March 2005. As to the EDCP units, the participant has no voting power but sole investment power, due to his or her ability to instruct the plan trustee to liquidate his or her deemed investment in Progressive stock and re-allocate those amounts to other deemed investments that are available under the plan. See a description of the EDCP beginning on page 51.

[3] Includes commons shares held directly by the individual, holdings in our 401(k) plan, and shares held by, or for the benefit of, immediate family members.

[4] Percentage based solely on Total Common Shares Beneficially Owned.

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[5] The units disclosed are in addition to common shares beneficially owned and have been credited to the individual s account under one or more of our deferred compensation plans or equity incentive plans, as discussed below, as to which the holder has neither voting nor investment power. Each unit is equal in value to one Progressive common share.

For non-employee directors, the number represents units that have been credited under The Progressive Corporation Directors Deferral Plan, as amended and restated (Directors Deferral Plan), described in more detail on page 59, and amounts credited under the Directors Restricted Stock Deferral Plan that are not distributed promptly upon the director s termination of service.

For executive officers, the number includes units that have been credited to the executive officer under the EDCP that are not included in Beneficially Owned Common Share Equivalent Units, and unvested time-based restricted stock unit awards, including reinvested dividend equivalents. For additional information on our restricted stock unit awards, see the Outstanding Equity Awards table beginning on page 48.

The balance in this column excludes outstanding performance-based restricted stock unit awards, due to the variable nature of such awards. See Outstanding Equity Awards at Fiscal Year-End, beginning on page 48, for additional information on these awards.

Section 16(a) Beneficial Ownership Reporting Compliance

None.

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COMPENSATION DISCUSSION AND ANALYSIS

HIGHLIGHTS FOR 2013

Consistent with prior years, the awards made in 2013 to our Chief Executive Officer and the other named executive officers (identified in the Summary Compensation Table on page 40) were weighted heavily towards performance-based annual cash bonuses and longer-term equity awards. We believe that these awards support a strong pay-for-performance linkage in our executive compensation program and appropriately align the interests of our named executive officers with those of our shareholders. In this section, we provide a brief summary of our 2013 pay decisions, as well as information concerning our performance results and pay outcomes for the year.

2013 Pay Decisions

CEO Compensation

- Performance-based, at-risk bonus and equity awards represented over 95% of maximum potential compensation and over 90% of target compensation
- Salary has not been increased for over a decade and is well below market
- Annual Bonus (Gainsharing):
  - Potential payout range unchanged for over a decade
  - Payout could range from 0% to 300% of salary, with a 150% target
  - Actual payout was 181.5% of salary
- No time-based equity awards
- Performance-based equity awards represented over 85% of maximum potential compensation:
  - Core insurance operations: 85% of equity award
  - Investment results: 15% of equity award
- CEO s equity ownership at January 31, 2014:
  - Value of shares owned directly, in 401(k) plan and in deferral plan = almost 140 times base salary

- Once unvested equity awards (at target) are included, equity ownership = almost 170 times base salary

Other Named Executive Officers

- Average salary increase of approximately 5.5% from the prior year
- Annual Cash Bonus:
  - Opportunities remained unchanged from between 0% to 250% of salary, with a 125% target
  - With the exception of our Chief Investment Officer, actual payout was 151.25% of salary
  - For our Chief Investment Officer, actual payout was 210.5% of salary
- Equity awards divided between time-based and performance-based
  - Time-based = 100% of base salary
  - Performance-based target = 177.5% of base salary (average), up from 168.75% average for 2012
- Equity ownership requirements:
  - Expected to hold equity (including unvested equity awards) having a value of at least 3 times base salary
  - All named executive officers are in compliance with requirement

Annual Financial Results and Shareholder Return

Key performance outcomes for 2013 include:

- Net premiums written of $17.3 billion
- 6% increase in net premiums written

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- 2% increase in policies in force
- An overall combined ratio of 93.5, or a 6.5% pretax profit on our insurance operations
- Returns on average shareholders equity:
  - 17.7%, based on net income
  - 19.0%, based on comprehensive income
- Net income of $1.2 billion, or $1.93 per share

Significant Changes to Terms of Awards During 2013

Performance-Based Restricted Stock Unit Awards

- Performance-based restricted stock unit awards granted in 2013 and tied to our insurance results have a maximum vesting value of 250% of the target number of units awarded, instead of the 200% maximum that applied to such awards in prior years. Consistent with prior awards, the vesting event will occur only if, prior to expiration of the award, the company achieves a 96 or better combined ratio for the 12-month period preceding the Committee s certification of the performance results.
- Maximum vesting will occur if the company achieves growth in direct premiums written that is 3.5 percentage points or more higher than the overall auto insurance market for the three-year performance period (2013 through 2015).
- A 3.0 percentage point spread over the market continues to be the threshold for a 200% vesting value, as under prior awards of this type.

Other Equity Plan Changes

- For 2013 time-based awards, 50% of each unvested award will vest when the individual first satisfies the eligibility requirements for a qualified retirement (discussed in more detail below under Retirement) and, thereafter, promptly after the grant of each new award to the participant.
- This change did not result in accelerated vesting during 2013 of any awards held by our named executive officers; however, during 2014, 9,555 restricted stock units held by our Chief Financial Officer at December 31, 2013 will vest under these provisions.

2013 Say-on-Pay Vote

At our 2013 Annual Meeting of Shareholders, shareholders cast advisory votes on our executive compensation program, sometimes referred to as the say-on-pay vote. In that vote, shareholders approved our executive compensation program, with almost 99% of the voted shares supporting our program. During 2013, the Compensation Committee reviewed these results with management and with the full Board of Directors. Due to the strong level of shareholder support and the absence of specific shareholder concerns, the Committee determined that no specific actions with respect to 2014 compensation should be taken as a result of the say-on-pay vote.

OUR EXECUTIVE COMPENSATION PROGRAM

Our executive compensation program is designed and implemented under the direction and guidance of the Compensation Committee. Broadly stated, we seek to maintain a consistent executive compensation program with the following objectives:

- Attract and retain outstanding executives with the leadership skills and expertise necessary to drive results and build an increasingly strong business and long-term shareholder value;

- Motivate executives to achieve the short- and long-term strategic goals of Progressive and their assigned business units;

- Reward and differentiate executive performance based on the achievement of challenging performance goals; and

- Align the interests of our executives with those of shareholders.

Our executive compensation program is designed to serve the shareholders interests by strongly tying our executives potential compensation to our satisfaction of important strategic goals and the value of our common shares. As a result, while we seek to offer competitive salaries to our executives, the more significant aspects of our executive compensation program are annual cash bonus opportunities and longer-term equity awards. Details about the various elements of our compensation program and 2013 awards to our named executive officers are discussed in the following sections.

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ELEMENTS OF COMPENSATION ANNUAL DECISIONS AND AWARDS

Salaries

Executive salaries are designed to attract and retain executive talent and to reward individual performance. As a general matter, executive salaries are intended to be competitive with amounts paid to executives who have similar responsibilities at comparable companies, with the potential to earn above average total compensation being provided by the variable compensation elements discussed below. Variations from market medians can occur for a number of reasons, including the nature of a specific executive s position and responsibilities, individual performance, the experience of an executive in his or her current position, the executive s future potential, and our business needs and culture. For 2013, salaries for our named executive officers were as follows:

Name	2013 Salary[1]	Change From Prior Year
Glenn M. Renwick	$ 750,000	%
Brian C. Domeck	485,000	5.4
Susan Patricia Griffith	465,000	5.7
John P. Sauerland	465,000	5.7
William M. Cody	420,000	5.0

[1] Salary changes are typically implemented in February of each year, so the annual number listed in the table may vary from the salary amounts shown on the Summary Compensation Table.

These salary increases were necessary to improve the competitive nature of our compensation for senior management given current market conditions. Even after taking into account these increases, the 2013 base salary for Mr. Renwick and three of the other named executives was well below the median for similar executives at comparable companies, while the salary for one of the executives exceeded the median, based on the comparison data reviewed by the Compensation Committee in late 2012 and early 2013 (see Procedures and Policies Compensation Comparisons below for further information on our market comparison process).

Annual Cash Bonuses

With the exception of Mr. Cody, our Chief Investment Officer, all of the named executive officers can receive an annual cash bonus only under our Gainsharing program. Mr. Cody can receive a bonus under the Gainsharing program and also under a program that measures the relative performance of our fixed-income investment portfolio. Therefore, Mr. Cody s target bonus under the Gainsharing program is significantly less than those of the other named executive officers. Both of these bonus programs are described below.

Gainsharing. Gainsharing is designed to reward our executives based on the annual operating performance of our insurance businesses as compared with objective growth and profitability criteria approved by the Compensation Committee at the beginning of the year. Gainsharing does not take into account the performance results of our investment portfolio. The purpose of this cash bonus program is to motivate executives to achieve and surpass annual operating performance goals in our insurance businesses, which we believe will benefit shareholders over time.

Bonuses for named executive officers are determined using the same performance criteria for the Gainsharing bonuses that may be earned by virtually all of our other employees, resulting in a consistent set of goals across our employee population. Gainsharing bonuses are determined using the following formula:

Paid Salary	X	Target Percentage	X	Gainshare (i.e., Performance) Factor	=	Annual Bonus

For each executive, his or her salary and bonus target percentage are established by the Committee each year during the first calendar quarter. When the participant s paid salary (which includes salary payments, holiday and vacation time, and sick time, among other items) is multiplied by his or her assigned target percentage, the product is referred to as the participant s target bonus for the year. The Gainshare Factor can range from 0.0 to 2.0 each year, and cash bonuses, therefore, can vary between zero and two times the target bonus amount, depending on our actual performance results for the year.

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The objective performance goals applicable to the Gainsharing program are established by the Compensation Committee each year in the first quarter and are not modified thereafter. The Gainshare Factor for our core business (defined below) is then calculated on a monthly basis, using year-to-date results, and published in our monthly earnings releases. The Gainshare Factor is also used to calculate the dividend that may be paid to shareholders each year under our variable dividend policy. In this way, the annual performance of our core insurance businesses also can translate into a direct benefit to shareholders. For 2013, our variable dividend policy generated a dividend of $.4929 per share, which was paid to shareholders, together with a $1.00 per share special dividend, in February 2014.

Historical Gainsharing Experience. Throughout the 20-year history of our companywide Gainsharing program (including 2013), the Gainshare Factor achieved for the core business has ranged from 0.0 to 2.0 and has averaged 1.26. These results confirm management s view that our Gainsharing plans have operated to provide annual cash bonus rewards to our employees, including our executive officers, commensurate with our level of achievement as compared with the annual predefined goals.

2013 Gainsharing Bonuses. For 2013, each named executive officer s cash bonus was determined under the Gainsharing program based on the performance of our core business, except as noted. The Compensation Committee determined that the named executive officers Gainsharing target percentages would be as follows:

Name	**2013 Target (% of Salary)**
Glenn M. Renwick	150%
Brian C. Domeck	125
Susan Patricia Griffith	125
John P. Sauerland	125
William M. Cody	50[1]

[1] Mr. Cody also earned a separate bonus relating to investment performance, as described below.

For all of the executives, these values remained unchanged from 2012. All Gainsharing payments for the named executive officers are reported on the Summary Compensation Table as Non-Equity Incentive Plan Compensation.

The core business for 2013 was defined to include our Agency auto, Direct auto, special lines, and Commercial Lines business units. This focus on performance at the business unit level was consistent with management s approach to evaluating our operations. We used the number of policies in force to measure growth for each of those businesses, which aligns our Gainsharing program with our companywide strategic goal of growing policies in force as fast as possible at a 96 or better combined ratio. This strategic goal, which is applicable to all employees through the Gainsharing plan, allows employees to observe and understand how their day-to-day efforts to bring new customers on board and retain existing customers (i.e., increase policies in force), while at the same time controlling costs, can enhance company performance and increase the Gainsharing scores.

Under the Gainsharing program, we evaluated the performance of each business unit separately and determined a score for the business unit of between 0.0 and 2.0, based on one or more growth and profitability matrices that had been approved for each business unit by the Compensation Committee. For each matrix, a 1.0 score was established at a targeted profitability level together with a growth component that management believed, based on internal projections, to be challenging yet achievable (although it should be noted that a score at or near 1.0 could also be generated by a variety of other growth and profitability combinations; that is, if growth is below expectations, a 1.0 might still be achieved if profitability increases and, likewise, a moderate decrease in profitability might be offset by higher growth levels to generate a score around 1.0). Thus, assuming that targeted profitability levels could be achieved for a particular business unit (an assumption that was considered reasonable at the beginning of 2013 and consistent with our recent performance), the potential for that business unit to achieve the targeted 1.0 score was viewed as a reasonably challenging goal when these goals were established in early 2013.

An aggregate Gainshare Factor of 1.0 or higher for the core business as a whole, however, would require targeted performance or higher by all four business units, or outperformance by one or more units to make up for underperformance by another unit. Such a result was very uncertain at the beginning of the year when these goals were set in view of the very competitive nature of the insurance markets in which we operate and the overall economic outlook for the U.S. As a result, achieving an aggregate 1.0 score for the core business as a whole was viewed as being a more difficult feat than achieving

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a 1.0 score on any of the individual matrices. See Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table, beginning on page 43, for a more detailed discussion of the Gainsharing matrices and the calculation of performance scores.

For 2013, we achieved a Gainshare Factor of 1.21 for our core business, out of a possible 2.0 score. The following table presents the overall 2013 growth and profitability data for the individual business units that comprised our core business, and for our insurance operations on a companywide basis. The growth figures in the table below were determined by the year-over-year change in policies in force, which is management s preferred measure for evaluating growth. Profitability was measured by the combined ratio calculated using GAAP financial information.

Business Unit	GAAP Combined Ratio[1]	Increase in Policies in Force
Agency	93.7	1%[2]
Direct	93.0	6%[2]
Special lines		1%
Commercial Lines	93.5	(1)%
Companywide insurance operations[3]	93.5	2%

1 Consistent with the presentation of the combined ratio of our Personal Lines segment in our public reports, the combined ratio results for our special lines business are not presented separately and, instead, are included in either the Agency or Direct results, depending on whether the underlying policy was written through agents/brokers or directly by Progressive.

2 Includes only auto policies in force.

3 Includes certain operations (principally, businesses that are currently in run-off) that are excluded from the definition of core business under the plan and represent less than 1% of our premium volume.

Using the actual performance results for the year and the Gainsharing matrices discussed above, we determined the performance score for each business unit comprising the core business, weighted those scores based on each business unit s relative contribution to overall net premiums earned, and then added the weighted scores to determine the Gainshare Factor, as follows:

Business Unit	Business Unit Performance Score	Weighting Factor	Weighted Performance Score
Agency auto	.87	45%	.39
Direct auto	1.62	37%	.60
Special lines	1.55	8%	.12
Commercial Lines	.98	10%	.10
Gainshare Factor			1.21

As can be seen from this table, each of the business units contributed to the final Gainshare Factor for 2013. Direct auto and special lines units each exceeded a 1.0 score by a significant measure, while the Commercial Lines business finished just under 1.0. While the specific story varied for each business unit, these scores generally reflect modest growth in policies in force, notwithstanding the increases in our insurance rates in most markets during 2012 that continued to affect our rate of renewals during 2013, and strong profitability levels. Companywide performance was comparable: policies in force grew by about 2% and net premiums written and earned grew by 6% and 7%, respectively, at a profitable 93.5 combined ratio. Overall, we believe that the resulting 1.21 Gainshare Factor was a reasonable outcome based on these performance figures for the year.

2013 Investment Related Bonus. In addition to bonuses earned under our Gainsharing program, Mr. Cody, our Chief Investment Officer, and the other investment professionals who work in his group were eligible for a separate bonus under our 2013 Progressive Capital Management Bonus Plan (PCM Bonus Plan). Mr. Cody had a target bonus equal to 75% of his 2013 salary under this bonus plan; his bonus under this plan for 2013 could range from 0.0 to 2.0 times the target amount, or from 0% to 150% of his salary.

Under the PCM Bonus Plan, we determine the performance of our fixed-income portfolio for the current year and over the trailing three-year period, on a total return basis, including the benefit of state premium tax abatements associated with certain municipal securities held in our portfolio. We then compare those results against the total return results achieved by a benchmark group of comparable firms for the same time periods. After the end of the year, using performance data supplied by an independent third party, separate performance scores are determined based on our percentile ranking in the benchmark group for the one- and three-year periods, as follows:

	Score=0	Score=1.0	Score=2.0
Period	**Rank at or below**	**Rank equal to**	**Rank at or above**
One year	15th percentile	50th percentile	85th percentile
Three year	25th percentile	50th percentile	75th percentile

Percentile rankings between the ranks that will earn a score of 0 and a score of 2.0 as shown above would receive an interpolated score based on the percentile ranking of our investment portfolio (e.g., a rank at the 40th percentile would receive a score between 0 and 1.0). The two scores are then averaged to determine an indicated performance score for the year, and this score is communicated to the Compensation Committee. The Committee then evaluates the indicated score in the context of our investment results and other factors relevant to our investment performance for the year. The Committee may consult with other Board members or others, as it deems appropriate, for additional perspectives. Based on its evaluation, the Committee has the discretion to accept the indicated performance score, decrease it by an appropriate amount (including to 0), or increase it up to the maximum allowed factor of 2.0, and to adjust the bonuses paid to Mr. Cody and our other investment professionals accordingly.

The fixed-income portfolio was chosen for the PCM Bonus Plan because it represents a substantial portion of our investment portfolio (roughly 80% at year-end) and Mr. Cody and the investment professionals in his group actively manage the fixed-income portfolio. To the extent that our equity investments are managed, they are managed by third parties. The use of the 15th and 25th percentiles as the minimum performance level, and of the 75th and 85th percentiles as the maximum performance levels, reflects the Committee s decision that our investment constraints and guidelines differ from other firms included in the benchmark group. The Committee felt that requiring average performance prior to payout of bonuses, or rewarding performance above the 75th or 85th percentile, as applicable, might create an incentive to increase investment risks to a level that would exceed the company s overall risk tolerance, and that below target payouts for performance between the 15th or 25th percentile, as applicable, and the 50th percentiles was, on balance, fair compensation for results achieved.

For 2013, we achieved a total return in our fixed-income portfolio of 1.88% (including the benefit of state premium tax abatements associated with certain municipal securities held in our portfolio), which ranked us in the top position of the benchmark group of 131 comparable investment firms. For the three years ending on December 31, 2013, our fixed-income portfolio earned a cumulative return of 11.63%, ranking us in the 81st percentile of the comparable firms. Using the methodology described above, we computed an indicated performance score of 2.0 under the plan for the year, which was communicated to the Compensation Committee. After reviewing the calculation and our investment results, and consulting with management and members of the Board s Investment and Capital Committee, the Committee decided to pay the 2013 bonuses under the PCM Bonus Plan using a 2.0 performance factor, consistent with the calculated score. The Committee viewed this factor as a reasonable outcome under the plan for the year, given the relative performance of the portfolio. Mr. Cody s bonus under the PCM Bonus Plan is reported on the Summary Compensation Table as part of Non-Equity Incentive Plan Compensation.

Equity Awards

Our executive compensation program also provides longer-term incentives through an annual grant of equity-based awards, currently in the form of restricted stock units. Under a restricted stock unit grant, the executive receives an award of a specified number of units; upon vesting of the award, the executive is entitled to receive one Progressive common share for each unit vested. Annual awards of restricted stock units are made in the form of time-based awards and performance-based awards. These awards are intended to encourage our senior executives to stay with Progressive, to drive longer-term performance, and to tie the amount of compensation ultimately earned by the executives to the market value of our common shares.

Time-Based Awards. In 2013, time-based restricted stock unit awards were granted to all named executive officers (other than Mr. Renwick) and approximately 675 other senior level employees, comprising approximately 2.6% of our entire employee population. These awards will vest in three equal annual installments, on January 1 of 2016, 2017, and 2018, subject to the vesting and forfeiture provisions in the applicable plan and grant agreement.

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Performance-Based Awards Insurance Results. In addition, each of the named executive officers and 39 other senior managers received performance-based restricted stock unit grants. Mr. Renwick received his entire equity award in the form of performance-based restricted stock units.

For these awards, the Committee approved a performance goal that is based on our growth over a three-year period as compared with the growth of the U.S. auto insurance industry as a whole, while maintaining a profitability goal of a combined ratio of 96 or better over the most recent 12-month period when the vesting is determined. Specifically, the awards will vest, if at all, only if the compounded annual growth rate of our direct auto premiums written for 2013 through 2015 exceeds the growth rate of the auto insurance market as a whole (excluding our results) over that same period. In each case, we will use A.M. Best data to make these calculations. The award is made to each executive in a target amount of units based on a percentage of salary and the value of our common shares on the grant date. The ultimate payout (if any) is determined at the end of the three-year period, as follows:

Performance vs. Market	Number of Units Vesting
If our growth rate exceeds the market growth rate by three and a half percentage points or more	250% of the target number of units will vest; this is the maximum possible award value
If our growth rate exceeds the market growth rate by more than three percentage points but less than three and a half percentage points	Between 200% and 250% of the target number of units will vest, in proportion to the extent to which our growth rate exceeds the market s growth rate above three percentage points (e.g., if our growth rate exceeds the market growth rate by 3.3 percentage points, then 230% of the award will vest)
If our growth rate exceeds the market growth rate by more than two but less than three percentage points	Between 100% and 200% of the target number of units will vest, in proportion to the extent to which our growth rate exceeds the market s growth rate above two percentage points (e.g., if our growth rate exceeds the market growth rate by 2.4 percentage points, then 140% of the award will vest)
If our growth rate exceeds the market growth rate by up to two percentage points	Up to 100% of the target number of units will vest, in proportion to the extent to which our growth rate exceeds the market s growth rate (e.g., if our growth rate exceeds the market growth rate by 1.4 percentage points, then 70% of the award will vest)
If our growth rate is equal to or less than the market growth rate	The award will not vest and is forfeited

If the growth goal is achieved for the three-year period, but the 12-month profitability goal is not satisfied when the initial vesting determinations are made, the award will remain open until January 31, 2018, in order to allow the opportunity to satisfy the profitability goal; if the profitability goal is not satisfied by that date, the awards will not vest and will expire. The Committee and management believe that this approach, with a potential upside for outperformance as compared with the auto insurance market as a whole, provides appropriate focus on our full competitor set, consistent with our long-standing financial objective to grow as fast as possible constrained only by our profitability objective and our ability to provide high-quality service to our customers.

Performance-Based Equity Awards Investment Results. In 2013, the Committee also awarded performance-based restricted stock units to our CEO, CFO, and Chief Investment Officer with a performance goal relating to investment performance. These awards measure the performance of our fixed-income portfolio over a three-year period (2013 through 2015) against the performance results of a benchmark of comparable investment firms meeting a series of objective criteria. A target number of restricted stock units was awarded to each executive, and the number of units that ultimately will vest can vary from 0% of the target award (if our performance is at or below the 25th percentile of the benchmark firms) to 200% of the target (for performance at or above the 75th percentile of the benchmark). These awards did not increase the aggregate size of the equity awards to these executives, but represented a portion of the total performance-based awards that otherwise would have been granted to them for the year. The Committee implemented these performance-based awards to better align the compensation of these executives with their responsibilities in connection with the longer-term performance of our fixed-income portfolio. As with the PCM Bonus Plan, the use of the 25th percentile as the minimum performance level, and of the 75th percentile as the maximum performance level, reflects the Committee s decision that our

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investment constraints and guidelines differ from other firms included in the comparison. The Committee felt that requiring average performance prior to vesting and/or rewarding performance above the 75^{th} percentile might create an incentive to increase investment risks to a level that would exceed the Company s overall risk tolerance, and that below target payouts for performance between the 25^{th} and 50^{th} percentiles was, on balance, fair compensation for the results achieved.

2013 Equity Awards. For 2013, the aggregate dollar value (fair value on the date of grant) of equity awards made to the five named executive officers was approximately $1.8 million in time-based awards and $10.8 million in performance-based awards (at target value). Those awards were determined based on the following target levels:

	Time-Based Award Value (% of Salary)		**Performance-Based Award Target Value (% of Salary)[1]**	
Name	**2012**	**2013**	**2012**	**2013**
Glenn M. Renwick	0%	0%	1000%	1000%[2]
Brian C. Domeck	100	1		