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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ______ to ______

Commission file number 1-9518

THE PROGRESSIVE CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	**34-0963169**
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
6300 Wilson Mills Road, Mayfield Village, Ohio	**44143**
(Address of principal executive offices)	(Zip Code)

(440) 461-5000
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2010: $11,441,203,245

The number of the registrant's Common Shares, $1.00 par value, outstanding as of January 31, 2011: 660,034,992

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on April 29, 2011, and the Annual Report to Shareholders for the year ended December 31, 2010, included as Exhibit 13 to this Form 10-K, are incorporated by reference in Parts I, II, III, and IV hereof.

INTRODUCTION

Portions of the information included in The Progressive Corporation's Proxy Statement for the Annual Meeting of Shareholders to be held on April 29, 2011 (the "Proxy Statement") have been incorporated by reference herein and are identified under the appropriate items in this Form 10-K. The 2010 Annual Report to Shareholders (the "Annual Report") of The Progressive Corporation and subsidiaries, which will be attached as an Appendix to the 2011 Proxy Statement, is included as Exhibit 13 to this Form 10-K. Cross references to relevant sections of the Annual Report are included under the appropriate items of this Form 10-K.

PART I

ITEM 1. BUSINESS

(a) General Development of Business

The Progressive insurance organization began business in 1937. The Progressive Corporation, an insurance holding company formed in 1965, currently has 54 subsidiaries and 1 mutual insurance company affiliate. These insurance subsidiaries and affiliate provide personal and commercial automobile insurance and other specialty property-casualty insurance and related services. Our property-casualty insurance products protect our customers against losses due to collision and physical damage to their motor vehicles and uninsured and underinsured bodily injury, and liability to others for personal injury or property damage arising out of the use of those vehicles. Our non-insurance subsidiaries generally support our insurance and investment operations. We operate our businesses throughout the United States and sell personal auto insurance in Australia.

(b) Financial Information About Segments

Incorporated by reference from *Note 10 - Segment Information* in our Annual Report, which is included as Exhibit 13 to this Form 10-K.

(c) Narrative Description of Business

We offer a number of personal and commercial property-casualty insurance products primarily related to motor vehicles. Net premiums written were $14.5 billion in 2010, compared to $14.0 billion in 2009 and $13.6 billion in 2008. Our combined ratio, calculated on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), was 92.4 in 2010, 91.6 in 2009, and 94.6 in 2008.

Organization

Auto insurance differs greatly by community because legal requirements and decisions vary by state and because, among other factors, traffic, law enforcement, cultural attitudes, insurance agents, medical services, and auto repair services vary by community. To respond to these local differences, we are organized as follows:

- Our Personal Lines products are comprised of insurance for personal autos and special lines products (e.g., motorcycles, ATVs, RVs, mobile homes, watercraft, snowmobiles, and similar items):
    - We currently write personal auto insurance in all 50 of the United States and in the District of Columbia. In December 2009, we began writing personal auto insurance in Australia. Our personal auto management group is organized by state into four geographic regions in the United States, plus a region for Australia. Each region is led by a general manager.
    - We write the majority of our special lines products in all 50 states. Our special lines management group is organized by product and led by a general manager.
- Our Commercial Auto products are offered in 49 states; we do not currently write Commercial Auto in Hawaii or the District of Columbia. The Commercial Auto business is organized by state, with product managers responsible for local implementation. These state-level managers are led by two regional directors who are led by a general manager.
- Our Claims business area, which supports both the Personal Lines and Commercial Auto businesses, is organized into three geographic regions, with a general manager responsible for each region.
- Our Personal Lines, Commercial Auto, and Claims businesses are each managed by a Group President, while our California agency organization is managed separately.

Our customer service groups, located at call centers in Mayfield Village, Ohio; Austin, Texas; Tampa, Florida; Sacramento, California; Tempe, Arizona; and Colorado Springs, Colorado, support our policy servicing, agency distribution, claims operations, and direct sales.

Our executive management team sets policy and makes key strategic decisions and includes the Chief Executive Officer, Chief Financial Officer, Chief Legal Officer, Chief Investment Officer, Chief Information Officer, Chief Human Resource Officer, and Chief Marketing Officer, as well as our three Group Presidents (discussed above). The Group Presidents are responsible for the

development and management of our product offerings and customer service processes that are tailored to the unique characteristics and purchasing preferences of customers who shop for and select our insurance products.

Personal Lines

Our Personal Lines segment writes insurance for personal autos and recreational and other vehicles. This business generally offers more than one program in a single state, with each program targeted to a specific distribution channel, market, or customer group. The Personal Lines business accounted for approximately 90% of total net premiums written for each of the last three years. Our strategy is to be a competitively priced provider of a full line of auto insurance products with distinctive service, distributed through whichever channel the customer prefers.

We ranked fourth in market share in the U.S. private passenger auto market for 2009 based on net premiums written and believe that we held that position for 2010. There are approximately 360 competitors in this market. Progressive and the other leading 14 private passenger auto insurers, each of which writes over $1.8 billion of premiums, comprise about 75% of this market. For 2009, the industry net premiums written for private passenger auto insurance in the United States was $156.5 billion, and our share of this market was approximately 7.8%, compared to $158.0 billion and 7.3% in 2008, respectively; comparable industry data is not available for 2010 at this time. All industry data, including ranking and market share, was obtained directly from data reported by either SNL Financial or A.M. Best Company, Inc. ("A.M. Best"), or was estimated using A.M. Best data as the primary source.

Personal auto insurance represented approximately 90% of our total Personal Lines net premiums written for each of the last three years. Volume potential is driven by our price competitiveness, brand recognition, service quality, and the actions of our competitors, among other factors. See "Competitive Factors" on page 4 of this report for further discussion.

Our specialty Personal Lines products include insurance for motorcycles, ATVs, RVs, mobile homes, watercraft, snowmobiles, and similar items, and represent about 10% of our Personal Lines business. Due to the nature of these products, we typically experience higher losses during the warmer weather months. Our competitors are specialty companies and large multi-line insurance carriers. Although industry figures are not available, based on our analysis of this market, we believe that we are one of the largest participants in the specialty personal lines market, and that we have been the market share leader for the motorcycle product since 1998.

The Personal Lines business is either generated by independent agents and brokers or written directly online or by phone. The Agency business includes business written by our network of more than 30,000 independent insurance agencies located throughout the United States, including brokerages in New York and California. These independent insurance agents and brokers have the ability to place business with Progressive for specified insurance coverages within prescribed underwriting guidelines, subject to compliance with company-mandated procedures. Our guidelines prescribe the kinds and amounts of coverage that may be written and the premium rates that may be charged for specified categories of risk. The agents and brokers do not have authority on behalf of Progressive to establish underwriting guidelines, develop rates, settle or adjust claims, or enter into other transactions or commitments. The Agency business also writes through strategic alliance business relationships with other insurance companies, financial institutions, and national agencies. The total net premiums written through the Agency business represented 58% of our Personal Lines volume in 2010, compared to 59% in 2009 and 62% in 2008.

The Direct business includes business written directly by us online and over the phone. The Direct business represented 42% of our Personal Lines volume in 2010, compared to 41% in 2009 and 38% in 2008.

Snapshot℠, our usage-based insurance product, is now available to Direct auto consumers in 27 states, including 8 states added during 2010, and Agency auto customers in 9 of those 27 states. We plan to continue expansion of Snapshot into about 15 additional states in 2011, depending on regulatory approval and business results. We currently have three patents, and additional patent applications pending, with respect to usage-based insurance.

Progressive Home Advantage®, our offering which is designed to combine a Progressive policy with a homeowner's or renter's policy underwritten by one of three unaffiliated insurance carriers, is available to Agency customers in 43 states and to Direct customers in 48 states and the District of Columbia; this program is not available to customers in Florida and Alaska.

We also offer a personal umbrella insurance product in 32 states through certain independent agents and to Direct customers via telephone. We began offering this product in select markets in 2006 and have been expanding into additional markets as we have evaluated and met certain performance criteria. We plan to continue the roll-out in both channels during 2011.

Commercial Auto

The Commercial Auto business writes primary liability and physical damage insurance for automobiles and trucks owned by small businesses and represented approximately 10% of our total net premiums written for each of the last three years. The majority of our Commercial Auto customers insure three or fewer vehicles. The Commercial Auto business, which is primarily distributed through the independent agency channel, operates in the business auto and truck markets. The business auto market, which accounts for slightly more than half of our total Commercial Auto premiums and approximately 60% of the vehicles we

insure in this business, includes autos, vans, and pick-up trucks used by small businesses, such as contractors, landscapers, and plumbers. The remainder is in the truck commercial auto market, which includes dump trucks, logging trucks, tow trucks, local cartage, and other short-haul commercial vehicles. We also offer cargo, general liability, and workers' compensation insurance products to these same customers; certain of these products are underwritten by unaffiliated insurance companies through our Progressive Commercial Advantage program. Although the Commercial Auto business differs from Personal Lines auto in its customer bases and products written, both businesses require the same fundamental skills, including disciplined underwriting and pricing, as well as excellent claims service.

There are approximately 380 competitors in the total commercial auto market. We primarily compete with about 35 other large companies/groups, each with over $130 million of commercial auto premiums written annually. These leading commercial auto insurers comprise about 75% of this market. Our Commercial Auto business ranked fourth in the commercial auto insurance market for 2009, and we believe that we will be in the top four for 2010.

Other Indemnity Businesses

Our other indemnity businesses, which represented less than 1% of our net premiums written in each of the last three years, consist of managing our run-off businesses, which includes the run-off of our professional liability businesses, principally directors and officers liability insurance for community banks.

In 2010, we sold our professional liability insurance businesses. Pursuant to our agreement with the purchaser of this business, we will continue to write policies for an agreed upon period after the closing of the sale. From August 1, 2009 through June 30, 2010, the substantial majority of the business written for these policies was 100% reinsured. Beginning in July 2010, all such new and renewal business is 100% reinsured. The sale of these businesses did not have a material effect on our financial condition, results of operations, or cash flows.

Service Businesses

Our service businesses provide insurance-related services and represented less than 1% of our total revenues for each of the last three years and do not have a material effect on our overall operations.

Our service business provides policy issuance and claims adjusting services for the Commercial Auto Insurance Procedures/Plans (CAIP), which are state-supervised plans serving the involuntary market in 43 states. We are the sole nationwide servicing carrier for CAIP. As a service provider, we collect fee revenue that is earned on a pro rata basis over the terms of the related policies. In 2010, we reached an agreement with AIPSO (the national organization responsible for administering the involuntary insurance market) under which we will receive a supplemental fee, when necessary, to satisfy a minimum servicing fee requirement. We cede 100% of the premiums and losses to the plans. Reimbursements to us from the CAIP plans are required by state laws and regulations. Material violations of contractual service standards can result in ceding restrictions for the affected business. We have maintained, and plan to continue to maintain, compliance with these standards. Any changes in our participation as a CAIP service provider would not materially affect our financial condition, results of operations, or cash flows.

Our service businesses also include our alliance with three unaffiliated homeowner insurance companies, of which one company services our Agency customers, one services our Direct customers, and the third is available to both businesses. Through Progressive Home Advantage ®, we offer, either directly or through our network of independent agents, new and existing Progressive Agency and Direct customers home, condo, and renters insurance underwritten by these homeowner's insurance companies. For the policies written in our Direct business, we receive commissions, which are used to mitigate the expenses associated with maintaining this program.

Claims

We manage our claims handling on a companywide basis through approximately 320 claims offices located throughout the United States. In addition, we have in operation 54 service centers, in 41 metropolitan areas across the country, that provide our concierge level claims service. These facilities are designed to provide end-to-end resolution for auto physical damage losses. Customers can choose to bring their vehicles to one of these sites, where they can pick up a rental vehicle. Our representatives will then write the estimate, select a qualified repair shop, arrange the repair, including pick-up and delivery of the vehicle, and inspect the vehicle once the repairs are complete. We hold a U.S. patent for this innovative approach to the vehicle repair process, which increases consumer satisfaction and our productivity and improves the cycle time in comparison to other claims settlement processes.

Competitive Factors

The automobile insurance and other property-casualty markets in which we operate are highly competitive. Property-casualty insurers generally compete on the basis of price, consumer recognition and confidence, coverages offered and other product features, claims handling, financial stability, customer service, and geographic coverage. Vigorous competition is provided by large, well-capitalized national companies in both the Agency and Direct channels, and by smaller regional issuers. In the Agency channel, some of our competitors have broad distribution networks of employed or captive agents. Over the last few years, comparative rating services have gained prominence, adding transparency to industry pricing, and many of our competitors have

significantly increased their advertising and marketing efforts and/or expanded their online service offerings. These changes have further intensified the competitive nature of the automobile and other property-casualty insurance markets in which we operate.

We rely heavily on technology and extensive data gathering and analysis to segment markets and price accurately according to risk potential. We have remained competitive by refining our risk measurement and price segmentation skills, closely managing expenses, and achieving operating efficiencies. Superior customer service, fair and accurate claims adjusting, and strong brand recognition are also important factors in our competitive strategy.

State Insurance Licenses

Our insurance subsidiaries operate under licenses issued by various state insurance authorities. These licenses may be of perpetual duration or renewable periodically, provided the holder continues to meet applicable regulatory requirements. Our licenses govern the kinds of insurance coverages that may be written by our insurance subsidiaries in the issuing state. Such licenses are normally issued only after the filing of an appropriate application and the satisfaction of prescribed criteria. All licenses that are material to the subsidiaries' businesses are in good standing.

Insurance Regulation

Progressive's insurance subsidiaries are generally subject to regulation and supervision by insurance departments of the jurisdictions in which they are domiciled or licensed to transact business. At least one of our insurance subsidiaries is licensed and subject to regulation in each of the 50 states and the District of Columbia. The nature and extent of such regulation and supervision varies from jurisdiction to jurisdiction. Generally, an insurance company is subject to a higher degree of regulation and supervision in its state of domicile. Progressive's insurance subsidiaries and its affiliate are domiciled in the states of Indiana, Louisiana, Michigan, New Jersey, New York, Ohio, Texas, and Wisconsin. State insurance departments have broad administrative powers relating to licensing insurers and agents, regulating premium changes and policy forms, establishing reserve requirements, regulating compliance with statutory accounting methods, and the content of statutory financial reports, and regulating the type and amount of investments permitted. Rate regulation varies from "use and file," to "file and use," to prior approval.

Insurance departments are charged with the responsibility of ensuring that insurance companies maintain adequate capital and surplus and comply with a variety of operational standards. Insurance companies are generally required to file detailed annual and other reports with the insurance department of each jurisdiction in which they conduct business. Insurance departments are authorized to conduct periodic and other examinations of regulated insurers' financial condition and operations to monitor financial stability of the insurers and to ensure adherence to statutory accounting principles and compliance with state insurance laws and regulations. In addition, in some states, the attorney general's office may exercise certain supervisory authority over insurance companies and, from time to time, may investigate certain insurance company practices.

Insurance holding company laws enacted in many jurisdictions grant to insurance authorities the power to regulate acquisitions of insurers and certain other transactions and to require periodic disclosure of certain information. These laws impose prior approval requirements for certain transactions between regulated insurers and their affiliates and generally regulate dividend and other distributions, including loans and cash advances, between regulated insurers and their affiliates. See the "Dividends" discussion in Item 5(c) herein for further information on these dividend limitations. In December 2010, the National Association of Insurance Commissioners (NAIC) promulgated a revised model holding company act, which, to the extent ultimately adopted by individual state legislatures, will expand the scope of existing insurance holding company regulation.

Under state insolvency and guaranty laws, regulated insurers can be assessed or required to contribute to state guaranty funds to cover policyholder losses resulting from the insolvency of other insurers. Insurers are also required by many states, as a condition of doing business in the state, to provide coverage to certain risks which are not insurable in the voluntary market. These "assigned risk" plans generally specify the types of insurance and the level of coverage that must be offered to such involuntary risks, as well as the allowable premium. Many states also have involuntary market plans which hire a limited number of servicing carriers to provide insurance to involuntary risks. These plans, through assessments, pass underwriting and administrative expenses on to insurers that write voluntary coverages in those states.

Insurance companies are generally required by insurance regulators to maintain sufficient surplus to support their writings. Although the ratio of writings to surplus that the regulators will allow is a function of a number of factors (including applicable law, the type of business being written, the adequacy of the insurer's reserves, and the quality of the insurer's assets), the annual net premiums that an insurer may write have historically been perceived to be limited to a specified multiple of the insurer's total policyholders' surplus, generally 3 to 1. Thus, the amount of an insurer's surplus, in certain cases, may limit its ability to grow its business. At year-end 2010, we had net premiums written of $14,476.8 million and statutory surplus of $5,073.0 million. The combined premiums to surplus ratio for all Progressive insurance companies was 2.9 to 1. In addition, we have access to $2.2 billion in a non-insurance subsidiary, portions of which could be contributed to the capital of our insurance subsidiaries to support growth as needed. The NAIC also has developed a risk-based capital (RBC) program to enable regulators to take appropriate and timely regulatory actions relating to insurers that show signs of weak or deteriorating financial condition. RBC is a series of

dynamic surplus-related formulas that contain a variety of factors that are applied to financial balances based on the degree of certain risks, such as asset, credit, and underwriting risks. Progressive's RBC ratios are well in excess of minimum requirements.

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

Regulation of insurance constantly changes as real or perceived issues and developments arise. Some changes may be due to economic developments, such as changes in investment laws made to recognize new investment products, while others result from consumer resistance to price increases and concerns relating to insurer rating and underwriting practices and solvency. In recent years, legislation, regulatory measures, and voter initiatives have been introduced, and in some cases adopted, which deal with use of non-public consumer information, use of credit information in underwriting and rating, insurance rate development, rate of return limitations, and the ability of insurers to cancel or non-renew insurance policies, reflecting concerns about consumer privacy, insurance availability, prices, and alleged discriminatory pricing. In addition, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary; in 2010, a new Federal Insurance Office was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act, whose purpose is to collect information about the insurance industry and monitor the industry for systemic risk.

In a number of states, Progressive's insurance subsidiaries use financial responsibility or credit information (credit) as part of the underwriting or rating process. This practice is expressly authorized by the federal Fair Credit Reporting Act, and our information demonstrates that credit is an effective predictor of insurance risk. The use of credit in underwriting and rating is the subject of significant regulatory and legislative activity. Regulators and legislators have expressed a number of concerns related to the use of credit, including: questions regarding the accuracy of credit reports, perceptions that credit may have a disparate effect on the poor and certain minority groups, the perceived lack of a demonstrated causal relationship between credit and insurance risk, the treatment of persons with limited or no credit, the impact on credit of extraordinary life events (e.g., catastrophic injury or death of a spouse), and the credit attributes applied in the credit scoring models used by insurers. A number of state insurance departments have issued bulletins, directives, or regulations that regulate or prohibit the use of credit by insurers. In addition, a number of states are considering or have passed legislation to regulate insurers' use of credit information. The use of credit information continues to be a regulatory and legislative issue, and it is possible that the U.S. Congress or one or more states may enact further legislation affecting its use in underwriting and rating.

We write personal auto physical damage and property damage liability insurance in Australia through a branch of one of our U.S. insurance subsidiaries. This insurance is offered solely through the Internet. We do not write auto bodily injury liability or medical payment insurance in Australia. There are two primary agencies that regulate insurance in Australia: the Australian Securities and Investment Commission regulates customer disclosures, and the Australian Prudential Regulatory Authority regulates solvency. Both agencies enforce laws within their jurisdiction, issue regulations, take enforcement actions, and, in general, have broad regulatory powers. Progressive Direct Insurance Company has been issued licenses by both agencies and the licenses are in good standing.

Statutory Accounting Principles

Our results are reported in accordance with GAAP, which differ in certain respects from amounts reported under statutory accounting principles (SAP) prescribed by insurance regulatory authorities. Certain significant differences are described below:

Category	GAAP Accounting	SAP Accounting
Acquisition Expenses	Commissions, premium taxes, and other variable costs incurred in connection with writing new and renewal business are capitalized and amortized pro rata over the policy term as premiums are earned.	Commissions, premium taxes, and all other acquisition expenses are expensed as incurred.
Non-admitted Assets	Premium receivables are reported net of an allowance for doubtful accounts.	Premium receivables over 90 days past due are "non-admitted," which means they are excluded from surplus. For premium receivables less than 90 days past due, we also estimate a bad debt reserve.
	Furniture, equipment, application software, leasehold improvements, and prepaid expenses are capitalized and amortized over their useful lives or periods benefited.	Excluding computer equipment and operating software, the value of all other furniture, equipment, application software, leasehold improvements, and prepaid expenses, net of accumulated depreciation or amortization, is non-admitted against surplus. Computer equipment and operating software are capitalized, subject to statutory limitations based on surplus, and depreciated over three years.
	Deferred tax assets are recorded based on estimated future tax effects attributable to temporary differences. A valuation allowance would be recorded for any tax benefits that are not expected to be realized.	The accounting for deferred tax assets is consistent with GAAP, except for certain deferred tax assets that do not meet statutory requirements for recognition, which are non-admitted against surplus.
Reinsurance	Ceded reinsurance balances are shown as an asset on the balance sheet as "prepaid reinsurance premiums" and "reinsurance recoverables."	Ceded unearned premiums are netted against the "unearned premiums" liability. Ceded unpaid loss and loss adjustment expense (LAE) amounts are netted against "loss and LAE reserves." Only ceded paid loss and LAE are shown as a "reinsurance recoverables" asset.
Investment Valuation	Fixed-maturity securities, which are classified as available-for-sale, are reported at current fair values.	Fixed-maturity securites are reported at amortized cost or the lower of amortized cost or fair value, depending on the NAIC designation of the security.
	Preferred stocks, both redeemable and nonredeemable, are reported at quoted fair values.	Redeemable preferred stocks are reported at amortized cost or the lower of amortized cost or fair value, depending on the NAIC designation of the security. Nonredeemable preferred stocks are reported at quoted fair value, consistent with GAAP.
Federal Income Taxes	Federal tax expense and tax liability or recoverable balances include current and deferred income taxes.	For income statement reporting, federal tax expense only includes the current tax provision. Deferred taxes are posted to surplus. SAP deferred tax assets are subject to certain limitations on admissibility.

Investments

Our approach to investment and capital management seeks to ensure that we have sufficient capital to support all of the insurance premiums that we can profitably write. Our portfolio is invested primarily in short-term and intermediate-term, investment-grade fixed-income securities. Our investment portfolio had a fair value of $15.5 billion at December 31, 2010, compared to $14.7 billion at December 31, 2009. Investment income is affected by the variability of cash flows to or from the portfolio, shifts in the type and quality of investments in the portfolio, changes in yield, and other factors. Total investment income (loss), including net realized gains (losses) on securities, before expenses and taxes, was $616.2 million in 2010, compared to $534.1 million in 2009 and $(807.4) million in 2008. For more detailed discussion, see *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report, which is included as Exhibit 13 to this Form 10-K.

Employees

The number of employees, excluding temporary employees, at December 31, 2010 was 24,638, all of whom were employed by subsidiaries of The Progressive Corporation.

Liability for Property-Casualty Losses and Loss Adjustment Expenses

The consolidated financial statements include the estimated liability for unpaid losses and loss adjustment expenses (LAE) of Progressive's insurance subsidiaries. Our objective is to ensure that total reserves (i.e., case reserves and incurred but not recorded reserves, or "IBNR") are adequate to cover all loss costs, while sustaining minimal variation from the time reserves are initially established until losses are fully developed. The liabilities for losses and LAE are determined using actuarial and statistical procedures and represent undiscounted estimates of the ultimate net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effect of future trends on claims settlement, among other factors. These estimates are continually reviewed and adjusted as experience develops and new information becomes known. Adjustments, if any, relating to accidents that occurred in prior years are reflected in the current results of operations and are referred to as "development" of the prior year estimates. A detailed discussion of our loss reserving practices can be found in our "Report on Loss Reserving Practices," which was filed with the Securities and Exchange Commission (SEC) on Form 8-K on June 30, 2010, as well as in section "V. Critical Accounting Policies" of our *Management's Discussion and Analysis of Financial Condition and Results of Operation*s in our Annual Report, which is included as Exhibit 13 to this Form 10-K. The accompanying tables present information concerning our property-casualty losses and LAE.

The following table provides a reconciliation of beginning and ending estimated liability balances for the last three years:

RECONCILIATION OF NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

(millions)	2010	2009	2008
Balance at January 1	$ 6,653.0	$ 6,177.4	$ 5,942.7
Less reinsurance recoverables on unpaid losses	529.4	244.5	287.5
Net balance at January 1	6,123.6	5,932.9	5,655.2
Incurred related to:			
Current year	10,451.7	10,040.9	9,981.8
Prior years	(320.4)	(136.0)	33.2
Total incurred	10,131.3	9,904.9	10,015.0
Paid related to:			
Current year	6,841.0	6,542.2	6,700.4
Prior years	3,047.0	3,172.0	3,036.9
Total paid	9,888.0	9,714.2	9,737.3
Net balance at December 31	6,366.9	6,123.6	5,932.9
Plus reinsurance recoverables on unpaid losses	704.1	529.4	244.5
Balance at December 31	$ 7,071.0	$ 6,653.0	$ 6,177.4

Our reserves developed favorably in both 2010 and 2009, compared to slight unfavorable development in 2008. Total development consists of net changes made by our actuarial department on prior accident year reserves, based on regularly scheduled reviews, claims settling for more or less than reserved, emergence of unrecorded claims at rates different than reserved, and changes in reserve estimates by claim representatives. The favorable development in 2010 was primarily attributable to lower than expected defense and cost containment expenses and favorable settlement on larger losses in both personal auto and Commercial Auto. Similarly, in 2009, personal auto experienced lower than expected defense and cost containment costs, while Commercial Auto recognized favorable settlements on larger losses during the year. In 2008, an increase in the number of late reported Commercial Auto claims, and an increase in the estimated severity of these claims, was a primary contributor to the unfavorable development.

In establishing loss reserves, we take into account projected changes in claim severity caused by anticipated inflation and a number of factors that vary with the individual type of policies written. These severities are projected based on historical trends adjusted for anticipated changes in underwriting standards, inflation, policy provisions, claims resolution practices, and general economic trends. These anticipated trends are reconsidered periodically based on actual development and are modified if necessary.

We have not entered into any loss reserve transfers or similar transactions having a material effect on earnings or reserves.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSES DEVELOPMENT

(millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
LIABILITY FOR UNPAID LOSSES AND LAE - GROSS	$ 2,986.4	$ 3,238.0	$ 3,813.0	$ 4,576.3	$ 5,285.6	$ 5,660.3	$ 5,725.0	$ 5,942.7	$ 6,177.4	$ 6,653.0	$ 7,071.0
LESS: REINSURANCE RECOVERABLE ON UNPAID LOSSES	201.1	168.3	180.9	229.9	337.1	347.2	361.4	287.5	244.5	529.4	704.1
LIABILITY FOR UNPAID LOSSES AND LAE - NET[1]	2,785.3	3,069.7	3,632.1	4,346.4	4,948.5	5,313.1	5,363.6	5,655.2	5,932.9	6,123.6	6,366.9
PAID (CUMULATIVE) AS OF:											
One year later	1,409.3	1,601.7	1,860.7	2,233.8	2,355.5	2,662.1	2,897.4	3,036.9	3,172.0	3,047.0	
Two years later	2,047.2	2,290.7	2,688.9	3,148.1	3,430.6	3,931.0	4,240.4	4,361.4	4,427.8	0	
Three years later	2,355.0	2,655.8	3,084.6	3,642.5	3,999.9	4,584.7	4,856.2	4,966.1	0	0	
Four years later	2,514.6	2,821.0	3,291.6	3,873.0	4,269.6	4,839.1	5,121.9	0	0	0	
Five years later	2,586.3	2,910.2	3,381.7	3,977.1	4,368.6	4,948.7	0	0	0	0	
Six years later	2,631.2	2,945.7	3,416.7	4,012.5	4,419.2	0	0	0	0	0	
Seven years later	2,647.3	2,959.6	3,428.7	4,034.4	0	0	0	0	0	0	
Eight years later	2,653.9	2,962.9	3,440.7	0	0	0	0	0	0	0	
Nine years later	2,654.6	2,970.6	0	0	0	0	0	0	0	0	
Ten years later	2,659.9	0	0	0	0	0	0	0	0	0	
LIABILITY RE-ESTIMATED AS OF:											
One year later	2,686.3	3,073.2	3,576.0	4,237.3	4,592.6	5,066.2	5,443.9	5,688.4	5,796.9	5,803.2	
Two years later	2,708.3	3,024.2	3,520.7	4,103.3	4,485.2	5,130.5	5,469.8	5,593.8	5,702.1	0	
Three years later	2,671.2	2,988.7	3,459.2	4,048.0	4,501.6	5,093.6	5,381.9	5,508.0	0	0	
Four years later	2,666.9	2,982.7	3,457.8	4,070.0	4,471.0	5,046.7	5,336.5	0	0	0	
Five years later	2,678.5	2,993.7	3,475.4	4,073.7	4,475.5	5,054.6	0	0	0	0	
Six years later	2,683.7	3,002.5	3,472.5	4,072.4	4,486.4	0	0	0	0	0	
Seven years later	2,688.4	3,000.6	3,470.1	4,080.5	0	0	0	0	0	0	
Eight years later	2,688.6	2,995.8	3,477.3	0	0	0	0	0	0	0	
Nine years later	2,683.5	3,000.9	0	0	0	0	0	0	0	0	
Ten years later	2,687.2	0	0	0	0	0	0	0	0	0	
NET CUMULATIVE DEVELOPMENT FAVORABLE/(UNFAVORABLE)	$ 98.1	$ 68.8	$ 154.8	$ 265.9	$ 462.1	$ 258.5	$ 27.1	$ 147.2	$ 230.8	$ 320.4	
PERCENTAGE[2]	3.5	2.2	4.3	6.1	9.3	4.9	0.5	2.6	3.9	5.2	
RE-ESTIMATED LIABILITY FOR UNPAID LOSSES AND LAE - GROSS	$ 2,903.6	$ 3,208.4	$ 3,751.6	$ 4,450.6	$ 4,985.9	$ 5,651.5	$ 5,977.1	$ 6,154.7	$ 6,329.1	$ 6,457.0	
LESS: RE-ESTIMATED REINSURANCE RECOVERABLE ON UNPAID LOSSES	216.4	207.5	274.3	370.1	499.5	596.9	640.6	646.7	627.0	653.8	
RE-ESTIMATED LIABILITY FOR UNPAID LOSSES AND LAE - NET[1]	$ 2,687.2	$ 3,000.9	$ 3,477.3	$ 4,080.5	$ 4,486.4	$ 5,054.6	$ 5,336.5	$ 5,508.0	$ 5,702.1	$ 5,803.2	
GROSS CUMULATIVE DEVELOPMENT: FAVORABLE/ (UNFAVORABLE)	$ 82.8	$ 29.6	$ 61.4	$ 125.7	$ 299.7	$ 8.8	$ (252.1)	$ (212.0)	$ (151.7)	$ 196.0	

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

[2] Cumulative development ÷ liability for unpaid losses and LAE - Net.

The above table presents the development of balance sheet liabilities for losses and LAE from 2000 through 2009. The top line of the table shows the estimated liability for unpaid losses and LAE recorded at the balance sheet date for each of the indicated years for the property-casualty insurance subsidiaries only. This liability represents the estimated amount of losses and LAE for claims that were unpaid at the balance sheet date, including IBNR. The table also presents the re-estimated liability for unpaid losses and LAE on a gross and net basis, with separate disclosure of the re-estimated reinsurance recoverable on unpaid losses.

The upper section of the table (labeled "Paid (Cumulative) as of:") shows the cumulative amount paid with respect to the previously recorded liability as of the end of each succeeding year. The lower portion of the table (labeled "Liability Re-estimated as of:") shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The re-estimated amount is the sum of the paid amounts above and the outstanding reserve for occurrences prior to the reserve date. The estimate is increased or decreased as more information about the claims becomes known for individual years. For example, as of December 31, 2010, our insurance subsidiaries had paid $2,970.6 million of the currently estimated $3,000.9 million of losses and LAE that had been unpaid at the end of 2001; thus, an estimated $30.3 million of losses incurred through 2001 remain unpaid as of the current financial statement date.

The net cumulative development represents the aggregate change in the ultimate loss estimate over all prior years. For example, the 2000 liability has developed favorably by $98.1 million over ten years. That amount has been reflected in income over the ten years and had the largest impact on the income in calendar year 2001. The effects on income during the past three years due to changes in estimates of the liabilities for losses and LAE are shown in the reconciliation table on page 8 as the "prior years" contribution to incurred losses and LAE.

In evaluating this information, note that each cumulative development amount includes the effects of all changes in amounts during the current year for prior periods. For example, the amount of the development related to losses settled in 2010, but incurred in 2007, will be included in the cumulative development amount for years 2007, 2008, and 2009. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future development based on this table.

For 2000 and 2001, while we experienced an increase in bodily injury severity, our developed reserves were within 2% to 4% of our original estimates. The bodily injury severity change was much lower than we expected between 2002 and 2005; thus, the reserve run-off for these years was very favorable following the end of each year, or about 4% to 9% of our original carried amounts. The reserve development for each of 2006 through 2008 was less than 4% of our original carried reserves, while 2009 reserves developed favorably by about 5% due to lower than expected defense and cost containment expenses and favorable settlements on larger losses in our personal auto and Commercial Auto businesses.

Although the detail is not presented in the table on page 9, we also re-estimate the reinsurance recoverable on unpaid losses each year. The top of the table shows the amount of reinsurance recoverable on unpaid losses that we had at the end of the calendar year, while the bottom shows the reserves re-estimated based on development in subsequent years. For example, at December 31, 2009, we estimated our reinsurance recoverable on unpaid losses to be $529.4 million. During 2010, these reserves developed unfavorably by $124.4 million, bringing the re-estimated reinsurance recoverable on unpaid losses to $653.8 million, as shown at the bottom of the table. Over the last ten years, we experienced unfavorable development in our reinsurance recoverables on unpaid losses. This development primarily reflects our claims organization's process of re-evaluating Michigan personal injury protection claims that require lifetime reserve estimates, which began in 2009 and continued in early 2010. As a result, we increased both our direct reserves and corresponding reinsurance recoverables, since these claims are reinsured through the Michigan Catastrophic Claims Association (MCCA) state-mandated plan. The MCCA is funded through an assessment that insurance companies collect from policyholders in the state; therefore, our exposure to losses from the failure of this reinsurer is minimal.

The Analysis of Loss and Loss Adjustment Expenses Development table on page 9 is constructed from Schedule P, Part-1, from the Consolidated Annual Statements of Progressive's insurance subsidiaries, as filed with the state insurance departments.

(d) Financial Information About Geographic Areas.

Progressive operates throughout the United States and began operating in Australia in December 2009. The amount of Australian revenues and assets is insignificant.

(e) Available Information.

Our Web site is located at progressive.com. As soon as reasonably practicable, we make all documents that we file with, or furnish to, the SEC, including our reports on Form 10-K, Form 10-Q, and Form 8-K, and any amendments to these reports, available free of charge via our Web site at progressive.com/investors. These reports are also available on the SEC's Web site: http://www.sec.gov.

ITEM 1A. RISK FACTORS

Progressive's business involves various risks and uncertainties, certain of which are discussed in this section. Management divides these risks into four broad categories in assessing how they may affect our financial condition and operating results, as well as our ability to achieve our business objectives:

- **Insurance Risks –** risks associated with assuming, or indemnifying for, the losses of, or liabilities incurred by, policyholders
- **Operating Risks –** the risks stemming from external or internal events or circumstances that directly or indirectly may affect our insurance operations
- **Market Risks –** changes in the value of invested assets which might result from a variety of factors, including interest rate movements, market price fluctuations, credit spread widening, risk premium pricing, liquidity difficulties, foreign exchange rate changes, and the performance of an individual issuer or a market sector, and
- **Credit Risks** – the risks that a counter-party to a transaction will fail to perform according to the terms and conditions of a contract, as well as our ability to obtain capital when necessary, pay or otherwise satisfy our obligations when due.

Although we have organized risks generally according to these categories in the discussion below, it should be noted that many of the risks may have ramifications in more than one category. For example, although presented as an Operating Risk below, governmental regulation of insurance companies also affects our investing and financing activities, which are addressed separately under Market Risks and Credit Risks below. The categories, therefore, should be viewed as a starting point for understanding the significant risks facing us and not as a limitation on the potential impact of the matters discussed.

This information should be considered carefully together with the other information contained in this report and in the other reports and materials filed by us with the Securities and Exchange Commission ("SEC"), as well as news releases and other information publicly disseminated by us from time to time.

It should be noted that our business and that of other insurers may be adversely affected by a downturn in general economic conditions and other forces beyond our control. Issues such as unemployment rates, the number of vehicles sold, inflation or deflation, market valuations, interest rates, consumer confidence and construction spending, among a host of other factors, will have a bearing on the amount of insurance that is purchased by consumers and small businesses. In addition, other risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any such risks or uncertainties, or any of the following risks or uncertainties, develop into actual events, we could experience a materially adverse effect on our business, financial condition, cash flows, or results of operations. In that case, the market price of our common shares or debt securities could decline materially.

I. Insurance Risks

Our success depends on our ability to underwrite risks accurately and to charge adequate rates to policyholders.

Our financial condition, cash flows, and results of operations depend on our ability to underwrite and set rates accurately for a full spectrum of risks. The role of the pricing function is to ensure that rates are adequate to generate sufficient premiums to pay losses, loss adjustment expenses, and underwriting expenses, and to earn a profit.

Pricing involves the acquisition and analysis of historical accident and loss data, and the projection of future accident trends, loss costs and expenses, and inflation trends, among other factors, for each of our products in multiple risk tiers and many different markets. As a result, our ability to price accurately is subject to a number of risks and uncertainties, including, without limitation:

- the availability of sufficient reliable data
- uncertainties inherent in estimates and assumptions, generally
- our ability to conduct a complete and accurate analysis of available data
- our ability to timely recognize changes in trend and to predict both the severity and frequency of future losses with reasonable accuracy
- our ability to predict changes in certain operating expenses with reasonable accuracy
- the development, selection, and application of appropriate rating formulae or other pricing methodologies
- our ability to innovate with new pricing strategies, and the success of those innovations
- our ability to implement rate changes and obtain any required regulatory approvals on a timely basis
- our ability to predict policyholder retention accurately
- unanticipated court decisions, legislation, or regulatory action
- the frequency and severity of catastrophic events, such as hurricanes, hail storms, other severe weather, and terrorist events
- understanding the impact of ongoing changes in our claim settlement practices
- changing driving patterns

- unexpected changes in the medical sector of the economy, including medical costs, and
- unanticipated changes in auto repair costs, auto parts prices, and used car prices.

The realization of one or more of such risks may result in our pricing being based on inadequate or inaccurate data or inappropriate analyses, assumptions, or methodologies, and may cause us to estimate incorrectly future changes in the frequency or severity of claims. As a result, we could underprice risks, which would negatively affect our underwriting profit margins, or we could overprice risks, which could reduce our competitiveness and growth prospects. In either event, our operating results, financial condition, and cash flows could be materially adversely affected. In addition, underpricing insurance policies over time could erode the capital position of one or more of our insurance subsidiaries, constraining our ability to write new business.

Our success depends on our ability to establish accurate loss reserves.

Our financial statements include loss reserves, which represent our best estimate of the amounts that the subsidiaries ultimately will pay on claims that have been incurred, and the related costs of adjusting those claims, as of the date of the financial statements. There is inherent uncertainty in the process of establishing property and casualty loss reserves, which can arise from a number of factors, including:

- the availability of sufficient, reliable data
- the difficulty in predicting the rate and direction of changes in frequency and severity trends, including the effects of future inflation rates, in multiple markets
- unexpected changes in medical and auto repair costs
- unanticipated changes in governing statutes and regulations
- new or changing interpretations of insurance policy provisions and coverage-related issues by courts
- the effects of ongoing changes in our claim settlement practices
- our ability to recognize fraudulent or inflated claims
- the accuracy of our estimates regarding claims that have been incurred but not recorded as of the date of the financial statements
- the accuracy and adequacy of actuarial techniques and databases used in estimating loss reserves, and
- the accuracy and timeliness of estimates of total loss and loss adjustment expenses as determined by our employees for different categories of claims.

As a result of these and other risks and uncertainties, the ultimate paid losses and loss adjustment expenses may deviate, perhaps substantially, from point-in-time estimates of such losses and expenses, as reflected in the loss reserves included in our financial statements. Consequently, ultimate losses paid could materially exceed loss reserves and have a materially adverse effect on our results of operations, liquidity, or financial position. Further information on our loss reserves can be found in the “Liability for Property-Casualty Losses and Loss Adjustment Expenses” discussion beginning on page 8 of this report, as well as our “Report on Loss Reserving Practices,” which was filed with the SEC on Form 8-K on June 30, 2010.

Our insurance operating results may be materially adversely affected by severe weather conditions or other catastrophic events.

Catastrophes can be caused by natural events, such as hurricanes, tornadoes, windstorms, earthquakes, hailstorms, severe winter weather and fires, or other events, such as explosions, terrorist attacks, riots, and hazardous material releases. The extent of insured losses from a catastrophe is a function of both our total net insured exposure in the area affected by the event and the nature and severity of the event. If they occur with enough severity, our financial performance, cash flows, and results of operations could be materially adversely affected.

The incidence and severity of catastrophes are inherently unpredictable. In addition, changing climate conditions may increase the frequency and severity of natural disasters such as hurricanes, tornadoes, other storms and fires. We use catastrophe modeling tools to help estimate our exposures to such events, but those tools are based on historical data and other assumptions that may provide projections that are materially different from the actual events. As a result, increased levels of hurricanes and other storms could have a material adverse effect on our insurance operating results.

II. Operating Risks

We compete in the automobile insurance and other property-casualty markets, which are highly competitive.

We face vigorous competition from large, well-capitalized national and international companies, as well as smaller regional insurers. Other large national and international insurance or financial services companies also may enter these markets in the future. Many of these companies have substantial resources, experienced management, and strong marketing, underwriting, and pricing capabilities. Our business focuses on insurance for personal autos and recreational vehicles and on commercial auto policies for small businesses. Competitors may offer consumers combinations of auto policies and other insurance products or financial services that we do not offer. We could be adversely affected by the failure to generate new business, or to retain a sufficient percentage of our current customers, as a result of competitors offering similar insurance products at lower prices or

offering bundled products or services and by other competitor initiatives. The automobile insurance industry is a relatively mature industry, in which brand recognition, operational effectiveness (including, for example, rate and claim-paying accuracy, customer experience, and application of information technology), pricing, scale, and cost control are major competitive factors.

Historically, the auto insurance industry has been known as a cyclical industry, which has been defined by periods of relatively strong profitability being followed by increased pricing competition among insurers. This price competition, which is sometimes referred to as a “soft market,” can adversely affect revenue and profitability levels. Unexpected increases in the insurers’ underlying costs (such as vehicle repair costs, medical costs, and the expenses to resolve claims) can further reduce profits or result in underwriting losses. As the insurers recognize this situation (which can occur at different times for different companies), the historical reaction has been for insurers to raise their rates (sometimes referred to as a “hard market”) in an attempt to restore profit to acceptable levels. As more insurers react in this way, profit levels in the industry may increase to a point where some insurers begin to lower their rates, starting the cycle over again. In the past, this cycle has generally played out over a number of years. We cannot determine whether such cyclicality is currently impacting the auto insurance market, nor can we predict whether it will do so in the future.

The highly competitive nature of the insurance marketplace could result in the consolidation of our competition, or in the failure of one or more competitors. The concentration of premium volume in a reduced number of major competitors could significantly alter the competitive landscape in ways that cannot be predicted, but which may or may not be favorable for Progressive’s business prospects at that time. In addition, in the event of a failure of a major insurer or a state-sponsored catastrophic fund, we could be adversely affected, as our company and other insurance companies may be required under the laws of various jurisdictions to absorb the losses of the failed insurer or fund, and we could be faced with an unexpected surge in new business from a failed insurer’s former policyholders, which could strain our service capabilities in the near term.

Our success depends on the ability to innovate effectively, respond to our competitors’ initiatives, and efficiently manage complexity.

From time to time, we undertake strategic initiatives to maintain and improve our competitive position in auto insurance markets. Based on a culture that encourages innovation, these strategies at times involve significant departures from our, and/or our competitors’, then-current or historical modes of doing business, and must be instituted in the context of a complicated regulatory environment. These innovations may also require extensive modifications to our systems and processes, and thus may add to our costs and entail a degree of complexity and risk that makes their implementation a challenge. In addition, our efforts may not ultimately achieve anticipated business goals. These initiatives may also disrupt our relationships with certain of our customers and producers (i.e., agents and brokers). Our ability to develop and implement such strategic initiatives that are accepted and valued by our customers and create a sustainable advantage is critical, however, to maintaining or enhancing our competitive position; if we fail to do so, or if we are unable to maintain the advantage over our competition, our business could be materially adversely affected.

At the same time, innovations by competitors or other market participants may increase the level of competition in the industry. This can include product, pricing, or marketing innovations, new or improved services, technology advances, or new modes of doing business that enhance the customer’s ability to shop and compare prices from multiple companies, among other initiatives. Our ability to react to such advances and then navigate the new competitive environment is also important to our success.

The fast pace of change and innovation in our businesses, combined with ongoing technological, regulatory, and other developments, results in significant levels of complexity in our products and in the systems and processes we use to run our business. The complexity may create a barrier to implementing certain new ideas, and may lead to the increased possibility of error in executing our business strategies, as well as difficult management decisions regarding the allocation of available resources (such as IT resources) for multiple potential initiatives or projects. Our inability to manage this complexity effectively, to bring new ideas to market, to allocate and prioritize appropriately our resources, or to prevent errors could result in substantially increased costs, liability to third parties, regulatory investigations and sanctions, poor customer experiences, and damage to our brand.

We must develop and maintain a brand that is recognized and trusted by consumers.

It is critical to our business that consumers recognize and trust the Progressive brand. We undertake distinctive advertising and marketing campaigns and other efforts to improve brand recognition, generate new business, and increase the retention of our current customers. We believe that improving the effectiveness of our advertising and marketing campaigns relative to those of our competitors is particularly important given the significance of brand and reputation in the marketplace and the continuing high level of advertising and marketing efforts, and related expenditures, within the automobile insurance market. If these campaigns or efforts are unsuccessful or are less effective than those of competitors, or if our reliance on a particular spokesperson or character is compromised, our business could be materially adversely affected.

Our brand could also be adversely affected by incidents that reflect negatively on our company. These situations might include, among others, failing to protect sensitive customer information, systems failures, effects of cyber attacks (such as computer hacking, data theft, system disruption, and viruses and malware), errors in handling a customer’s policy, inappropriate handling of

claims of policyholders or other parties, inability to service outstanding policies or write new business due to systems failures, facility shut-downs or other causes, litigation or regulatory actions challenging our business practices, and actions by our other business partners, including unaffiliated businesses through which we offer bundled products (such as homeowners insurance) and other business partners, and many of the other matters that are discussed in these Risk Factors.

Our ability to attract, develop, and retain talented employees, managers, and executives, and to maintain appropriate staffing levels, is critical to our success.

Our success depends on our ability to attract, develop, and retain talented employees, including executives and other key managers. Our loss of certain key officers and employees, or the failure to attract and develop talented new executives and managers with diverse backgrounds and experiences, could have a materially adverse effect on our business.

In addition, we must forecast volume and other factors in changing business environments (for multiple business units and in many geographic markets) with reasonable accuracy and adjust our hiring and training programs and employment levels accordingly. Our failure to recognize the need for such adjustments, or our failure or inability to react appropriately on a timely basis, could lead either to over-staffing (which would adversely affect our cost structure) or under-staffing (impairing our ability to service our ongoing and new business) in one or more business units or locations. In either such event, our financial results, customer relationships, and brand could be materially adversely affected.

We further believe that our success depends, in large part, on our ability to maintain and improve the staffing effectiveness and employee culture that we have developed over the years. Our ability to do so may be impaired as a result of litigation against us, other judicial decisions, legislation or regulations, or other factors in the employment marketplace. In such events, the productivity of certain of our workers and the efficiency of our operations could be adversely affected, which could lead to an erosion of our operating performance and margins.

The Progressive Corporation and its insurance subsidiaries are subject to a variety of complex laws and regulations.

Progressive's insurance businesses operate in a highly regulated environment. Our insurance subsidiaries are subject to regulation and supervision by state insurance departments in all 50 states, the District of Columbia, and Australia, each of which has a unique and complex set of laws and regulations. In addition, certain federal laws impose additional requirements on businesses, including insurers. Our insurance subsidiaries' ability to comply with these laws and regulations at reasonable costs, and to obtain necessary regulatory action in a timely manner, is and will continue to be critical to our success.

Most jurisdictions impose restrictions on, or require prior regulatory approval of, various actions by regulated insurers, which may adversely affect our insurance subsidiaries' ability to operate, innovate, and obtain necessary rate adjustments in a timely manner. Our compliance efforts are further complicated by changes in laws or regulations applicable to insurance companies, such as, in recent years, legislative and regulatory initiatives concerning the use of nonpublic consumer information and related privacy issues, the use of credit scoring in underwriting, and efforts to freeze, set, or roll back insurance premium rates or limit the rate of return that an insurance company may earn. Insurance laws and regulations may limit our insurance subsidiaries' ability to underwrite and price risks accurately, prevent our subsidiaries from obtaining timely rate changes to recognize increased or decreased costs, restrict our subsidiaries' ability to discontinue unprofitable businesses or exit unprofitable markets, prevent insurers from terminating policies under certain circumstances, prescribe the form and content of certain disclosures and notices to policyholders, and dictate the types of investments that an insurance company may hold. In addition, laws in certain jurisdictions mandate that insurance companies pay assessments arising in a number of circumstances, including to pay claims upon the insolvency of other insurance companies or to cover losses in government-provided insurance programs for high risk auto and homeowners coverages. Compliance with laws and regulations often results in increased costs, which can be substantial, to our insurance subsidiaries. These costs, in turn, may adversely affect our profitability or our ability or desire to grow our business in the applicable jurisdictions.

The failure to comply with this complex variety of laws and regulations, or an alleged failure to so comply, by us or other companies in the insurance, financial services, or related industries, also could result in actions or investigations by regulators, state attorneys general, or other law enforcement officials. Such actions and investigations, and any determination that we have not complied with an applicable law or regulation, could potentially lead to fines and penalties, adverse publicity and damage to our reputation in the marketplace, and in extreme cases, revocation of a subsidiary's authority to do business in one or more jurisdictions. In addition, The Progressive Corporation and its subsidiaries could face individual and class action lawsuits by insureds and other parties for alleged violations of certain of these laws or regulations.

New legislation or regulations may be adopted in the future which could adversely affect our operations or ability to write business profitably in one or more jurisdictions. In addition, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary. For example, in 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which, in addition to imposing a number of new compliance obligations on publicly traded companies, created within the United States Department of the Treasury a new Federal Insurance Office (FIO), whose purpose is (in part) to collect information about the insurance industry and monitor the industry for systemic risk. If the FIO were to recommend to the new Financial Stability

Oversight Council (also created by the Dodd-Frank Act) that we are "systemically significant" and therefore require additional regulation, or that the insurance industry as a whole should be regulated at the federal level, our businesses could be affected significantly. We are unable to predict whether any additional federal laws or regulations will be enacted and how and to what extent such laws and regulations would affect our businesses.

Insurance regulation may create risks and uncertainties for Progressive's insurance subsidiaries in other ways as well. For further information on these risks and uncertainties, see the "Insurance Regulation" discussion beginning on page 5 of this report.

Our success depends on our ability to adjust claims accurately.

We must accurately evaluate and pay claims that are made under our insurance policies. Many factors can affect our ability to pay claims accurately, including the training, experience, and skill of our claims representatives, the extent of and our ability to recognize fraudulent or inflated claims, the claims organization's culture and the effectiveness of its management, our ability to develop or select and implement appropriate procedures, technologies, and systems to support our claims functions, and the success of our concierge level claims services program. Our failure to pay claims fairly, accurately, and in a timely manner, or to deploy claims resources appropriately, could result in unanticipated costs to us, lead to material litigation, undermine customer goodwill and our reputation in the marketplace, and impair our brand image and, as a result, materially adversely affect our competitiveness, financial results, prospects, and liquidity.

Lawsuits challenging our business practices, and those of our competitors and other companies, are pending and more may be filed in the future.

The Progressive Corporation and/or its subsidiaries are named as defendants in class action and other lawsuits challenging various aspects of the subsidiaries' business operations. Other such litigation may arise in the future concerning similar or other business practices. These lawsuits include cases alleging damages as a result of our subsidiaries' use of credit in underwriting and related requirements under the U.S. federal Fair Credit Reporting Act; methods used for evaluating and paying certain bodily injury, personal injury protection, and medical payment claims; other claims handling procedures; challenges to our direct repair program and service center program; interpretations of the provisions of our insurance policies; and policy implementation and renewal procedures, among other matters. From time to time, we also may be involved in litigation or other disputes alleging that our subsidiaries' business practices or systems violate the patent, trademark, or other intellectual property rights of third parties. Additional litigation may be filed against us concerning our employment-related practices, allegations of medical or attorney malpractice, and other general liability causes of action arising from our operations. In addition, lawsuits have been filed, and other lawsuits may be filed in the future, against our competitors and other businesses, and although we are not a party to such litigation, the results of those cases may create additional risks for, and/or impose additional costs, and/or limitations on, our subsidiaries' business operations.

Lawsuits against us often seek significant monetary damages. Moreover, the resolution of individual or class action litigation in insurance or related fields may lead to a new layer of court-imposed regulation, resulting in material increases in our costs of doing business.

Litigation is inherently unpredictable. Except to the extent we have established reserves with respect to particular lawsuits that are currently pending against us, we are unable to predict the effect, if any, that these pending or any future lawsuits may have on our business, operations, profitability, or financial condition. For further information on pending litigation, see *Note 12 – Litigation* in our Annual Report, which is included as Exhibit 13 to this Form 10-K.

Our business depends on the secure and uninterrupted operation of our facilities, systems, and business functions.

Our business is highly dependent upon our employees' ability to perform, in an efficient and uninterrupted manner, necessary business functions (such as Internet support and 24-hour call centers), processing new and renewal business, and processing and paying claims and other obligations. Our facilities and systems could become unavailable, inoperable, or otherwise impaired from a variety of causes, including, without limitation, natural events, such as hurricanes, tornadoes, windstorms, earthquakes, severe winter weather and fires, or other events, such as explosions, terrorist attacks, cyber attacks (such as computer hacking, data theft, system disruption, and viruses and malware), riots, hazardous material releases, medical epidemics, utility outages, or interruptions of data processing and storage systems and communications facilities. Likewise, we could experience a failure or corruption of one or more of our information technology, telecommunications, or other systems for various reasons, including failures that might occur as existing systems are replaced or upgraded.

The shut-down or unavailability of one or more of our systems or facilities for any reason could significantly impair our ability to perform critical business functions on a timely basis. In addition, because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such service exceeds capacity or a third-party system fails or experiences an interruption. If sustained or repeated, such a business interruption, system failure, or service denial could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner, or perform other necessary business functions. This could result in a materially adverse effect on our business results, prospects, and liquidity, as well as damage to customer goodwill.

Our business is highly dependent on access to, and the operation of, the financial markets to provide us with the ability to liquidate securities and transfer or receive funds on a timely basis. Disruptions in financial markets, or an interruption or breakdown in the federal wire transfer systems, could limit our ability to meet payment obligations. A mismatch or timing difference between our cash inflows and our cash needs, or the inability to convert investment securities into cash when needed, could also adversely affect our ability to make timely payments.

A security breach of our computer systems or other operations could also interrupt or damage our operations; infect, corrupt, or destroy data or systems; subject us to liability if confidential customer information is misappropriated; and significantly damage our reputation. Despite the implementation of security measures, including hiring an independent firm to perform intrusion vulnerability testing of our computer systems, these systems may be vulnerable to physical or electronic break-ins, computer viruses, programming errors, insider threats, attacks by third parties, or similar disruptive problems. Any compromise of security could deter people from entering into transactions that involve transmitting confidential information to our systems, which could have a material adverse effect on our business.

We rely heavily on credit card acceptance for premium payment and settlement of claims deductibles. Data security standards for merchants and service providers that accept credit card payments are prescribed by the Payment Card Industry Security Standards Council (PCI), an independent body formed by an association of the major credit card vendors. These standards are intended to promote a common set of data security measures to help ensure the safe handling of sensitive information by companies accepting credit card payments. Satisfaction of the PCI standards does not ensure that sensitive information will be maintained on a secure basis, but it is required to do business with the credit card companies. In September 2010, an independent organization recognized by PCI for such purposes certified Progressive as being in compliance with the current PCI standards. The PCI data security standards, however, will likely evolve over time to address emerging payment security risks and other issues, requiring additional compliance efforts by us and recertification of our processes. Our intention is to maintain compliance with PCI's data security standards. The failure to do so could result in contractual fines or disruption of our ability to receive credit card payments.

III. Market Risks

The performance of our fixed-income and equity investment portfolios is subject to a variety of investment risks.

Our investment portfolio is comprised principally of fixed-income securities and common equities. Our fixed-income portfolio is actively managed by our investment group and includes short-term investments, fixed-maturity securities, and preferred stocks. The performance of the fixed-income portfolio is subject to a number of risks, including:

- Interest rate risk – the risk of adverse changes in the value of fixed-income securities as a result of increases in market interest rates.
- Investment credit risk – the risk that the value of certain investments may decrease in value due to the deterioration in financial condition of, or the liquidity available to, one or more issuers of those securities or, in the case of asset-backed securities, due to the deterioration of the loans or other assets that underlie the securities, which, in each case, also includes the risk of permanent loss.
- Concentration risk – the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors, or industries, which could result in a significant decrease in the value of the portfolio in the event of a deterioration of the financial condition or performance of, or outlook for, those issuers, sectors, or industries.
- Prepayment or extension risk (applicable to certain securities in the portfolio, such as residential mortgage-backed securities) – the risk that, as interest rates change, the principal of such securities may be repaid earlier than anticipated, or that a security may not be redeemed when anticipated, adversely affecting the value of, or income from, such securities and the portfolio by investing at less attractive rates.
- Liquidity risk – the risk that we will not be able to convert investment securities into cash on favorable terms and on a timely basis, or that we will not be able to sell them at all, when we desire to do so. Disruptions in the financial markets, or a lack of buyers for the specific securities that we are trying to sell, could prevent us from liquidating securities or cause a reduction in prices to levels that are not acceptable to us.

In addition, the success of our investment strategies and asset allocations in the fixed-income portfolio may vary depending on the market environment. The fixed-income portfolio's performance also may be adversely impacted if, among other factors: there is a lack of transparency regarding the underlying businesses of the issuers of the securities that we purchase; credit ratings assigned to such securities by nationally recognized credit rating agencies are based on incomplete or inaccurate information or prove unwarranted; or our risk mitigation strategies are ineffective for the applicable market conditions.

The common equity portfolio, which is managed by a third party to track the Russell 1000 Index, is subject to general movements in the values of equity markets and to the changes in the prices of the securities we hold. An investment that is designed to track an index, such as the Russell 1000, does not reduce the risks inherent in equity investing and is not necessarily less risky than other equity investment strategies. Equity markets, sectors, industries, and individual securities may be subject to high volatility and to long periods of depressed or declining valuations, and also may be subject to some of the same risks that affect our fixed-income portfolio, discussed above. For example, a rapid rise in interest rates may cause equity prices to fall, particularly those of

interest-sensitive companies. In addition, even though the Russell 1000 Index is broadly diversified, significant portions of the index may be concentrated in one or more sectors, such as the financial services industry, which may adversely affect the performance of our common equity portfolio if such a sector underperforms. A decline in the aggregate value of the equities that make up the index would be expected to result in a commensurate decline both in the value of our common equity portfolio and in our capital.

Both the fixed-income and the common equity portfolios are also subject to risks inherent in the nation's and world's capital markets. The functioning of those markets, the values of the investments we hold and our ability to liquidate them when desired may be adversely affected if those markets are disrupted or otherwise affected by significant negative factors, including, without limitation:

- local, national, or international events, such as regulatory changes, power outages, system failures, wars, or terrorist attacks
- a recession, depression, or other adverse developments in either the U.S. or other economies that adversely affects the value of securities held in our portfolios
- financial weakness or failure of one or more financial institutions that play a prominent role in securities markets or act as a counterparty for various financial instruments, such as derivative transactions, which could further disrupt the markets or cause us to incur losses if counterparties to one or more of our transactions should default
- inactive markets for specific kinds of securities, or for the securities of certain issuers or in certain sectors, which could result in decreased valuations and impact our ability to sell a specific security or a group of securities at a reasonable price when desired
- the failure, or perceived failure, of governmental attempts to stabilize specific companies or groups of companies through capital injections, to shore up markets, or otherwise to spur economic recovery or growth, or the failure or refusal of a government to engage in such efforts
- investor fear, whether substantive or not, causing the market to react irrationally
- a significant change in inflation expectations, or the onset of deflation or stagflation, and
- a significant devaluation of governmental or private sector credit, currencies or financial markets, or other factors or events

If the fixed-income or equity portfolios, or both, were to suffer a substantial decrease in value due to market, sector, or issuer-specific conditions, our liquidity, financial position, and financial results could be materially adversely affected. Under these circumstances, our income from these investments could be materially reduced, and declines in the value of certain securities could further reduce our reported earnings and capital levels. A decrease in value of an insurance company's investment portfolio could also put the subsidiary at risk of failing to satisfy regulatory minimum capital requirements and could limit the subsidiary's ability to write new business. If we, at that time, are unable to supplement the subsidiary's capital from The Progressive Corporation's other assets or by issuing debt or equity securities on acceptable terms, our business could be materially adversely affected.

See *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report, which is included as Exhibit 13 to this Form 10-K, for additional discussion of the composition of our investment portfolio as of December 31, 2010 and on the market risk associated with our investment portfolio.

IV. Credit Risks

Our financial condition may be adversely affected if one or more parties with which we enter into significant contracts become insolvent, experience other financial hardship, or default in the performance of contractual obligations.

Our business is dependent on the performance by third parties of their responsibilities under various contractual or service arrangements. These include, for example, contracts for the acquisitions of goods and services (such as telecommunications and information technology facilities, equipment and support, and other systems and services that are integral to our operations), agreements with other insurance carriers to bundle products that we do not offer, and arrangements for transferring certain of our risks (including reinsurance used by us in connection with certain of our insurance products and our corporate insurance policies). In addition, from time to time, we enter into significant financial transactions, such as derivative instruments, with major banks or other financial institutions. If one or more of these parties were to default in the performance of their obligations under their respective contracts or determine to abandon or terminate support for a system, product, or service that is significant to our business, we could suffer significant financial losses and operational interruptions or other problems, which could in turn adversely affect our financial performance, cash flows, or results of operations and cause damage to our brand and reputation.

Our insurance subsidiaries may be limited in the amount of dividends that they can pay to the holding company, which in turn may limit the holding company's ability to pay dividends to shareholders, repay indebtedness, or make capital contributions to its other subsidiaries or affiliate.

The Progressive Corporation is a holding company with no business operations of its own. Consequently, if its subsidiaries are unable to pay dividends or make other distributions to The Progressive Corporation, or are able to pay only limited amounts,

Progressive may be unable to pay dividends to shareholders, make payments on its indebtedness, meet its other obligations, repurchase its common shares, or make capital contributions to or otherwise fund its subsidiaries or affiliate. Each insurance subsidiary's ability to pay dividends to the holding company may be limited by one or more of the following factors:

- Insurance regulatory authorities require insurance companies to maintain specified minimum levels of statutory capital and surplus
- Insurance regulations restrict the amounts available for distribution based on either net income or surplus of the insurance company
- Competitive pressures require our insurance subsidiaries to maintain high financial strength ratings
- In certain jurisdictions, prior approval must be obtained from regulatory authorities for the insurance subsidiaries to pay dividends or make other distributions to affiliated entities, including the parent holding company

Further information on insurance laws and regulations which may limit the ability of our insurance subsidiaries to pay dividends can be found in Item 5(c), "Dividends," of this report.

If we fail to maintain sufficient capital to support our business, our financial condition and our ability to grow could be adversely affected.

We intend to maintain capital levels as necessary to pay all claims and other business expenses, to support the growth of our insurance businesses, to provide for additional protection against possible large, unexpected losses, and to provide the necessary resources to pay dividends, repurchase stock, and fund corporate opportunities. The appropriate level of capital at any time is estimated by management based, in part, on current and anticipated business results and growth prospects, and projections of the levels of capital needed to protect us against unexpected events within a confidence level determined through our risk management process. The amount of capital that we seek to maintain is driven by our assessment of potential exposures and correlations to our underwriting, investing, and operating risks, including those discussed in these Risk Factors. The estimates for unexpected events are internally produced and are the result of extensive analysis and modeling of the types and magnitude of risks that we are likely to face. While our techniques for estimating our capital needs are continually enhanced, our ability to predict accurately the nature, size, and scope of unexpected events is inherently uncertain.

The amount of capital that we hold at any given time is determined by the performance of our insurance operations and investment results (including investment income, valuation changes in our portfolio, and the realization of any deferred tax benefits), as well as by our capital management activities, such as the payment of cash dividends, repurchases of our common shares and debt securities, the establishment of credit lines, and the issuance by us of debt, equity, or other securities. If we experience losses in our insurance operations or from our investment portfolio, our capital levels may be reduced, perhaps significantly. If our capital level turns out to be lower than the amount needed at a given time, our ability to grow and successfully operate the insurance business could be constrained until additional sources of capital are secured. Such a deterioration of our financial condition could adversely affect the perception of our company by third parties (such as rating agencies, underwriters, institutional and other investors, and our customers), and as a result, our ability to gain access to debt or equity markets at favorable rates could be adversely impacted, and the price of our common shares or debt securities could fall significantly.

In addition, the recoverability of certain of our deferred tax assets is predicated on the market valuation of our invested assets and certain tax planning strategies that, in part, depend on the substantial recovery to original cost of our fixed-income securities and redeemable preferred stocks. Should fair values of such securities decline or not substantially recover in value, a valuation allowance against the related deferred tax assets may become necessary, which would reduce our capital levels.

Our access to capital markets, ability to enter into new or renew existing financing arrangements, obligations to post collateral under certain derivative contracts, and business operations are dependent on favorable evaluations and ratings by credit and other rating agencies.

Our credit and financial strength is evaluated and rated by various rating agencies, such as Standard & Poor's, Moody's Investors Service, Fitch Ratings, and A.M. Best. Progressive and its insurance subsidiaries currently enjoy favorable, stable ratings. Downgrades in our credit ratings could adversely affect our ability to access the capital markets and/or lead to increased borrowing costs in the future (although the interest rates we pay on our current indebtedness would not be affected), as would adverse recommendations by equity analysts at the various brokerage houses and investment firms. Perceptions of our company by investors, producers, other businesses, and consumers could also be significantly impaired. In addition, a downgrade could trigger contractual obligations in certain derivative transactions requiring us to post substantial amounts of collateral, in cash or high-grade assets, for the benefit of the other party to the transaction. Downgrades in the ratings of our insurance subsidiaries could likewise negatively impact our operations, potentially resulting in lower or negative premium growth. In any such event, our financial performance could be materially adversely affected.

The Progressive Corporation's annual dividend policy will result in a variable payment to shareholders each year, or no payment in some years, and the dividend program ultimately may be changed.

We have previously announced our intention to pay a dividend to shareholders on an annual basis under a formula that multiplies our annual after-tax underwriting income by a percentage factor set by the Board of Directors (25% for 2010 and 33-1/3% for

2011) and then by the Gainshare factor (determined under our employee Gainsharing (cash bonus) plans based on the operating performance of our principal insurance businesses). To the extent our after-tax comprehensive income (which includes net investment income, realized investment gains and losses and the change in unrealized investment gains and losses) is less than after-tax underwriting income, no dividend will be paid under our annual variable dividend policy.

Because the dividend calculation is performance-based, the amount (if any) to be paid in any particular year may not be subject to accurate prediction and will likely vary, perhaps significantly, from the amounts paid in the preceding year(s). As a result, the amount paid may be inconsistent with some shareholders' expectations. In addition, although we have announced our intent to repeat the annual dividend in 2011 (to be paid early in 2012), the dividend, if any, would not be declared by the Board until late 2011 or early 2012, and the Board could decide to alter our policy or not to pay the annual dividend for 2011 or future years. Such an action by the Board could result from, among other reasons, changes in the insurance marketplace, changes in our performance or capital needs, changes in U.S. federal income tax laws, or disruptions of national or international capital markets, or other events affecting our liquidity or financial position as described above under "Investing Risks." Any such change could adversely affect investors' perceptions of the company and the value of, or the total return of an investment in, our common shares or debt securities.

We do not manage to short-term earnings expectations; our goal is to maximize the long-term value of the enterprise, which at times may adversely affect short-term results.

We believe that shareholder value will be increased in the long run if we meet or exceed the financial goals and policies that we establish each year. We do not manage our business to maximize short-term stock performance or the amount of the dividend that may be paid under our annual variable dividend policy or otherwise. We report earnings and other operating results on a monthly basis. We also do not provide earnings estimates to the market and do not comment on earnings estimates by analysts. As a result, our reported results for a particular period may vary, perhaps significantly, from investors' expectations, which could result in significant volatility in the price of our common shares or debt securities.

In addition, due to our focus on the long-term value of the enterprise, we may undertake business strategies and establish related financial goals for a specific year that are designed to enhance our longer-term position, while understanding that such strategies may not always similarly benefit short-term performance, such as our annual underwriting profit or earnings per share. Such strategies, for example, may involve a reduction in premiums for certain products or customers, or increases in advertising spend, to support growth or enhance retention of current customers. Consequently, these strategies may adversely affect short-term performance and may result in additional volatility in the price of our common shares or debt securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We currently do not have any unresolved comments from the SEC staff.

ITEM 2. PROPERTIES

All of our properties are owned or leased by subsidiaries of The Progressive Corporation and are used for office functions (corporate, claims, and business unit), as call centers, for training, for warehouse space, or as service centers that provide our concierge level of claims service.

We own 71 buildings located throughout the United States. These facilities, which contain approximately 4.1 million square feet of space, are not segregated by industry segment.

We lease approximately 3.6 million square feet of space throughout the United States and one location in Australia. These leases are generally short-term to medium-term leases of commercial space.

In addition to our corporate headquarters and another office complex and call center in Mayfield Village, Ohio, we have significant locations in Colorado Springs, Colorado; Tampa, Florida; and Tempe, Arizona.

ITEM 3. LEGAL PROCEEDINGS

None. For a discussion of litigation we currently face, see *Note 12 - Litigation* in our Annual Report, which is included as Exhibit 13 to this Form 10-K.

ITEM 4. REMOVED AND RESERVED

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information

Progressive's Common Shares, $1.00 par value, are traded on the New York Stock Exchange under the symbol PGR. The high and low prices set forth below are as reported on the consolidated transaction reporting system.

Year	Quarter	High	Low	Close	Dividends Declared Per Share
2010	1	$19.69	$16.18	$ 19.09	$ 0
	2	20.94	18.67	18.72	0
	3	21.59	18.41	20.87	0
	4	22.13	19.54	19.87	1.3987
		$ 22.13	$16.18	$ 19.87	$ 1.3987
2009	1	$ 15.24	$ 9.76	$ 13.44	$ 0
	2	17.00	13.00	15.11	0
	3	17.50	14.12	16.58	0
	4	18.10	15.90	17.99	.1613
		$ 18.10	$ 9.76	$17.99	$ .1613

The closing price of our Common Shares on February 15, 2011, was $20.16.

(b) Holders

There were 3,703 shareholders of record on December 31, 2010.

(c) Dividends

See the table above for the frequency and amount of cash dividends declared on our Common Shares, $1.00 par value, for the last two years.

Progressive maintains a policy of declaring an annual variable dividend, payable shortly after the close of the year. The annual variable dividend is based on a formula that multiplies our annual after-tax underwriting income by a target percentage factor and then by a companywide performance factor (known as our Gainshare factor). The Board determined the target percentage of after-tax underwriting income to be 20% for 2008 and 2009 and 25% for 2010. The Board increased this target to 33-1/3% for 2011. The Gainshare factor can range from zero to two and is determined by comparing operating performance for the year to certain predetermined profitability and growth objectives in our insurance businesses. The Gainshare factor is also used in connection with our cash bonus program for employees and is approved by the Compensation Committee of the Board annually. Although recalibrated every year, the structure of the Gainsharing program generally remains the same. Our annual variable dividend program is subject to certain limitations. To the extent the Gainshare factor is zero or if after-tax comprehensive income (net income plus the after-tax change in unrealized gains (losses) during the period, among other items) is less than after-tax underwriting income, no annual variable dividend will be paid.

Although it is our intent to calculate an annual dividend based on the formula outlined, the Board could decide to alter our policy, or not to pay the annual dividend for 2011 or future years, at any time prior to the declaration of the dividend for the year. Such an action by the Board could result from, among other reasons, changes in the insurance marketplace, changes in our performance or capital needs, changes in federal income tax laws, disruptions of national or international capital markets, or other events affecting our business, liquidity, or financial position. In December 2010, the Board of Directors declared an annual dividend, which was paid in February 2011 to shareholders of record at the close of business on January 27, 2011. The amount of the dividend was $.3987 per common share, or $263.8 million. The 2009 annual dividend was declared by the Board in December 2009 and paid to shareholders in February 2010; the total amount of dividends was $108.4 million, or $.1613 per common share. No dividend was paid for 2008 because we reported an after-tax comprehensive loss. In addition, in 2010, we returned $663.2 million to shareholders via an extraordinary cash dividend of $1.00 per share.

To the extent we elect to defer the payment of interest on our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067, we may be restricted from declaring any dividends. See *Note 4 – Debt* in our Annual Report, which is included as Exhibit 13 to this Form 10-K for further discussion. Our intent is to pay interest on the Debentures as and when due.

Consolidated statutory policyholders' surplus was $5.1 billion on December 31, 2010, and $5.0 billion on December 31, 2009. At December 31, 2010, $454.9 million of consolidated statutory policyholders' surplus represented net admitted assets of Progressive's insurance subsidiaries and affiliate that are required to meet minimum statutory surplus requirements in such entities' states of domicile. Generally, the net admitted assets of insurance companies that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the companies are licensed. The companies may be licensed in states other than their states of domicile, however, which may have higher minimum statutory surplus requirements. Based on the dividend laws currently in effect, the insurance subsidiaries could pay aggregate dividends of $949.8 million in 2011 without prior approval from regulatory authorities, provided the dividend payments are not made within 12 months of previous dividends paid by the applicable subsidiary.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

The following information is set forth with respect to our equity compensation plans at December 31, 2010.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Cumulative Number of Securities Awarded as Restricted Stock or issued upon vesting of Restricted Stock Units	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders:				
Employee Plans:				
2010 Equity Incentive Plan	0	$ 0	0	18,000,000
2003 Incentive Plan	2,793,865[1]	NA	15,990,908	2,328,180
1995 Incentive Plan[2]	1,916,416[3]	11.31	1,402,320	0
Subtotal Employee Plans	4,710,281	11.31	17,393,228	20,328,180
Director Plans:				
2003 Directors Equity Incentive Plan	0	0	653,282	757,201
1998 Directors' Stock Option Plan[2]	120,125	10.34	0	0
Subtotal Director Plans	120,125	10.34	653,282	757,201
Equity compensation plans not not approved by security holders:				
None				
Total	4,830,406	$ 11.25[4]	18,046,510	21,085,381

NA = Not Applicable

[1] Represents restricted stock unit awards, under which, upon vesting, the holder has the right to receive common shares on a one-to-one basis; there is no exercise price associated with restricted stock unit awards. The total is comprised of 2,276,695 time-based units and performance-based awards, at target value, in the amount of 517,170 units, in each case including reinvested dividend equivalent units. The performance-based awards outstanding can vest from 0-200% of the target award value based on the achievement of predetermined performance goals.

[2] These plans have expired and no further awards may be made thereunder.

[3] Represents stock options outstanding, all of which expire, if not exercised prior to December 31, 2011.

[4] The weighted average price does not include restricted stock unit awards.

(e) Performance Graph

Incorporated by reference from the *Performance Graph* section in our Annual Report, which is included as Exhibit 13 to this Form 10-K.

(f) Recent Sales of Unregistered Securities

None.

(g) Share Repurchases

ISSUER PURCHASES OF EQUITY SECURITIES

2010 Calendar Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October	501,837	$ 21.13	20,945,441	29,054,559
November	475,000	20.85	21,420,441	28,579,559
December	1,609,070	20.21	23,029,511	26,970,489
Total	2,585,907	$ 20.51		

Progressive's financial policies state that we will repurchase shares to neutralize dilution from equity-based compensation in the year of issuance and to return underleveraged capital to investors. See *Note 9 - Employee Benefit Plans*, "Incentive Compensation Plans" in our Annual Report, which is included as Exhibit 13 to this Form 10-K, for a summary of our restricted equity grants.

In June 2009, the Board approved an authorization to repurchase up to 50 million common shares. This Board authorization does not have an expiration date. Shares repurchased under this authorization may be accomplished through open market purchases or otherwise, and may include trading plans entered into with one or more brokerage firms in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. In the fourth quarter 2010, all repurchases were accomplished through the open market or in conjunction with our incentive compensation plans at the then current market price.

ITEM 6. SELECTED FINANCIAL DATA

(millions - except per share amounts)

	For the years ended December 31,				
	2010	2009	2008	2007	2006
Total revenues	$14,963.3	$14,563.6	$ 12,840.1	$14,686.8	$ 14,786.4
Net income (loss)	1,068.3	1,057.5	(70.0)	1,182.5	1,647.5
Per share:					
Net income (loss)[1]	1.61	1.57	(.10)	1.65	2.10
Dividends	1.3987	.1613	0	2.1450	.0325
Comprehensive income (loss)	1,398.8	1,752.2	(614.7)	1,071.0	1,853.1
Total assets	21,150.3	20,049.3	18,250.5	18,843.1	19,482.1
Debt outstanding	1,958.2	2,177.2	2,175.5	2,173.9	1,185.5

[1] For 2008, amount represents basic earnings per share, since diluted earnings per share was antidilutive due to the net loss for the year.

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

Incorporated by reference from *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report, which is included as Exhibit 13 to this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk are incorporated by reference from section "IV. Results of Operations – Investments" in our *Management's Discussion and Analysis of Financial Condition and Results of Operations,* as described in Item 7 above. Additional information is incorporated by reference from the *Quantitative Market Risk Disclosures* section in our Annual Report, which is included as Exhibit 13 to this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of Progressive, along with the related notes, supplementary data, and report of the independent registered public accounting firm, are incorporated by reference from our Annual Report, which is included as Exhibit 13 to this Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Progressive, under the direction of the Chief Executive Officer and the Chief Financial Officer, has established disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

The Chief Executive Officer and the Chief Financial Officer reviewed and evaluated Progressive's disclosure controls and procedures as of the end of the period covered by this report. Based on that review and evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that Progressive's disclosure controls and procedures are effectively serving the stated purposes as of the end of the period covered by this report.

Management's Report on Internal Control over Financial Reporting is incorporated by reference from our Annual Report, which is included as Exhibit 13 to this Form 10-K.

The attestation of the registered public accounting firm is incorporated by reference from our Annual Report, which is included as Exhibit 13 to this Form 10-K.

There has been no change in Progressive's internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to all of the directors, and the individuals who have been nominated for election as directors at the 2011 Annual Meeting of Shareholders of the Registrant, is incorporated herein by reference from the section entitled "Item 1: Election of Directors" in the Proxy Statement.

Information relating to executive officers of Progressive follows. Unless otherwise indicated, the executive officer has held the position(s) indicated for at least the last five years.

Name	Age	Offices Held and Last Five Years' Business Experience
Glenn M. Renwick	55	President and Chief Executive Officer
Brian C. Domeck	51	Vice President and Chief Financial Officer beginning in March 2007; Demand Manager of the Direct Business prior to January 2007
Charles E. Jarrett	53	Vice President, Secretary, and Chief Legal Officer
Thomas A. King	51	Vice President and Treasurer
Jeffrey W. Basch	52	Vice President and Chief Accounting Officer
John A. Barbagallo	51	Commercial Lines Group President, including Agency Operations, since September 2007; Agency Group President from May 2006 to September 2007; Agency Business General Manager of the Atlantic Region prior to May 2006
M. Jeffrey Charney	51	Chief Marketing Officer since November 2010; Senior Vice President and Chief Marketing Officer of Aflac Incorporated from November 2008 to October 2010; Senior Vice President and Chief Marketing Officer of QVC, Inc. prior to November 2008
William M. Cody	48	Chief Investment Officer
Susan Patricia Griffith	46	Claims Group President since March 2008; Chief Human Resource Officer prior to March 2008
Valerie Krasowski	45	Chief Human Resource Officer since August 2008; Special Lines General Manager from March 2006 to August 2008; Director of Regional Marketing prior to March 2006
John P. Sauerland	46	Personal Lines Group President since September 2007; Direct Group President from June 2006 to September 2007; Claims General Manager of the Midwest Region prior to June 2006
Raymond M. Voelker	47	Chief Information Officer

Section 16(a) Beneficial Ownership Reporting Compliance . Incorporated by reference from the "Section 16(a) Beneficial Ownership Reporting Compliance" section of the Proxy Statement.

Code of Ethics. Progressive has a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and other senior financial officers. This Code of Ethics is available at: progressive.com/governance.

We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, and waivers from, the provisions of the foregoing Code of Ethics by posting such information on our Internet Web site at: progressive.com/governance.

Shareholder-Proposed Candidate Procedures. There were no material changes to Progressive's shareholder-proposed candidate procedures during 2010. The description of those procedures is incorporated by reference from the "Shareholder-Proposed Candidate Procedures" section of the Proxy Statement (which can be found in "Other Board of Directors Information").

Audit Committee. Incorporated by reference from the "Audit Committee" section of the Proxy Statement.

Financial Expert. Incorporated by reference from the "Audit Committee Financial Expert" section of the Proxy Statement (which can be found in "Audit Committee").

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the sections of the Proxy Statement entitled "Compensation Discussion and Analysis," "Executive Compensation," "Other Board of Directors Information: Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from the section of the Proxy Statement entitled "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from the section of the Proxy Statement entitled "Other Board of Directors Information" subsections "Board of Directors Independence Determinations" and "Certain Relationships and Related Transactions."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from the section of the Proxy Statement entitled "Other Independent Registered Public Accounting Firm Information."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Listing of Financial Statements

The following consolidated financial statements included in Progressive's 2010 Annual Report, which is included as Exhibit 13 to this Form 10-K, are incorporated by reference in Item 8:

- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Income - For the Years Ended December 31, 2010, 2009, and 2008
- Consolidated Balance Sheets - December 31, 2010 and 2009
- Consolidated Statements of Changes in Shareholders' Equity - For the Years Ended December 31, 2010, 2009, and 2008
- Consolidated Statements of Cash Flows - For the Years Ended December 31, 2010, 2009, and 2008
- Notes to Consolidated Financial Statements
- Supplemental Information (Unaudited)

(a)(2) Listing of Financial Statement Schedules

The following financial statement schedules, Report of Independent Registered Public Accounting Firm and Consent of Independent Registered Public Accounting Firm are included in Item 15(c):

- Schedule I - Summary of Investments - Other than Investments in Related Parties
- Schedule II - Condensed Financial Information of Registrant
- Schedule III - Supplementary Insurance Information
- Schedule IV - Reinsurance
- Schedule VI - Supplemental Information Concerning Property-Casualty Insurance Operations
- Report of Independent Registered Public Accounting Firm on Financial Statement Schedules
- Consent of Independent Registered Public Accounting Firm
- No other schedules are required to be filed herewith pursuant to Article 7 of Regulation S-X.

(a)(3) Listing of Exhibits

See exhibit index contained herein beginning at page 40. Management contracts and compensatory plans and arrangements are identified in the Exhibit Index as Exhibit Nos. 10.3 through 10.67.

(b) Exhibits

The exhibits in response to this portion of Item 15 are submitted concurrently with this report.

(c) Financial Statement Schedules

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

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
(millions)

Type of Investment	December 31, 2010		
	Cost	Fair Value	Amount At Which Shown In The Balance Sheet
Available-for-sale			
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	$ 3,203.2	$ 3,242.6	$ 3,242.6
States, municipalities, and political subdivisions	1,955.5	1,989.1	1,989.1
Public utilities	145.0	144.5	144.5
Corporate and other debt securities	2,434.0	2,501.6	2,501.6
Asset-backed securities	3,403.1	3,469.7	3,469.7
Redeemable preferred stock	490.0	502.5	502.5
Total fixed maturities	11,630.8	11,850.0	11,850.0
Equity securities:			
Common stocks:			
Public utilities	81.8	107.3	107.3
Banks, trusts, and insurance companies	153.5	199.5	199.5
Industrial, miscellaneous, and all other	786.4	1,118.2	1,118.2
Nonredeemable preferred stocks	601.3	1,157.6	1,157.6
Total equity securities	1,623.0	2,582.6	2,582.6
Short-term investments	1,090.8	1,090.8	1,090.8
Total investments	$ 14,344.6	$15,523.4	$15,523.4

Progressive did not have any securities of any one issuer with an aggregate cost or fair value exceeding 10% of total shareholders’ equity at December 31, 2010.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF INCOME

THE PROGRESSIVE CORPORATION (PARENT COMPANY)
(millions)

	Years Ended December 31,		
	2010	2009	2008
Revenues			
Dividends from subsidiaries*	$ 1,216.2	$ 1,230.6	$ 300.5
Undistributed income from subsidiaries	(73.5)	(78.7)	(304.2)
Equity in net income of subsidiaries	1,142.7	1,151.9	(3.7)
Intercompany investment income*	6.6	8.5	41.3
Net gain on extinguishment of debt	6.4	0	0
Total revenues	1,155.7	1,160.4	37.6
Expenses			
Interest expense	139.5	146.4	146.3
Deferred compensation[1]	4.3	4.8	(5.7)
Other operating costs and expenses	3.9	3.3	3.4
Total expenses	147.7	154.5	144.0
Income (loss) before income taxes	1,008.0	1,005.9	(106.4)
Provision (benefit) for income taxes	(60.3)	(51.6)	(36.4)
Net income (loss)	$ 1,068.3	$ 1,057.5	$ (70.0)

* Eliminated in consolidation.

[1] See *Note 4 – Employee Benefit Plans* in these condensed financial statements.

See notes to condensed financial statements.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

CONDENSED BALANCE SHEETS

THE PROGRESSIVE CORPORATION (PARENT COMPANY)
(millions)

	December 31,	
	2010	2009
Assets		
Investment in affiliate	$ 1.0	$ 1.0
Investment in subsidiaries*	5,984.8	5,680.8
Receivable from investment subsidiary*	2,120.2	2,242.2
Intercompany receivable*	179.1	125.0
Income taxes	48.7	36.5
Other assets	70.2	65.5
Total Assets	$ 8,404.0	$ 8,151.0
Liabilities and Shareholders' Equity		
Accounts payable, accrued expenses, and other liabilities	$ 132.8	$ 116.7
Dividend payable	264.1	108.5
Debt	1,958.2	2,177.2
Total liabilities	2,355.1	2,402.4
Common Shares, $1.00 par value (authorized 900.0; issued 797.7 and 797.8, including treasury shares of 135.3 and 125.2)	662.4	672.6
Paid-in capital	1,007.1	939.7
Retained earnings	3,595.7	3,683.1
Total accumulated other comprehensive income	783.7	453.2
Total shareholders' equity	6,048.9	5,748.6
Total Liabilities and Shareholders' Equity	$ 8,404.0	$ 8,151.0

* Eliminated in consolidation.

See notes to condensed financial statements.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

THE PROGRESSIVE CORPORATION (PARENT COMPANY)
(millions)

	Years Ended December 31,		
	2010	2009	2008
Cash Flows From Operating Activities:			
Net income (loss)	$ 1,068.3	$ 1,057.5	$ (70.0)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Undistributed income from subsidiaries	73.5	78.7	304.2
Amortization of stock-based compensation	2.4	1.8	1.8
Net gain on extinguishment of debt	(6.4)	0	0
Changes in:			
Intercompany receivable	(54.1)	(22.0)	(18.6)
Accounts payable, accrued expenses, and other liabilities	7.3	12.5	(31.2)
Income taxes	(12.2)	31.1	(21.6)
Other, net	(1.9)	(5.6)	27.4
Net cash provided by operating activities	1,076.9	1,154.0	192.0
Cash Flows From Investing Activities:			
Additional investments in equity securities of consolidated subsidiaries	(3.5)	(152.4)	(270.1)
Received from (paid to) investment subsidiary	122.0	(849.5)	317.7
Net cash provided by (used in) investing activities	118.5	(1,001.9)	47.6
Cash Flows From Financing Activities:			
Proceeds from exercise of stock options	27.2	18.8	27.0
Tax benefit from exercise/vesting of stock-based compensation	14.0	9.7	11.1
Reacquisition of debt	(214.3)	0	0
Dividends paid to shareholders	(763.7)	0	(98.3)
Acquisition of treasury shares	(258.6)	(180.6)	(179.4)
Net cash used in financing activities	(1,195.4)	(152.1)	(239.6)
Change in cash	0	0	0
Cash, beginning of year	0	0	0
Cash, end of year	$ 0	$ 0	$ 0

See notes to condensed financial statements.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

NOTES TO CONDENSED FINANCIAL STATEMENTS

The accompanying condensed financial statements of The Progressive Corporation (parent company) should be read in conjunction with the consolidated financial statements and notes thereto of The Progressive Corporation and subsidiaries' Annual Report to Shareholders, which is included as Exhibit 13 to this Form 10-K.

Note 1. Statements of Cash Flows — For the purpose of the Statements of Cash Flows, cash includes only bank demand deposits. The Progressive Corporation does not hold any cash but has unrestricted access to funds maintained in a non-insurance, investment subsidiary to meet its holding company obligations; at both year-end 2010 and 2009, $2.2 billion of marketable securities were available in this company. Non-cash activity includes declared but unpaid dividends, and the contribution from The Progressive Corporation of its common shares to certain subsidiaries, subject to restricted stock awards granted to employees. For the years ended December 31, we paid the following:

(millions)	2010	2009	2008
Income taxes, net of refunds	$ 434.0	$461.7	$258.0
Interest	138.4	144.7	144.7

Note 2. Income Taxes — The Progressive Corporation files a consolidated federal income tax return with all subsidiaries and acts as an agent for the consolidated tax group when making payments to the Internal Revenue Service. Income taxes in the accompanying Condensed Balance Sheets are comprised of the parent company's net deferred tax assets and the consolidated group's net income taxes payable/recoverable. The Progressive Corporation and its subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated federal income taxes. Amounts allocated to the subsidiaries under the written agreement are included in "Intercompany Receivable" in the accompanying Condensed Balance Sheets.

Note 3. Debt — The information relating to debt is incorporated by reference from *Note 4 – Debt* in our Annual Report, which is included as Exhibit 13 to this Form 10-K.

Note 4. Employee Benefit Plans — The information relating to incentive compensation plans and deferred compensation is incorporated by reference from *Note 9 - Employee Benefit Plans* in our Annual Report, which is included as Exhibit 13 to this Form 10-K.

Note 5. Reclassifications — In 2010, The Progressive Corporation has correctly presented undistributed income from subsidiaries as part of total revenues in the Condensed Statements of Income and has revised the prior years' statements to conform with this presentation. There was no effect on total net income (loss).

SCHEDULE III — SUPPLEMENTARY INSURANCE INFORMATION

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Segment	Deferred policy acquisition costs[1]	Future policy benefits, losses, claims, and loss expenses[1]	Unearned premiums[1]	Other policy claims and benefits payable[1]	Premium revenue	Net investment income[1,2]	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses	Net premiums written
Year ended December 31, 2010:										
Personal Lines					$12,826.9		$9,159.6	$ 1,188.1	$1,587.1	$ 13,024.4
Commercial Auto					1,474.2		958.6	167.9	162.7	1,449.5
Other indemnity[3]					13.7		13.1	3.9	(9.7)	2.9
Total	$ 417.2	$ 7,071.0	$ 4,353.8	$ 0	$ 14,314.8	$ 508.2	$ 10,131.3	$1,359.9	$ 1,740.1	$ 14,476.8
Year ended December 31, 2009:										
Personal Lines					$12,365.9		$ 8,847.0	$ 1,171.6	$ 1,410.2	$ 12,453.1
Commercial Auto					1,623.3		1,050.7	187.0	155.8	1,533.9
Other indemnity					23.6		7.2	6.0	1.7	15.9
Total	$ 402.2	$6,653.0	$ 4,172.9	$ 0	$ 14,012.8	$495.9	$ 9,904.9	$ 1,364.6	$1,567.7	$ 14,002.9
Year ended December 31, 2008:										
Personal Lines					$ 11,847.8		$ 8,716.2	$ 1,147.9	$ 1,348.2	$11,878.8
Commercial Auto					1,762.2		1,290.2	203.3	174.6	1,704.8
Other indemnity					21.4		8.6	6.9	.6	20.7
Total	$ 414.0	$ 6,177.4	$4,175.9	$ 0	$ 13,631.4	$628.9	$10,015.0	$ 1,358.1	$ 1,523.4	$ 13,604.3

1 Progressive does not allocate assets, liabilities, or investment income to operating segments.

2 Excludes total net realized gains (losses) on securities.

3 We sold our professional liability insurance businesses in the first quarter 2010. The gain on the sale is reflected in other operating expenses.

SCHEDULE IV — REINSURANCE

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
(millions)

Year Ended:	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
December 31, 2010					
Premiums earned:					
Property and liability insurance	$14,519.2	$ 204.4	$ 0	$ 14,314.8	0
December 31, 2009					
Premiums earned:					
Property and liability insurance	$ 14,199.4	$ 186.6	$ 0	$14,012.8	0
December 31, 2008					
Premiums earned:					
Property and liability insurance	$ 13,810.1	$ 178.7	$ 0	$13,631.4	0

SCHEDULE VI — SUPPLEMENTAL INFORMATION CONCERNING PROPERTY - CASUALTY INSURANCE OPERATIONS

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Year Ended	Losses and Loss Adjustment Expenses Incurred Related to		Paid Losses and Loss Adjustment Expenses
	Current Year	Prior Years	
December 31, 2010	$10,451.7	$ (320.4)	$9,888.0
December 31, 2009	$ 10,040.9	$(136.0)	$9,714.2
December 31, 2008	$ 9,981.8	$ 33.2	$9,737.3

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

Report of Independent Registered Public Accounting Firm on Financial Statement Schedules

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

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated March 1, 2011 appearing in the 2010 Annual Report to Shareholders of The Progressive Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 1, 2011

Consent of Independent Registered Public Accounting Firm

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

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

Form	Filing No.	Filing Date
S-8	333-104646	April 21, 2003
S-8	333-104653	April 21, 2003
S-8	333-41238	July 12, 2000
S-8	333-51613	May 1, 1998
S-8	333-25197	April 15, 1997
S-8	33-57121	December 29, 1994
S-8	33-64210	June 10, 1993
S-8	33-51034	August 20, 1992
S-8	33-38793	February 4, 1991
S-8	33-37707	November 9, 1990
S-8	33-33240	January 31, 1990
S-8	33-16509	August 14, 1987

of The Progressive Corporation of our report dated March 1, 2011 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 1, 2011 relating to the financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 1, 2011

SIGNATURES

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

THE PROGRESSIVE CORPORATION

March 1, 2011

By: /s/ Glenn M. Renwick
Glenn M. Renwick
Director, President, and Chief Executive Officer

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

Signature	Title	Date
* Peter B. Lewis	Director, Chairman of the Board	March 1, 2011
/s/ Glenn M. Renwick Glenn M. Renwick	Director, President, and Chief Executive Officer	March 1, 2011
/s/ Brian C. Domeck Brian C. Domeck	Vice President and Chief Financial Officer	March 1, 2011
/s/ Jeffrey W. Basch Jeffrey W. Basch	Vice President and Chief Accounting Officer	March 1, 2011
* Stuart B. Burgdoerfer	Director	March 1, 2011
* Charles A. Davis	Director	March 1, 2011
* Roger N. Farah	Director	March 1, 2011
* Lawton W. Fitt	Director	March 1, 2011
* Stephen R. Hardis	Director	March 1, 2011
Bernadine P. Healy, M.D.	Director	March 1, 2011
* Abby F. Kohnstamm	Director	March 1, 2011
* Norman S. Matthews	Director	March 1, 2011
* Patrick H. Nettles, Ph.D.	Director	March 1, 2011
* Bradley T. Sheares, Ph.D.	Director	March 1, 2011

* Charles E. Jarrett, by signing his name hereto, does sign this document on behalf of the persons indicated above pursuant to powers of attorney duly executed by such persons.

By: /s/ Charles E. Jarrett
Charles E. Jarrett
Attorney-in-fact

March 1, 2011

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
3(i)	3.1	Amended Articles of Incorporation of The Progressive Corporation (as amended April 18, 2008)	Quarterly Report on Form 10-Q (filed on May 6, 2008; Exhibit 3.1 therein)
3(ii)	3.2	Code of Regulations of The Progressive Corporation (as amended April 24, 2009)	Quarterly Report on Form 10-Q (filed on May 11, 2009; Exhibit 3.1 therein)
4	4.1	364-Day Secured Liquidity Credit Facility Agreement dated as of December 31, 2008 between The Progressive Corporation and PNC Bank, National Association (successor in interest to National City Bank) ("PNC Credit Agreement")	Current Report on Form 8-K (filed on January 7, 2009; Exhibit 4.1 therein)
4	4.2	Amendment No. 1, dated as of December 31, 2009, to PNC Credit Agreement	Current Report on Form 8-K (filed on January 6, 2010; Exhibit 4.1 therein)
4	4.3	Amendment No. 2, dated as of December 31, 2010, to PNC Credit Agreement	Current Report on Form 8-K (filed on January 4, 2011; Exhibit 4 therein)
4	4.4	Form of 6.375% Senior Notes due 2012, issued in the aggregate principal amount of $350,000,000 under the 1993 Senior Indenture (see exhibit 4.9 below), as amended and supplemented	Filed herewith
4	4.5	Form of 7% Notes due 2013 issued in the aggregate principal amount of $150,000,000 under the 1993 Senior Indenture, as amended and supplemented	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 4.4 therein)
4	4.6	Form of 6 5/8% Senior Notes due 2029, issued in the aggregate principal amount of $300,000,000 under the 1993 Senior Indenture, as amended and supplemented	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 4.5 therein)
4	4.7	Form of 6.25% Senior Notes due 2032, issued in the aggregate principal amount of $400,000,000 under the 1993 Senior Indenture, as amended and supplemented	Annual Report on Form 10-K (filed on February 27, 2008; Exhibit 4.5 therein)
4	4.8	Form of 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 issued in the original aggregate principal amount of $1,000,000,000 under the Junior Subordinated Indenture (see exhibit 4.15 below), as amended and supplemented	Current Report on Form 8-K (filed on June 22, 2007; Exhibit 4.3 therein)
4	4.9	Indenture dated as of September 15, 1993 between The Progressive Corporation and State Street Bank and Trust Company (successor in interest to The First National Bank of Boston), as Trustee ("1993 Senior Indenture") (including table of contents and cross-reference sheet)	Registration Statement No. 333-48935 (filed on March 31, 1998; Exhibit 4.1 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
4	4.10	First Supplemental Indenture dated March 15, 1996 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company	Registration Statement No. 333-01745 (filed on March 15, 1996; Exhibit 4.2 therein)
4	4.11	Second Supplemental Indenture dated February 26, 1999 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company, as Trustee	Registration Statement No. 333-100674 (filed on October 22, 2002; Exhibit 4.3 therein)
4	4.12	Third Supplemental Indenture dated December 7, 2001 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company, as Trustee	Registration Statement No. 333-100674 (filed with SEC on October 22, 2002; Exhibit 4.4 therein)
4	4.13	Fourth Supplemental Indenture dated November 21, 2002 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company, as Trustee	Registration Statement No. 333-143824 (filed on June 18, 2007; Exhibit 4.5 therein)
4	4.14	Fifth Supplemental Indenture dated June 13, 2007 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, evidencing the designation of U.S. Bank National Association as successor Trustee under the Senior Indenture	Registration Statement No. 333-143824 (filed on June 18, 2007; Exhibit 4.6 therein)
4	4.15	Junior Subordinated Indenture dated as of June 21, 2007 between The Progressive Corporation and The Bank of New York Trust Company, N.A., Trustee ("Junior Subordinated Indenture") (including table of contents and cross-reference sheet)	Current Report on Form 8-K (filed on June 22, 2007; Exhibit 4.1 therein)
4	4.16	First Supplemental Indenture dated June 21, 2007 to the Junior Subordinated Indenture between The Progressive Corporation and The Bank of New York Trust Company, N.A., as Trustee	Current Report on Form 8-K (filed on June 22, 2007; Exhibit 4.2 therein)
4	4.17	Replacement Capital Covenant dated June 21, 2007, of The Progressive Corporation	Current Report on Form 8-K (filed on June 22, 2007; Exhibit 4.4 therein)
4	4.18	Termination of Replacement Capital Covenant, dated June 23, 2010	Current Report on Form 8-K (filed on June 24, 2010; Exhibit 4 therein)
10(ii)	10.1	Sublease Agreement for Aircraft Hangar dated as of August 21, 2006 between Progressive Casualty Insurance Company and Acme Operating Corporation	Filed herewith
10(ii)	10.2	Assignment of Assumption of Lease Agreement dated July 7, 2010, between Acme Operating Company and Acme Acquisition Company	Filed herewith

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.3	The Progressive Corporation 2007 Gainsharing Plan	Annual Report on Form 10-K (filed on February 28, 2007; Exhibit 10.8 therein)
10(iii)	10.4	The Progressive Corporation 2008 Gainsharing Plan	Annual Report on Form 10-K (filed on February 27, 2008; Exhibit 10.6 therein)
10(iii)	10.5	The Progressive Corporation 2009 Gainsharing Plan	Filed herewith
10(iii)	10.6	The Progressive Corporation 2010 Gainsharing Plan	Filed herewith
10(iii)	10.7	First Amendment to The Progressive Corporation 2010 Gainsharing Plan	Filed herewith
10(iii)	10.8	The Progressive Corporation 2011 Gainsharing Plan	Filed herewith
10(iii)	10.9	The Progressive Corporation 2007 Executive Bonus Plan	Current Report on Form 8-K (filed on February 8, 2007; Exhibit 10(A) therein)
10(iii)	10.10	The Progressive Corporation 1995 Incentive Plan	Filed herewith
10(iii)	10.11	Form of Non-Qualified Stock Option Agreement under The Progressive Corporation 1995 Incentive Plan	Annual Report on Form 10-K (filed on February 27, 2008; Exhibit 10.18 therein)
10(iii)	10.12	Form of Objective-Based (now known as Performance-Based) Non-Qualified Stock Option Agreement under The Progressive Corporation 1995 Incentive Plan	Filed herewith
10(iii)	10.13	Form of The Progressive Corporation 1995 Incentive Plan Restricted Stock Award Agreement (Time-Based Award)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.9 therein)
10(iii)	10.14	The Progressive Corporation 2003 Incentive Plan	Registration Statement No. 333-104646 (filed on April 21, 2003; Exhibit 4(a) therein)
10(iii)	10.15	First Amendment to The Progressive Corporation 2003 Incentive Plan	Current Report on Form 8-K (filed on February 8, 2007; Exhibit 10(B) therein)
10(iii)	10.16	Second Amendment to The Progressive Corporation 2003 Incentive Plan	Current Report on Form 8-K (filed on February 4, 2010; Exhibit 10.1 therein)
10(iii)	10.17	Third Amendment to The Progressive Corporation 2003 Incentive Plan	Current Report on Form 8-K (filed on February 2, 2011; Exhibit 10.2 therein)
10(iii)	10.18	Form of The Progressive Corporation 2003 Incentive Plan Restricted Stock Award Agreement (Time-Based Award) (for 2004 through February 2007)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.14 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.19	Form of The Progressive Corporation 2003 Incentive Plan Restricted Stock Award Agreement (Time-Based Award) (for March 2007 and thereafter)	Current Report on Form 8-K (filed on March 26, 2007; Exhibit 10.1 therein)
10(iii)	10.20	Form of The Progressive Corporation 2003 Incentive Plan Restricted Stock Award Agreement (Performance-Based Award) (for 2004 through February 2007)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.16 therein)
10(iii)	10.21	Form of The Progressive Corporation 2003 Incentive Plan Restricted Stock Award Agreement (Performance-Based Award) (for March 2007 through February 2009)	Current Report on Form 8-K (filed on March 26, 2007; Exhibit 10.2 therein)
10(iii)	10.22	Form of The Progressive Corporation 2003 Incentive Plan Restricted Stock Award Agreement (Performance-Based Award) (for March 2009 through February 2010)	Quarterly Report on Form 10-Q (filed on May 11, 2009; Exhibit 10.2 therein)
10(iii)	10.23	Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2003 Equity Incentive Plan	Current Report on Form 8-K (filed on March 30, 2010; Exhibit 10.1 therein)
10(iii)	10.24	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards under The Progressive Corporation 2003 Equity Incentive Plan	Current Report on Form 8-K (filed on March 30, 2010; Exhibit 10.2 therein)
10(iii)	10.25	The Progressive Corporation 2010 Equity Incentive Plan	Current Report on Form 8-K (filed on February 4, 2010; Exhibit 10.2 therein)
10(iii)	10.26	First Amendment to The Progressive Corporation 2010 Equity Incentive Plan	Current Report on Form 8-K (filed on March 8, 2010; Exhibit 10.1 therein)
10(iii)	10.27	Second Amendment to The Progressive Corporation 2010 Equity Incentive Plan	Current Report on Form 8-K (filed on March 11, 2010; Exhibit 10.1 therein)
10(iii)	10.28	Third Amendment to The Progressive Corporation 2010 Equity Incentive Plan	Current Report on Form 8-K (filed on February 2, 2011; Exhibit 10.1 therein)
10(iii)	10.29	The Progressive Corporation 2003 Directors Equity Incentive Plan	Registration Statement No. 333-104653 (filed on April 21, 2003; Exhibit 4(a) therein)
10(iii)	10.30	Amendment No. 1 to The Progressive Corporation 2003 Directors Equity Incentive Plan	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.21 therein)
10(iii)	10.31	Form of The Progressive Corporation 2003 Directors Equity Incentive Plan Restricted Stock Award Agreement (for 2004 and thereafter)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.22 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.32	The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 25, 2009; Exhibit 10.24 therein)
10(iii)	10.33	First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.24 therein)
10(iii)	10.34	Second Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.25 therein)
10(iii)	10.35	Third Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Filed herewith
10(iii)	10.36	Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Filed herewith
10(iii)	10.37	The Progressive Corporation Executive Deferred Compensation Plan (2008 Amendment and Restatement)	Current Report on Form 8-K (filed on December 20, 2007; Exhibit 10.1 therein)
10(iii)	10.38	The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.29 therein)
10(iii)	10.39	Form of The Progressive Corporation Executive Deferred Compensation Plan Deferral Agreement (for 2005 through 2009)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.30 therein)
10(iii)	10.40	Form of The Progressive Corporation Executive Deferred Compensation Plan Gainsharing/Bonus Deferral Agreement (for 2010 and thereafter)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.31 therein)
10(iii)	10.41	Form of The Progressive Corporation Executive Deferred Compensation Plan Performance-Based Restricted Stock Deferral Agreement (for 2004)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.32 therein)
10(iii)	10.42	Form of The Progressive Corporation Executive Deferred Compensation Plan Performance-Based Restricted Stock Deferral Agreement (for 2005)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.33 therein)
10(iii)	10.43	Form of The Progressive Corporation Executive Deferred Compensation Plan Performance-Based Restricted Stock Deferral Agreement (for 2006 through 2009)	Filed herewith
10(iii)	10.44	Form of The Progressive Corporation Executive Deferred Compensation Plan Performance-Based Restricted Stock Unit Deferral Agreement (for 2010 and thereafter)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.35 therein)

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Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.45	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Deferral Agreement (for 2003)	Annual Report on Form 10-K (filed on February 25, 2009; Exhibit 10.34 therein)
10(iii)	10.46	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Deferral Agreement (for 2004)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.37 therein)
10(iii)	10.47	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Deferral Agreement (for 2005)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.38 therein)
10(iii)	10.48	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Deferral Agreement (for 2006 through 2009)	Filed herewith
10(iii)	10.49	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Unit Deferral Agreement (for 2010 and thereafter)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.40 therein)
10(iii)	10.50	The Progressive Corporation Executive Deferred Compensation Trust (November 8, 2002 Amendment and Restatement)	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.41 therein)
10(iii)	10.51	First Amendment to Trust Agreement between Fidelity Management Trust Company and Progressive	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.42 therein)
10(iii)	10.52	Second Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Quarterly Report on Form 10-Q (filed on August 2, 2007; Exhibit 10.1 therein)
10(iii)	10.53	Third Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Annual Report on Form 10-K (filed on February 27, 2008; Exhibit 10.54 therein)
10(iii)	10.54	Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Annual Report on Form 10-K (filed on February 25, 2009; Exhibit 10.42 therein)
10(iii)	10.55	Fifth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Quarterly Report on Form 10-Q (filed on May 11, 2009; Exhibit 10.1 therein)
10(iii)	10.56	Sixth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.47 therein)
10(iii)	10.57	The Progressive Corporation Directors Deferral Plan (2008 Amendment and Restatement)	Current Report on Form 8-K (filed on December 20, 2007; Exhibit 10.2 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.58	The Progressive Corporation Directors Restricted Stock Deferral Plan (2008 Amendment and Restatement)	Current Report on Form 8-K (filed on December 20, 2007; Exhibit 10.3 therein)
10(iii)	10.59	First Amendment to The Progressive Corporation Directors Restricted Stock Deferral Plan (2008 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 25, 2009; Exhibit 10.47 therein)
10(iii)	10.60	Form of The Progressive Corporation Directors Restricted Stock Deferral Plan Deferral Agreement	Annual Report on Form 10-K (filed on March 1, 2010; Exhibit 10.53 therein)
10(iii)	10.61	The Progressive Corporation 1998 Directors' Stock Option Plan	Annual Report on Form 10-K (filed on February 27, 2008; Exhibit 10.65 therein)
10(iii)	10.62	Director Compensation Schedule for 2006 and 2007	Filed herewith
10(iii)	10.63	Director Compensation Schedule for 2008 and 2009	Annual Report on Form 10-K (filed on February 25, 2009; Exhibit 10.53 therein)
10(iii)	10.64	Director Compensation Schedule for 2010	Filed herewith
10(iii)	10.65	The Progressive Corporation Executive Separation Allowance Plan (2006 Amendment and Restatement)	Filed herewith
10(iii)	10.66	First Amendment to The Progressive Corporation Executive Separation Allowance Plan (2006 Amendment and Restatement)	Quarterly Report on Form 10-Q (filed on November 1, 2007; Exhibit 10.1 therein)
10(iii)	10.67	Non-plan Cash Bonus Paid to William M. Cody, Chief Investment Officer	Current Report on Form 8-K (filed on February 2, 2011; description under "Changes to Cash Bonus Plans" therein)
11	11	Computation of Earnings Per Share	Filed herewith
13	13	The Progressive Corporation 2010 Annual Report to Shareholders	Filed herewith
21	21	Subsidiaries of The Progressive Corporation	Filed herewith
23	23	Consent of Independent Registered Public Accounting Firm	Incorporated herein by reference to page 37 of this Annual Report on Form 10-K
24	24	Powers of Attorney	Filed herewith
31	31.1	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer, Glenn M. Renwick	Filed herewith
31	31.2	Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer, Brian C. Domeck	Filed herewith

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
32	32.1	Section 1350 Certification of the Principal Executive Officer, Glenn M. Renwick	Furnished herewith
32	32.2	Section 1350 Certification of the Principal Financial Officer, Brian C. Domeck	Furnished herewith
99	99	Letter to Shareholders from Glenn M. Renwick, President and Chief Executive Officer	Furnished herewith
101	101.INS	XBRL Instance Document	Furnished herewith
101	101.SCH	XBRL Taxonomy Extension Schema Document	Furnished herewith
101	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Furnished herewith
101	101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Furnished herewith
101	101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Furnished herewith
101	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Furnished herewith

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

Exhibit 4.4

(Face of Security)

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

REGISTERED NO. R-001 $350,000,000

CUSIP No. 743315 AK 9

THE PROGRESSIVE CORPORATION

6.375% SENIOR NOTE DUE 2012

THE PROGRESSIVE CORPORATION, an Ohio corporation (the "Issuer"), for value received, hereby promises to pay to CEDE & Co., c/o The Depository Trust Company, 55 Water Street, New York, New York 10041 or registered assigns, at the office or agency of the Issuer at the office of the Trustee in Boston, Massachusetts, the principal sum of THREE HUNDRED AND FIFTY MILLION DOLLARS ($350,000,000) on January 15, 2012, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest semiannually on January 15 and July 15 of each year, commencing on July 15, 2002, on said principal sum at said office or agency, in like coin or currency, at the rate per annum specified in the title of this Note, from the January 15 or the July 15, as the case may be, next preceding the date of this Note to which interest has been paid, unless the date hereof is a date to which interest has been paid, in which case from the date of this Note, or unless no interest has been paid on the Notes, in which case from December 11, 2001, until payment of said principal sum has been made or duly provided for; provided, that payment of interest may be made at the option of the Issuer by check mailed to the address of the person entitled thereto as such address shall appear on the Security Register. Notwithstanding the foregoing, if the date hereof is after the fifteenth day of January or July, as the case may be, and before the following January 15 or July 15, this Note shall bear interest from such January 15 or July 15; provided, that if the Issuer shall default in the payment of interest due on such January 15 or July 15, then this Note shall bear interest from the next preceding January 15 or July 15, to which interest has been paid or, if no interest has been paid on this Note, from December 11, 2001. The interest so payable on any January 15 or July 15 will, subject to certain exceptions provided in the Indenture referred to on the reverse hereof, be paid to the person in whose name this Note is registered at the close of business on January 1 or July 1, as the case may be, next preceding such January 15 or July 15.

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

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

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

THE PROGRESSIVE CORPORATION

[CORPORATE SEAL]

By: ______________________________

____
Treasurer

Attest: ______________________________
Charles E. Jarrett
Secretary

Dated: December 11, 2001

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

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

STATE STREET BANK AND TRUST COMPANY, as Trustee

By: ______________________________
Authorized Signatory

(Back of Security)

THE PROGRESSIVE CORPORATION

6.375% SENIOR NOTE DUE 2012

This Note is one of a duly authorized issue of debentures, notes, bonds or other evidences of indebtedness of the Issuer (hereinafter called the "Securities") of the series hereinafter specified, all issued or to be issued under and pursuant to an indenture dated as of September 15, 1993, as heretofore supplemented and amended (herein called the "Indenture"), between the Issuer and State Street Bank and Trust Company, as Trustee (herein called the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the Holders of the Securities. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any) and may otherwise vary as in the Indenture provided. This Note is one of a series designated as the 6.375% Senior Notes Due 2012 of the Issuer, limited in initial aggregate principal amount to $350,000,000.

In case an Event of Default, as defined in the Indenture, with respect to the 6.375% Senior Notes Due 2012 shall have occurred and be continuing, the principal hereof may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

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

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

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

The Notes of the series designated as the 6.375% Senior Notes due 2012 are subject to redemption upon not more than 60 or less than 30 days' notice by mail, in whole at any time or in part from time to time at the option of the Issuer on any date (a "Redemption Date"), at a redemption price equal to the accrued and unpaid interest on the principal amount being redeemed to the redemption date plus the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Note (not including any portion of such payments of interest accrued to the date of redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (defined below), plus 20 basis points.

"Adjusted Treasury Rate" means, with respect to any date of redemption, the rate per year equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that date of redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Securities to be redeemed that would be used, at the time of selection and under customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Note.

"Comparable Treasury Price" means, with respect to any date of redemption, the average of the Reference Treasury Dealer Quotations for the date of redemption, after excluding the highest and lowest Reference Treasury Dealer Quotations, or if the trustee obtains fewer than three Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations.

"Quotation Agent" means Goldman, Sachs & Co. or another Reference Treasury Dealer appointed by the Issuer.

"Reference Treasury Dealer" means each of Goldman, Sachs & Co. and Salomon Smith Barney Inc. and their respective successors and, at the option of the Issuer, other nationally recognized investment banking firms that are primary dealers of U.S. government securities in New York City. If any of the foregoing ceases to be a primary dealer of U.S. government securities in New York City, the Issuer must substitute another primary dealer of U.S. government securities.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any date of redemption, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by the Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day before the date of redemption.

In the event of redemption of this Note in part only, a new Note or Notes of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

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

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

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

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

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

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

____

____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE)

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

____

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

Dated ____ ____

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

Exhibit 10.1

SUBLEASE AGREEMENT

This Sublease Agreement (this "Sublease") is entered into as of August 21, 2006, by and between Progressive Casualty Insurance Company (**"**Sublandlord**"**), and Acme Operating Corporation ("Subtenant").

In consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sublandlord and Subtenant hereby agree as follows:

1. Definitions. For purposes of this Sublease, the following terms shall have the meanings respectively indicated:

"Aircraft" shall mean the aircraft described in Exhibit "A", attached hereto and made a part hereof, as the same may be amended from time to time.

"Airport" shall mean the Cuyahoga County Airport, Richmond Heights, Ohio.

"County" shall mean the Board of County Commissioners of Cuyahoga County, Ohio.

"Hangar" shall mean the entire real property, airplane hangar and other improvements located at 26260 Curtis-Wright Parkway, Richmond Heights, Ohio and being leased by Sublandlord from the County, as more fully described in the Master Lease.

"Master Lease" shall mean the Lease, dated September 14, 2006, between the County and Sublandlord, a copy of which is attached hereto as Exhibit "B" and made a part hereof.

"Prorata Share" shall mean fifty percent (50%).

"Subleased Premises" shall mean the following portions of the Hangar: (a) the office area, consisting of approximately 1,000 square feet, as shown on the floor plan attached hereto as Exhibit "C" and made a part hereof (the "Office Area"); and (b) the hangar and shop areas, consisting of approximately 13,750 square feet, as shown on Exhibit "C" (collectively the "Hangar Area").

2. Sublease. Sublandlord hereby subleases to Subtenant the Subleased Premises. Subtenant shall have the exclusive use of the Office Area, but shall be obligated to share the Hangar Area with Sublandlord. The Office Area shall have a separate private exterior entrance.

3. Master Lease.

a. All of the terms, provisions, rights, conditions and obligations contained in the Master Lease are hereby incorporated into this Sublease as an agreement between Sublandlord and Subtenant as though Sublandlord were the landlord under the Master Lease and Subtenant were the tenant under the Master Lease. Notwithstanding the foregoing, Subtenant recognizes that Sublandlord's performance of certain obligations required hereunder are conditioned upon due performance by the County of its obligations under the Master Lease. In the event that the County fails or refuses to perform any such obligation under the Master Lease, Sublandlord's obligation under this Sublease shall be limited to using commercially reasonable efforts (which shall not require Sublandlord to pursue any litigation against the County) to obtain the required performance from the County, and in no event shall Sublandlord be in breach of this Sublease for any failure or refusal of the County to so perform its obligations under the Master Lease.

b. Sublandlord represents and warrants to Subtenant that the Master Lease is in full force and effect, that neither Sublandlord nor, to the best of Sublandlord's knowledge, the County is in default of their respective obligations under the Master Lease, and Sublandlord has neither given nor received a notice of default pursuant to the Master Lease.

c. Except as otherwise specifically set forth herein, this Sublease is subject and subordinate to the Master Lease, and shall terminate upon the expiration or earlier termination of the Master Lease. Notwithstanding the foregoing, Sublandlord covenants: (i) not to voluntarily terminate the Master Lease (provided that this provision shall not limit Sublandlord's rights under applicable law in the event of a material breach by the County under the Master Lease); (ii) not to modify the Master Lease so as to adversely affect Subtenant's rights hereunder without Subtenant's prior written consent; and (iii) not to permit the termination of the Master Lease as a result of any breach or default by Sublandlord thereunder (provided that Sublandlord shall not be deemed to be in violation of this clause if such breach or default results from any act or omission of Subtenant).

d. Whenever the consent of the County is required under the Master Lease for any matter requested by Subtenant hereunder, Sublandlord agrees to use commercially reasonable efforts to obtain, at Subtenant's sole cost and expense, such consent on behalf of Subtenant.

4. Term. The term ("Term") of this Sublease shall be five (5) years, beginning on October 1, 2006 (the "Sublease Commencement Date") and ending on September 30, 2011. The options to renew set forth in Article II of the Master Lease are not included in this Sublease and shall not inure to the benefit of Subtenant. Rather, Subtenant's renewal rights are governed by paragraph 21 below.

5. Rent. Beginning on the Sublease Commencement Date, Subtenant shall pay the following charges (collectively "Rent") to Sublandlord, without deduction or setoff of any kind, at the address specified in paragraph 22 below (or such other address as Sublandlord shall designate in writing):

a. Base Rent. Subtenant shall pay base rent ("Base Rent") on or before the first day of each calendar month according to the following schedule:

Year	Annual Rent	Monthly Rent
1	$43,234.00	$3,602.83
2	$43,234.00	$3,602.83
3	$43,234.00	$3,602.83
4	$43,234.00	$3,602.83
5	$43,234.00	$3,602.83

If the Term does not commence on the first day of a calendar month or expire or terminate on the last day of a calendar month, the Rent for such partial month shall be prorated accordingly.

b. Additional Rent - Operating Expenses. Beginning on the Sublease Commencement Date, Subtenant shall pay to Sublandlord on a monthly basis, as additional rent, an amount equal to one-twelfth (1/12) of Subtenant's Prorata Share of Sublandlord's good faith estimate of the cost of operating, maintaining, repairing and replacing the Hangar, including the Subleased Premises, the fuel farm and the surrounding parking areas ("Operating Expenses"), for each calendar year. For purposes of this Sublease, Operating Expenses shall also include Real Estate Taxes (defined below) and Insurance Costs (defined below). Sublandlord shall have the right, to be exercised no more than once per calendar year, to adjust in good faith Sublandlord's estimate of Operating Expenses for such calendar year as of the first day of that calendar year and, in such event, Sublandlord shall provide Subtenant with written notice of such revised good faith estimate in reasonable detail. If Sublandlord does not provide Subtenant with written notice of such estimate prior to the beginning of a calendar year, Subtenant, upon receipt of Sublandlord's revised good faith estimate, will remit an appropriate payment (or receive an appropriate credit) which is applicable to any prior months.

Within one hundred twenty (120) days after the end of each calendar year, Sublandlord shall provide Subtenant with a written statement of Subtenant's Prorata Share of the actual Operating Expenses for the prior calendar year ("Operating Expense Statement"). Any difference between Subtenant's Prorata Share of the actual Operating Expenses and the monthly estimated payments made by Subtenant under this provision shall be adjusted between Sublandlord and Subtenant by an appropriate payment or credit being made within sixty (60) days after the receipt of Sublandlord's Operating Expense Statement. The adjustment requirements of this provision shall survive the expiration or other termination of this Sublease. The amount of any adjustment which may be necessary subsequent to the expiration or other termination of this Sublease shall be paid by the appropriate party within sixty (60) days after delivery of Sublandlord's Operating Expense Statement.

Sublandlord shall maintain and make available to Subtenant records in reasonable detail setting forth the actual Operating Expenses incurred by Sublandlord and shall permit Subtenant to examine and audit such records during Sublandlord's regular business hours. Subtenant agrees that it shall keep any and all information gained from such audit confidential and Subtenant may use such information only in dealing directly with Sublandlord. Should Subtenant have a good faith dispute as to the determination of actual Operating Expenses for any calendar year, and should such dispute not be resolved between Sublandlord and Subtenant within sixty (60) days after Sublandlord receives written notice thereof, then either party may submit the dispute for arbitration to a mutually agreeable certified public accountant. The decision of such accountant shall be conclusive and binding on the parties. The costs and expenses incurred with respect to such arbitration shall be borne by the party against whom a decision is rendered, unless the arbitrator shall otherwise decide.

Sublandlord shall timely pay all real estate taxes and/or assessments for which Sublandlord is responsible under the Master Lease ("Real Estate Taxes"). Subtenant shall reimburse Sublandlord for Subtenant's Prorata Share of Real Estate Taxes on a monthly basis as a part of Operating Expenses.

Subtenant shall also reimburse Sublandlord, on a monthly basis, for Subtenant's Prorata Share of the cost of the casualty insurance ("Insurance Costs") that Sublandlord maintains on the Hangar.

6. Tenant Improvements. On or before the Sublease Commencement Date, Sublandlord shall complete the alterations and improvements to the Hangar and fuel farm described in the plans, specifications and other documents collectively attached hereto as Exhibit "D" and made a part hereof ("Sublandlord's Work"). Sublandlord agrees that: (a) Sublandlord shall prepare or cause to be prepared all construction drawings, plans and/or specifications necessary to complete Sublandlord's Work; (ii) Sublandlord shall obtain all necessary permits, certificates or other governmental approvals for Sublandlord's Work; (iii) all work, materials and equipment incorporated into Sublandlord's Work will be of good quality, new and free of defects; (iv) Sublandlord's Work shall be performed and completed in compliance with all applicable laws, codes, rules and regulations. Upon substantial completion of Sublandlord's Work, Sublandlord and Subtenant shall mutually inspect Sublandlord's Work and agree on a punch list of cosmetic, finish or similar minor items or mechanical adjustments that require completion. Sublandlord shall complete such punch list items as promptly as practicable after such inspection. Subtenant shall reimburse Sublandlord for Subtenant's Prorata Share of all costs incurred by Sublandlord in completing Sublandlord's Work, including architectural, engineering and construction costs, within thirty (30) days after receipt of Sublandlord's invoice, which shall be accompanied by reasonable supporting documentation.

7. Utilities and Services. Sublandlord shall provide the following utilities and services:

a. Electricity, gas, water and sewer service to the Subleased Premises;

b. Snow and ice removal from parking areas, sidewalks, and driveways in or about the Hangar;

c. Janitorial service to the Subleased Premises sufficient to maintain the same in a clean and sanitary condition;

d. Garbage removal a minimum of once per week;

e. Heating, ventilation and air conditioning in the Subleased Premises adequate to provide a comfortable working environment.

The costs associated with the utilities and services to be provided by Sublandlord hereunder are included as a part of Operating Expenses.

8. Insurance.

a. Sublandlord shall maintain the insurance policies and coverages required by Article XII, Section II of the Master Lease.

b. Subtenant, at its sole expense, shall maintain commercial general liability insurance with coverage limits of at least $1,000,000.00 for liability resulting from injury and/or death, and at least $500,000.00 for liability resulting from damage to property, occurring in or on the Subleased Premises. Such policy of insurance shall name Sublandlord as an additional insured as to claims and liabilities arising out of Subtenant’s acts or omissions. Evidence of such insurance shall be delivered to Sublandlord upon request. Subtenant shall also maintain workers compensation coverage sufficient to satisfy the statutory requirements of the State of Ohio. All personal property of Subtenant (including the Aircraft) kept at the Subleased Premises shall be at Subtenant’s sole risk, and Subtenant shall maintain such insurance coverage on its personal property as Subtenant deems advisable.

c. Notwithstanding anything to the contrary herein, Sublandlord and Subtenant hereby waive any claim, right, and/or cause of action that either may have or acquire against the other, its officers, directors, employees and agents, for damage to or destruction of its or others’ property, whether real, personal, or mixed, of any kind or nature, including without limitation, each party’s aircraft, arising from fire and/or other casualty, and shall secure such waivers of subrogation or other endorsements as shall be necessary to ensure that any insurer of such property is bound by such waiver.

9. Indemnification. Each party shall indemnify, defend and hold harmless the other party (its affiliates, officers, directors, employees and agents) from and against any and all claims, actions, losses, damages, liabilities, costs, expenses, and reasonable attorney fees in connection with (i) loss of life, personal injury and/or damage to property (except as provided in paragraph 8(c) above) or other third party claims arising from or out of the negligent or intentional acts or omissions or breach of contract of the indemnifying party, or (ii) the failure of Sublandlord to comply with or perform any of its obligations under the Master Lease.

10. Alterations. Subtenant shall not make any alterations or improvements to the Subleased Premises without first obtaining Sublandlord’s prior written consent and, if required, the County’s prior written consent. Subtenant shall complete all approved alterations and improvements in a workmanlike manner and in full compliance with all applicable laws, codes, rules and regulations. All such alterations and improvements shall immediately become the property of the County and, upon the expiration or termination of this Sublease, shall remain at the Subleased Premises, unless otherwise agreed to in writing by the County. Subtenant shall not cause or permit any mechanic’s liens or other liens to be filed against the Hangar in connection with any approved alterations and improvements and shall indemnify, defend, and hold Sublandlord harmless against any loss therefrom. If any liens are filed against the Hangar, Subtenant shall cause such lien to be released within thirty (30) days after Subtenant receives notice of the filing thereof. If Subtenant fails to cause any such lien to be so released, Sublandlord shall have the right to cause the same to be released (by payment or otherwise). In that event, Subtenant shall reimburse Sublandlord for all costs incurred in obtaining the release of the lien, together with interest thereon at the rate of ten percent (10%) per annum.

11. Use of Subleased Premises. Subtenant shall be the sole user of the Subleased Premises and shall not use the Subleased Premises for any purpose other than to hangar the Aircraft and perform activities related to the operation and maintenance of the Aircraft. Subtenant shall use the Subleased Premises in compliance with the Master Lease and any laws, codes, rules and regulations promulgated by the County, the Federal Aviation Authority and any other governmental authority having jurisdiction over the Subleased Premises.

12. Maintenance and Repair. Sublandlord shall maintain and promptly make all necessary repairs and replacements to the Hangar and Subleased Premises, any repairs necessitated by Subtenant's negligence or intentional misconduct excepted. The cost of all such maintenance, repairs and replacements shall be included as part of Operating Expenses.

13. Taxes. Subtenant shall be responsible for all personal property taxes assessed against the Aircraft or any other personal property of Subtenant or others located in or about the Subleased Premises.

14. Fuel Farm. Subtenant may use the fuel farm at the Hangar for purposes of fueling the Aircraft. Subtenant shall be entitled to purchase fuel for the Aircraft from Sublandlord at cost. Subtenant shall also reimburse Sublandlord for all fuel flow fees paid by Sublandlord to the County under Article 3, Section II of the Master Lease in connection with the fuel purchased by Subtenant. If Sublandlord and Subtenant do not collectively consume enough fuel in any year to cause the fuel flow fees paid to the County to exceed the minimum annual guaranteed flow fee specified in Article III, Section II of the Master Lease, the parties agree that they each shall be responsible for paying fifty percent (50%) of the fuel flow fee deficiency. Subtenant shall pay its share of such deficiency within thirty (30) days after receipt of an invoice therefor from Sublandlord. Subtenant shall maintain accurate records of all fuel consumed by Subtenant and shall permit Sublandlord to inspect such records upon request. Subtenant shall reimburse Sublandlord by the 10th day of each month for all fuel consumed during the previous month and all fuel flow fees due in connection therewith.

15. Casualty. In the event the Hangar and/or Subleased Premises are damaged or destroyed by fire or other casualty, Sublandlord shall repair such damage in accordance with Article XII, Section III of the Master Lease.

16. Eminent Domain. If any part of the Subleased Premises shall be taken by eminent domain, or transferred by agreement in settlement of eminent domain proceedings, this Sublease shall terminate as to the portion of the Subleased Premises taken or transferred, as of the date title vests in the condemnor or transferee. If any portion of the Subleased Premises is taken or transferred which adversely affects Subtenant's reasonable use of the Subleased Premises, Subtenant shall have the right to terminate this Sublease, effective as of the date title vests in the condemnor or transferee. In the event of any taking, Subtenant shall have no claim against Sublandlord, but this provision shall not preclude Subtenant from recovering damages against the condemning authority or transferee to the extent permitted by applicable law.

17. Force Majeure. In the event that either party hereto shall be delayed from the performance of any act required by it hereunder by reason of strikes, lockouts, inability to procure labor or materials, riots, insurrections, wars or other reason of a similar nature beyond the reasonable control of such party, then performance of such act shall be extended for a period equivalent to the period of such delay. Delays due to lack of funds shall not be deemed delays beyond the reasonable control of such party.

18. Default; Remedies.

a. The occurrence of any of the following shall constitute an event of default hereunder (a "Default"):

i. Subtenant fails to pay any Rent within ten (10) days after receipt of written notice of nonpayment from Sublandlord, provided, however, that Sublandlord shall not be obligated to furnish more than two (2) such notices of nonpayment in any twelve (12) month period;

ii. The voluntary or involuntary filing of a petition under any bankruptcy or insolvency laws by or against Subtenant;

iii. Subtenant fails to perform any of its other obligations under this Sublease and said failure shall continue for a period of thirty (30) days after receipt of written notice of default from Sublandlord; or

iv. Any action by Subtenant which would result in a default by Sublandlord under the Master Lease.

b. Upon the occurrence of any Default, Sublandlord shall be entitled to pursue any contractual, legal or equitable remedy available to Sublandlord. All rights and remedies of Sublandlord shall be cumulative and not exclusive. No waiver by Sublandlord of any term or condition contained in this Sublease, or the breach thereof, shall constitute a waiver of such term or condition or the breach thereof in the future.

19. Parking. Subtenant and its agents, employees, invitees and guests shall be entitled to the nonexclusive use of all parking spaces at the Hangar.

20. Signage. Subtenant, at its sole expense, shall be entitled to install signage at the entrance of the Hangar and/or Office area, subject to Sublandlord's prior written approval, which will not be unreasonably withheld. All signage shall comply with applicable laws, codes, rules and regulations.

21. Renewal Options. Sublandlord hereby grants to Subtenant the right and option to extend the Term of this Sublease for three (3) additional terms of five (5) years each (each a "Renewal Term"). In the event Subtenant desires to exercise this option to renew, it shall so notify Sublandlord at least one hundred eighty (180) days prior to the beginning of the Renewal Term, and upon the giving of such notice, this Sublease shall automatically be extended for that Renewal Term. The terms and conditions of this Sublease, as are then in effect, shall govern during each Renewal Term, except for Subtenant's Base Rent, which shall be as follows:

First Renewal Term:

Year	Annual Rent	Monthly Rent
1	$47,452.00	$3,954.33
2	$47,452.00	$3,954.33
3	$47,452.00	$3,954.33
4	$47,452.00	$3,954.33
5	$47,452.00	$3,954.33

During the second and third Renewal Terms, Subtenant's Base Rent shall be an amount equal to the amounts specified in the following schedules, plus fifty percent (50%) of the ground rent that Sublandlord pays to the County under Article III, Section I.A. of the Master Lease:

Second Renewal Term:

Year	Annual Rent	Monthly Rent
1	$47,190.00	$3,932.50
2	$47,190.00	$3,932.50
3	$47,190.00	$3,932.50
4	$47,190.00	$3,932.50
5	$47,190.00	$3,932.50

Third Renewal Term:

Year	Annual Rent	Monthly Rent
1	$51,909.00	$4,325.75
2	$51,909.00	$4,325.75
3	$51,909.00	$4,325.75
4	$51,909.00	$4,325.75
5	$51,909.00	$4,325.75

Subtenant's renewal options are contingent upon Sublandlord exercising its option(s) to renew the term of the Master Lease. If Sublandlord fails to exercise one or both of its options to renew the Master Lease, Subtenant's corresponding renewal option(s) hereunder shall be null and void.

22. Right of First Refusal. If Sublandlord fails to exercise its option(s) to renew the Master Lease, or otherwise desires to terminate the Master Lease with the County, Subtenant shall be given the right of first refusal, subject to consent of the County, to assume Sublandlord's rights and obligations under the Master Lease on a going-forward basis.

23. Commission. Sublandlord and Subtenant each represent and warrant that there were no real estate brokers or agents involved in this transaction. Sublandlord and Subtenant each agree to indemnify, defend and hold the other harmless from and against any and all claims by any broker purporting to represent the indemnifying party.

24. Assignment and Subletting. Subtenant shall not assign, sublet or transfer, directly or indirectly, this Sublease or any interest in the Subleased Premises without the prior written consent of Sublandlord, which consent may be withheld in Sublandlord's sole discretion.

25. Notices. Any notice required or permitted hereunder shall be in writing and shall be personally delivered or sent by certified mail or overnight courier. Notices shall be effective when received, refused or returned unclaimed. Notices shall be addressed to the parties as follows:

If to Sublandlord at:

Progressive Casualty Insurance Company
5920 Landerbrook Drive, Building 3, OH-L23
Mayfield Heights, Ohio 44124
Attention: Director of Real Estate

If to Subtenant:

Acme Operating Company
4649 Ponce de Leon Blvd.
Suite 304
Coral Gables, Florida 33146-2118
Attn: Ms. Maria Millares

26. Successors and Assigns. All the terms and conditions of this Sublease shall be binding upon and inure to the benefit of the parties and their respective legal representatives, successors, and assigns.

27. Surrender. Upon the expiration or termination of this Sublease, Subtenant shall surrender the Subleased Premises in substantially the same condition as existed at the Sublease Commencement Date, ordinary wear and tear excepted.

28. Counterparts. This Sublease may be executed in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

29. Modification. This Sublease shall not be modified in any respect except by a writing signed by both parties.

30. Entire Agreement. This Sublease constitutes the entire understanding between the parties. Any promise, term or condition not contained herein is not binding on the parties.

NOW, THEREFORE, Sublandlord and Subtenant have executed this Sublease to be effective as of the day and year first written above.

SUBLANDLORD:
Progressive Casualty Insurance Company

By: /s/ *Ron Marotto*
Ron Marotto
Its: Director of Real Estate
Date: August 21, 2006

SUBTENANT:
Acme Operating Corporation

By: /s/ *Jonathan D. Lewis*
Jonathan D. Lewis
Its: Vice President
Date: August 17, 2006

STATE OF OHIO) SS:

COUNTY OF CUYAHOGA)

Before me, a notary public in and for said County and State, personally appeared the above-named Progressive Casualty Insurance Company, by Ron Marotto, its Director of Real Estate.

Sworn to before me and subscribed in my presence at Cleveland, Ohio this 21st day of August, 2006.

/s/ *Linda L. Markusic*
Notary Public SEAL

STATE OF FLORIDA) SS:

COUNTY OF DADE)

Before me, a notary public in and for said County and State, personally appeared the above-named Acme Operating Company, by Jonathan D. Lewis, its Vice President.

Sworn to before me and subscribed in my presence at this 17th day of August, 2006.

/s/ *Dania de la Vega*
Notary Public SEAL

CONSENT

The Board of County Commissioners of Cuyahoga County, Ohio hereby consent to the foregoing Sublease Agreement.

/s/ *Jimmy Dimora*
Jimmy Dimora

/s/ *Timothy F. Hagan*
Timothy F. Hagan

/s/ *Peter Lawson Jones*
Peter Lawson Jones

EXHIBIT “A”

Aircraft

(Exhibit intentionally omitted)

EXHIBIT "B"

Master Lease

(Exhibit intentionally omitted)

EXHIBIT “C”

Floor Plan

(Exhibit intentionally omitted)

EXHIBIT “D”

Plans and Specifications for Sublandlord’s Work

(Exhibit intentionally omitted)

Exhibit 10.2

ASSIGNMENT AND ASSUMPTION OF SUBLEASE AGREEMENT

This Assignment and Assumption of Sublease Agreement (this "Assignment") is made as of the 7th day of July, 2010, between **Acme Operating Corporation**, an Ohio corporation ("Assignor") and **Acme Acquisition Corporation**, an Ohio corporation ("Assignee"), under the following circumstances:

WHEREAS, pursuant to that certain Sublease Agreement dated August 21, 2006 (the "Sublease"), Progressive Casualty Insurance Company (the "Sublandlord") subleased to Assignor (i) office area, consisting of approximately 1,000 square feet, and (ii) hangar and shop areas, consisting of approximately 13,750 square feet, as more particularly shown on Exhibit "C" to the Sublease (the "Subleased Premises"), on such terms and subject to such conditions as are more fully set forth in the Sublease;

WHEREAS, the Subleased Premises is a part of the real property, airplane hangar and other improvements located at 26260 Curtis-Wright Parkway, Richmond Heights, Ohio (the "Hangar"), which is being leased by Sublandlord from the Board of County Commissioners of Cuyahoga County, Ohio; and

WHEREAS, Assignor desires to assign all of its right, title and interest under the Sublease to Assignee and Assignee is willing to assume all of Assignor's liabilities and obligations under such Sublease as more fully set forth herein.

NOW, THEREFORE, for valuable consideration paid, receipt of which is acknowledged, effective the date first written above, the parties agree as follows:

1. Assignor does hereby convey, sell, transfer, assign and deliver unto Assignee, its successors and assigns forever, all of Assignor's right, title and interest in and to the Sublease.

2. Assignor represents and warrants to Assignee that (a) the Sublease is in full force and effect and has not been modified or amended; and (b) neither Assignor nor, to Assignor's knowledge, Sublandlord, is in default under the Sublease beyond any applicable period for curing the default, nor to Assignor's knowledge has any event or condition occurred which, with the giving of notice, the passage of time, or both, would constitute a default by either party.

3. Assignee accepts this assignment and assumes and agrees to perform all of the obligations of Assignor arising or accruing under the Sublease on or after the date of this Assignment.

4. Assignor shall indemnify and hold Assignee harmless from and against all loss, damage, cost and expense that may be claimed against, imposed upon or incurred by Assignee by reason of Assignor's failure to perform any of its obligations under the Sublease before the date of this Assignment.

5. Assignee shall indemnify and hold Assignor harmless from and against all loss, damage, cost and expense that may be claimed against, imposed upon or incurred by Assignor by reason of Assignee's failure to perform any of the obligations under the Sublease assumed by Assignor.

6. Each party hereto shall from and after the date hereof, upon the reasonable request of any other party hereto, execute and deliver such other documents as such other party may reasonably request to obtain the full benefit of this Assignment.

7. This Assignment shall be subject to, and construed and enforced in accordance with, the laws of the State of Ohio.

8. This Assignment shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

[signature page follows.]

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment as of the date first written above.

ASSIGNEE:

ACME ACQUISITION CORPORATION

By: /s/ Jonathan Lewis
Name: Jonathan Lewis
Title:

ASSIGNOR:

ACME OPERATING CORPORATION

By: /s/ Jonathan Lewis
Name: Jonathan Lewis
Title:

Progressive Casualty Insurance Company hereby consents to the foregoing Assignment and Assumption of Sublease Agreement.

PROGRESSIVE CASUALTY INSURANCE COMPANY

By: /s/ Ron Marotto
Name: Ron Marotto
Title: Vice President

STATE OF Colorado)
) SS:
COUNTY OF Pitkin)

Before me, a Notary Public in and for said County and State, personally appeared the above-named Acme Operating Corporation, the Assignor herein, by Jonathan Lewis, its Vice President, who acknowledged that he did execute the foregoing Assignment and Assumption of Sublease Agreement and that the same was his free act and deed in such capacity, and the free act and deed of Acme Operating Corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Akron, Ohio, this 7th day of July, 2010.

/s/ Stacy Botner
NOTARY PUBLIC

STATE OF Colorado)
) SS:
COUNTY OF Pitkin)

Before me, a Notary Public in and for said County and State, personally appeared the above-named Acme Acquisition Corporation, the Assignee herein, by Jonathan Lewis, its Vice President, who acknowledged that he did execute the foregoing Assignment and Assumption of Sublease Agreement and that the same was his free act and deed in such capacity, and the free act and deed of Acme Acquisition Corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Akron, Ohio, this 7th day of July , 2010.

/s/ Stacy Botner
NOTARY PUBLIC

CONSENT TO ASSIGNMENT OF SUBLEASE
between
ACME OPERATING CORPORATION
and
ACME ACQUISTION CORPORATION

The undersigned Board of County Commissioners of Cuyahoga County, Ohio hereby consents to (1) the Assignment of Sublease between the Acme Operating Corporation, an Ohio corporation (the "Assignor") with offices located at 26380 Curtiss Wright Parkway, Cleveland, Ohio and Acme Acquisition Corporation, an Ohio corporation ("Assignee") with offices located at 26380 Curtiss Wright Parkway, Suite 2, Cleveland, Ohio with an effective date of 2010, attached hereto and made a part of as "Exhibit A", for premises located at 26260 Curtis Wright Parkway, Richmond Heights, Ohio located at the Cuyahoga County Airport located in the City of Richmond Heights, Cuyahoga County, Ohio and the Village of Highland Heights, Cuyahoga County, Ohio, as more particularly described in the Hangar Lease Agreement between the Board of County Commissioners of Cuyahoga County, Ohio and Assignor's Sublandlord, Progressive Casualty Insurance Company effective August 21, 2006, attached hereto as "Exhibit B", and made a part hereof.

IN WITNESS WHEREOF, the undersigned has executed this Consent to Assignment of Sublease as of the day of 2010.

BOARD OF COUNTY COMMISSIONERS OF CUYAHOGA COUNTY, OHIO

/s/ Peter Lawson Jones
Peter Lawson Jones

/s/ Timothy F. Hagan
Timothy F. Hagan

/s/ Jimmy Dimora
Jimmy Dimora

The legal form and correctness of this document in hereby approved
William D. Mason, Prosecuting Attorney

By: /s/ S. Curtis-Patrick
Assistant Prosecuting Attorney

Exhibit 10.5

THE PROGRESSIVE CORPORATION
<u>2009 GAINSHARING PLAN</u>

1. *The Plan*. The Progressive Corporation and its subsidiaries (collectively, "Progressive" or the "Company") have adopted The Progressive Corporation 2009 Gainsharing Plan (the "Plan") as part of their overall compensation program. The Plan is performance-based and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the "Committee"). Plan years will coincide with Progressive's fiscal years.

2. *Participants*. Plan participants for each Plan year shall include all officers and regular employees of Progressive, unless determined otherwise by the Committee. The Gainsharing opportunity, if any, for those executive officers who participate in The Progressive Corporation 2007 Executive Bonus Plan (the "Executive Bonus Plan") will be provided by the Executive Bonus Plan, although participants in that plan may also participate in this Plan if and to the extent determined by the Committee.

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

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

4. *Paid Earnings*. Paid Earnings for any Plan year shall mean and include the following: regular, used Earned Time Benefit, sick, holiday (excluding, for all purposes hereunder, premium holiday pay for exempt employees), funeral and overtime pay, military pay, and retroactive payments of any of the foregoing items, received by the participant during the Plan year for work or services performed as an officer or employee of Progressive.

For purposes of the Plan, Paid Earnings shall exclude all other types of compensation, including, without limitation, any short-term or long-term disability payments made to the participant, the earnings replacement component of any workers' compensation award, any bonus, Gainsharing or other incentive compensation or equity-based awards, including, without limitation, payments from any discretionary cash fund, any dividend payments and unused Earned Time Benefit.

Notwithstanding the foregoing, if at the end of the 24th pay period of a Plan year, any Plan participant's then current annual salary exceeds his or her salary range maximum plus $105, then for purposes of computing his or her Annual Gainsharing Payment under the Plan, his or her Paid Earnings shall be equal to the sum of: (i) his or her regular, used Earned Time Benefit, sick, holiday, military and funeral pay for each bi-weekly pay period during the Plan year, but not to exceed $1/26^{th}$ of his or her annual salary range maximum (as in effect as of the end of the applicable pay period) for any such bi-weekly pay period; plus (ii) the full amount of the following items, if any, received by such participant during that Plan year: (a) overtime pay,

and (b) retroactive payments of regular, used Earned Time Benefit, sick, holiday, overtime and funeral pay.

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

POSITION	TARGET %
Senior Executives and Executive Level Managers	60 - 150%
Business Leaders	35 - 60%
Directors and Senior Directors	20 - 35%
Middle Managers and Senior Managers	15 - 20%
Senior Professionals and Entry Level Managers	9 - 20%
Administrative Support and Entry Level Professionals	0 - 8%

Target Percentages will be established within the above ranges by, and may be changed with the approval of, the following officers of The Progressive Corporation (collectively, the "Designated Executives"): (a) the Chief Executive Officer, and (b) either the Chief Human Resource Officer or the Chief Financial Officer; provided that the Chief Human Resource Officer may establish appropriate procedures to evaluate the need for, and if appropriate, implement individual exceptions to the foregoing ranges. Target Percentages may be changed from year to year by the Designated Executives. Notwithstanding anything herein to the contrary, only the Committee may establish or modify the Target Percentages for the Company's executive officers.

If a participant's position changes during a Plan year resulting in a change in Target Percentage, the Target Percentages used to calculate such participant's Annual Gainsharing Payment hereunder shall be weighted appropriately.

6. *The Performance Factor*.

A. Core Business Defined

The Performance Factor shall be determined by the performance of the Core Business during the Plan year, pursuant to the procedures and calculations described below. The "Core Business" shall be comprised of the following:

- The Agency Auto business unit, consisting of the auto business produced by independent agents or brokers, including Strategic Alliances Agency auto, but excluding the Agency Special Lines business;
- The Direct Auto business unit, consisting of the auto business produced by phone or over the Internet, but excluding the Direct Special Lines business;

- The Special Lines business unit, including Special Lines business generated by agents and brokers and directly by phone or over the Internet (but excluding umbrella policies); and
- The Commercial Auto business unit.

Each of the Agency, Direct, Special Lines and Commercial Auto business units is referred to herein as a "Business Unit." For all purposes under this Plan, the results of the Professional Liability Group, the Midland Financial Group, Inc. and other businesses in run-off are excluded from the Core Business results.

B. Matrices

For purposes of computing a performance score for the Core Business, operating performance results for each Business Unit, or a portion of the business written by a Business Unit as defined below or as hereafter defined by the Committee (referred to as a "Business Sub-unit" or a "Sub-unit"), are evaluated using a performance matrix that is established by or under the direction of the Committee for the Plan year. Each matrix assigns performance scores to various combinations of profitability and growth outcomes for the applicable Business Unit or Sub-unit.

For 2009, and for each Plan year thereafter until otherwise determined by the Committee, each of the Agency, Direct, Commercial Auto and Special Lines Business Units will be evaluated according to the performance of their respective "New" and "Renewal" Business Sub-units, using the performance measures further described below. Therefore, separate Gainsharing matrices will be established for the following:

- Agency Auto – New Sub-unit;
- Agency Auto – Renewal Sub-unit;
- Direct Auto – New Sub-unit;
- Direct Auto – Renewal Sub-unit;
- Special Lines – New Sub-unit
- Special Lines – Renewal Sub-unit;
- Commercial Auto – New Sub-unit; and
- Commercial Auto – Renewal Sub-unit.

C. Performance Measures

Growth. The growth measure for the Plan year under all matrices will be based on policies in force ("PIFs"). The following will apply to the matrix for the applicable Business Sub-unit:

(i) For each "New" Business Sub-unit matrix, growth will be measured by the change in (a) the number of new policies written by the Business Unit during the applicable Plan year that remained in force (including, without limitation, as a result of renewal thereof) as of the last day of the Plan year, as compared with (b) the number of new policies written by such Business Unit during the

immediately preceding Plan year that remained in force as of the last day of such immediately preceding Plan year.

(ii) For each “Renewal” Business Sub-unit matrix, growth will be measured by the PIF retention rate of the applicable Business Unit for the Plan year – i.e., the percentage of the policies that were in force in such Business Unit on the first day of the Plan year that remained in force (including, without limitation, as a result of renewal thereof) as of the last day of the Plan year.

Profitability. For all Business Sub-unit matrices, profitability will be measured by the GAAP combined ratio for the Plan year for the applicable New or Renewal Sub-unit.

Miscellaneous. Net operating results from business that is not included in the descriptions in Paragraph 6(A) above, if any, will be apportioned among the appropriate Business Units or Sub-units in accordance with the respective amount(s) of net earned premiums generated by such business in each such Business Unit or Sub-unit, and the apportioned net operating results will be included in the calculation of the GAAP combined ratio for such Business Unit(s) or Sub-unit(s). Assigned risk business is not included in determining the growth of any Business Unit or Sub-unit, but the net operating gains/losses for such assigned risk business will be included in the calculation of the GAAP combined ratio for the applicable Business Unit or Sub-unit.

D. Calculation of Performance Factor

Using the Gainsharing matrix for each New or Renewal Sub-unit and the actual performance results for the applicable Business Unit, the GAAP combined ratio for each such Sub-unit will be matched with the growth levels achieved by such Sub-unit, to determine the performance score for such Sub-unit.

The performance scores for each of the Agency, Direct, Commercial Auto and Special Lines Business Units will be calculated by:

(i) Weighting the performance scores determined under the matrices for the applicable New and Renewal Sub-units, using the following weighting factors:

- Two-thirds (2/3) from the score determined under the matrix for the Renewal Sub-unit; and
- One-third (1/3) from the score determined under the matrix for the New Sub-unit; and

(ii) Adding the weighted performance scores for the applicable New and Renewal Sub-units to produce the Business Unit performance score.

The resulting performance scores for each of the Agency, Direct, Commercial Auto and Special Lines Business Units will then be multiplied by a weighting factor, which shall be a fraction or decimal equivalent, determined by dividing the net earned premiums

generated by such Business Unit during the Plan year by the net earned premiums generated by all of the Business Units comprising the Core Business in the aggregate. The sum of these weighted performance scores will be the Performance Factor for the Plan year.

E. Limitations

The performance score under each matrix, as well as the final Performance Factor, can vary from 0 to 2.0, determined under the procedures described above, based on actual performance. The final Performance Factor cannot exceed 2.0, regardless of results.

7. *Payment Procedures; Deferral*. Subject to Paragraph 9 below, no later than December 31 of each Plan year, each participant will receive an initial payment in respect of his or her Annual Gainsharing Payment for that Plan year equal to 75% of an amount calculated on the basis of Paid Earnings for the first 24 pay periods of the Plan year, estimated earnings for the remainder of the Plan year, and performance data through the first 11 months of the Plan year (estimated, if necessary). No later than February 15 of the following year, each participant will receive the balance of his or her Annual Gainsharing Payment, if any, for such Plan year, based on his or her Paid Earnings and performance data for the entire Plan year.

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

8. *Other Plans*. If, for any Plan year, an employee has been selected to participate in both this Plan and another cash incentive plan offered by the Company, then with respect to such employee, the Gainsharing formula set forth in Paragraph 3 hereof shall be appropriately adjusted by applying a weighting factor to reflect the proportion of the employee's total annual incentive opportunity that is being provided by this Plan. The Committee shall have full authority to determine the incentive plan or plans in which any employee will participate during any plan year and, if an employee is selected to participate in more than one plan, the weighting factor that will apply to each such plan.

9. *Qualification Date; Leave of Absence; Withholding*. Unless otherwise determined by the Committee, and except as expressly provided herein, in order to be entitled to receive an Annual Gainsharing Payment for any Plan year, the participant must be an active officer or regular employee of the Company on November 30 of the Plan year ("Qualification Date"). Individuals who are hired on or after December 1 of any Plan year are not entitled to an Annual Gainsharing Payment for that Plan year.

Any participant who is on a leave of absence covered by the Family and Medical Leave Act of 1993, personal leave of absence with the approval of the Company, military leave or short or long-term disability on the Qualification Date with respect to any Plan year will be entitled to receive an Annual Gainsharing Payment for such Plan year, calculated as provided in Paragraphs 3 through 6 above and based on the amount of Paid Earnings received by such participant during the Plan year.

All payments made hereunder will be net of any legally required deductions for federal, state and local taxes and other items.

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

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

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

Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions thereof, waive any of the requirements specified herein and make determinations hereunder and to select, approve, establish, change or modify the Business Units or Sub-units and the Gainsharing formulae, weighting factors, performance targets and Target Percentages) may be exercised by the Designated Executives; provided, however, that only the Committee may take such actions or make such determinations for the Company's executive officers. In the event of a dispute or conflict, the determination of the Committee will govern.

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

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

14. *No Employment Rights*. Nothing in the Plan shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties or compensation.

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

16. *Prior Plans*. This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable to participants by or due from Progressive. Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 2008 Gainsharing Plan (the "Prior Plan"), which is and shall be deemed to be terminated as of December 27, 2008 (the "Prior Plan Termination Date"); provided, however, that any bonuses or other sums earned and payable under the Prior Plan with respect to any Plan year ended on or prior to the Prior Plan Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder.

17. *Effective Date*. This Plan is adopted, and is to be effective, as of December 28, 2008, which is the commencement of Progressive's 2009 fiscal year. This Plan shall be effective for the 2009 Plan year (which coincides with Progressive's 2009 fiscal year) and for each Plan year thereafter unless and until terminated by the Committee.

18. *Governing Law*. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

Exhibit 10.6

THE PROGRESSIVE CORPORATION
2010 GAINSHARING PLAN

1. *The Plan*. The Progressive Corporation and its subsidiaries (collectively, “Progressive” or the “Company”) have adopted The Progressive Corporation 2010 Gainsharing Plan (the “Plan”) as part of their overall compensation program. The Plan is performance-based and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the “Committee”). Plan years will coincide with Progressive’s fiscal years.

2. *Participants*. Plan participants for each Plan year shall include all officers and regular employees of Progressive, unless determined otherwise by the Committee. The Gainsharing opportunity, if any, for those executive officers who participate in The Progressive Corporation 2007 Executive Bonus Plan (the “Executive Bonus Plan”) will be provided by the Executive Bonus Plan, although participants in that plan may also participate in this Plan if and to the extent determined by the Committee.

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

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

4. *Paid Eligible Earnings*. Paid Eligible Earnings for any Plan year shall mean and include the following: regular, used Earned Time Benefit, sick, holiday (excluding, for all purposes hereunder, premium holiday pay for exempt employees), funeral and overtime pay, military pay, and retroactive payments of any of the foregoing items, received by the participant during the Plan year for work or services performed as an officer or employee of Progressive.

For purposes of the Plan, Paid Eligible Earnings shall exclude all other types of compensation, including, without limitation, any short-term or long-term disability payments made to the participant, the earnings replacement component of any workers’ compensation award, any bonus, Gainsharing or other incentive compensation or equity-based awards, including, without limitation, payments from any discretionary cash fund, any dividend payments and unused Earned Time Benefit.

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

POSITION	TARGET %
Senior Executives and Executive Level Managers	60 - 150%
Business Leaders	35 - 60%
Directors and Senior Directors	20 - 35%
Middle Managers and Senior Managers	15 - 20%
Senior Professionals and Entry Level Managers	8 - 20%
Administrative Support and Entry Level Professionals	0 - 8%

Target Percentages will be established within the above ranges by, and may be changed with the approval of, the following officers of The Progressive Corporation (collectively, the “Designated Executives”): (a) the Chief Executive Officer, and (b) either the Chief Human Resource Officer or the Chief Financial Officer; provided that the Chief Human Resource Officer may establish appropriate procedures to evaluate the need for, and if appropriate, implement individual exceptions to the foregoing ranges. Target Percentages may be changed from year to year by the Designated Executives. Notwithstanding anything herein to the contrary, only the Committee may establish or modify the Target Percentages for the Company’s executive officers.

If a participant’s Target Percentage changes during a Plan year, the Target Percentages used to calculate such participant’s Annual Gainsharing Payment hereunder shall be weighted appropriately to reflect such participant’s tenure in each such position during the Plan year.

6. *The Performance Factor*.

A. Core Business Defined

The Performance Factor shall be determined by the performance of the Core Business during the Plan year, pursuant to the procedures and calculations described below. The “Core Business” shall be comprised of the following:

- The Agency Auto business unit, consisting of the auto business produced by independent agents or brokers, including Strategic Alliances Agency auto, but excluding the Agency Special Lines business;
- The Direct Auto business unit, consisting of the auto business produced by phone or over the Internet, but excluding the Direct Special Lines business;

- The Special Lines business unit, including Special Lines business generated by agents and brokers and directly by phone or over the Internet (but excluding umbrella policies); and
- The Commercial Auto business unit.

Each of the Agency Auto, Direct Auto, Special Lines and Commercial Auto business units is referred to herein as a "Business Unit" or "Unit." For all purposes under this Plan, the results of the Professional Liability Group, the CAIP Servicing Group, the Company's Australia operations, the Midland Financial Group, Inc. and other businesses in run-off are excluded from the Core Business results.

B. Matrices

For purposes of computing a performance score for the Core Business, operating performance results for each Business Unit, or a portion of the business written by a Business Unit as defined below or as hereafter defined by the Committee (referred to as a "Business Sub-unit" or a "Sub-unit"), are evaluated using a performance matrix that is established by or under the direction of the Committee for the Plan year. Each matrix assigns performance scores to various combinations of profitability and growth outcomes for the applicable Business Unit or Sub-unit.

For 2010, and for each Plan year thereafter until otherwise determined by the Committee: (i) the Direct Auto Business Unit will be evaluated according to the performance of its respective "New" and "Renewal" Business Sub-units, using the performance measures further described below; and (ii) each of the Agency Auto, Commercial Auto and Special Lines Business Units will be evaluated according to the performance of the unit as a whole, without regard to any Sub-unit performance. Therefore, separate Gainsharing matrices will be established for the following:

- Agency Auto;
- Direct Auto – New Sub-unit;
- Direct Auto – Renewal Sub-unit;
- Special Lines; and
- Commercial Auto.

C. Performance Measures

Growth. The growth measure for the Plan year under all matrices will be based on policies in force ("PIFs").

For all matrices other than those for the Direct Auto Business Unit, growth will be measured by the percentage change in average PIFs for the Plan year compared to the average PIFs of the immediately preceding fiscal year. Average PIFs for the Plan year and for the immediately preceding fiscal year will be determined by adding the fiscal-month-end number of PIFs for each month during such year and dividing the total by twelve.

For Direct Auto, the following will apply to the matrix for the applicable Business Sub-unit:

(i) For the "New" Business Sub-unit matrix, growth will be measured by the change in (a) the number of new policies written by the Business Unit during the applicable Plan year that remained in force (including, without limitation, as a result of renewal thereof) as of the last day of the Plan year, as compared with (b) the number of new policies written by such Business Unit during the immediately preceding Plan year that remained in force as of the last day of such immediately preceding Plan year.

(ii) For the "Renewal" Business Sub-unit matrix, growth will be measured by the PIF retention rate of the applicable Business Unit for the Plan year – i.e., the percentage of the policies that were in force in such Business Unit on the first day of the Plan year that remained in force (including, without limitation, as a result of renewal thereof) as of the last day of the Plan year.

Profitability. For all Business Unit and Sub-unit matrices, the measurement of profitability will be the GAAP combined ratio for the Plan year for the applicable Unit or Sub-unit.

Miscellaneous. Notwithstanding the foregoing, net operating results from business that is not included in the descriptions in Paragraph 6(A) above, if any, will be apportioned among the appropriate Business Units or Sub-units in accordance with the respective amount(s) of net earned premiums generated by such business in each such Business Unit or Sub-unit, and the apportioned net operating results will be included in the calculation of the GAAP combined ratio for such Business Unit(s) or Sub-unit(s). Assigned risk business is not included in determining the growth of any Business Unit or Sub-unit, but the net operating gains/losses for such assigned risk business will be included in the calculation of the GAAP combined ratio for the applicable Business Unit or Sub-unit.

D. Calculation of Performance Factor

Performance Score

Using the Gainsharing matrix for each Business Unit or Sub-unit, as applicable, and the actual performance results for the applicable Business Unit, the GAAP combined ratio for each such Unit or Sub-unit will be matched with the growth levels achieved by such Unit or Sub-unit, to determine the performance score for such Unit or Sub-unit.

The performance score for each of the Agency Auto, Special Lines and Commercial Auto Business Units, which will be used to calculate the Performance Factor as described further below, will be determined by reference to the applicable matrix.

The performance score for the Direct Auto Business Unit used to calculate the Performance Factor will be calculated by:

(i) Weighting the performance scores determined under the matrices for the applicable New and Renewal Sub-units, using the following weighting factors:

- Two-thirds (2/3) from the score determined under the matrix for the Renewal Sub-unit; and
- One-third (1/3) from the score determined under the matrix for the New Sub-unit; and

(ii) Adding the weighted performance scores for the applicable New and Renewal Sub-units to produce the Direct Auto Business Unit performance score.

Performance Factor

The resulting performance scores for each of the Agency Auto, Direct Auto, Commercial Auto and Special Lines Business Units will then be multiplied by a weighting factor, which shall be a fraction or decimal equivalent, determined by dividing the net earned premiums generated by such Business Unit during the Plan year by the net earned premiums generated by all of the Business Units comprising the Core Business in the aggregate. The sum of these weighted performance scores will be the Performance Factor for the Plan year.

E. Limitations

The performance score under each matrix can vary from 0 to 3.0, determined under the procedures described above, based on actual performance. The final Performance Factor cannot exceed 2.0, regardless of the results of any individual matrix.

7. *Payment Procedures; Deferral*. Subject to Paragraph 9 below, no later than December 31 of each Plan year, each participant will receive an initial payment in respect of his or her Annual Gainsharing Payment for that Plan year equal to 75% of an amount calculated on the basis of Paid Eligible Earnings for the first 24 pay periods of the Plan year, estimated earnings for the remainder of the Plan year, and performance data through the first 11 months of the Plan year (estimated, if necessary). No later than February 28 of the following year, each participant will receive the balance of his or her Annual Gainsharing Payment, if any, for such Plan year, based on his or her Paid Eligible Earnings and performance data for the entire Plan year.

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

8. *Other Plans*. If, for any Plan year, an employee has been selected to participate in both this Plan and another cash incentive plan offered by the Company, then with respect to

such employee, the Gainsharing formula set forth in Paragraph 3 hereof shall be appropriately adjusted by applying a weighting factor to reflect the proportion of the employee's total annual incentive opportunity that is being provided by this Plan. The Committee shall have full authority to determine the incentive plan or plans in which any employee will participate during any plan year and, if an employee is selected to participate in more than one plan, the weighting factor that will apply to each such plan.

9. *Qualification Date; Leave of Absence; Withholding*. Unless otherwise determined by the Committee, and except as expressly provided herein, in order to be entitled to receive an Annual Gainsharing Payment for any Plan year, the participant must be an active officer or regular employee of the Company on November 30 of the Plan year ("Qualification Date"). Individuals who are hired on or after December 1 of any Plan year are not entitled to an Annual Gainsharing Payment for that Plan year.

Any participant who is on a leave of absence covered by the Family and Medical Leave Act of 1993, as amended, personal leave of absence with the approval of the Company, military leave or short or long-term disability on the Qualification Date with respect to any Plan year will be entitled to receive an Annual Gainsharing Payment for such Plan year, calculated as provided in Paragraphs 3 through 6 above and based on the amount of Paid Eligible Earnings received by such participant during the Plan year.

All payments made hereunder will be net of any legally required deductions for federal, state and local taxes and other items.

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

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

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

Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions thereof, waive any of the requirements specified herein and make determinations hereunder and to select, approve, establish, change or modify the Business Units or Sub-units and the Gainsharing formulae, weighting factors, performance targets and Target Percentages) may be exercised by the Designated Executives;

provided, however, that only the Committee may take such actions or make such determinations for the Company's executive officers. In the event of a dispute or conflict, the determination of the Committee will govern.

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

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

14. *No Employment Rights*. Nothing in the Plan shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties or compensation.

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

16. *Prior Plans*. This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable to participants by or due from Progressive. Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 2009 Gainsharing Plan (the "Prior Plan"), which is and shall be deemed to be terminated as of January 1, 2010 (the "Prior Plan Termination Date"); provided, however, that any bonuses or other sums earned and payable under the Prior Plan with respect to any Plan year ended on or prior to the Prior Plan Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder.

17. *Effective Date*. This Plan is adopted, and is to be effective, as of January 2, 2010, which is the commencement of Progressive's 2010 fiscal year. This Plan shall be effective for the 2010 Plan year (which coincides with Progressive's 2009 fiscal year) and for each Plan year thereafter unless and until terminated by the Committee.

18. *Governing Law*. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

Exhibit 10.7

FIRST AMENDMENT

TO

THE PROGRESSIVE CORPORATION
2010 GAINSHARING PLAN

WHEREAS, The Progressive Corporation 2010 Gainsharing Plan (the "Plan") is currently in effect; and

WHEREAS, the Compensation Committee of the Board of Directors of The Progressive Corporation (the "Committee") has the authority pursuant to the provisions of the Plan to amend the Plan in its discretion;

WHEREAS, all capitalized terms used in this First Amendment shall have the meanings ascribed to them in the Plan;

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 6(E) of the Plan is hereby deleted in its entirety and the following is substituted in its place:

E. Limitations

The performance score for the Direct Business Unit can vary from 0 to 3.0, and for each other Business Unit can vary from 0 to 2.0, determined under the procedures described above, based on actual performance. If, however, the performance score for the Direct Business Unit exceeds 2.0, such score shall be rounded down to 2.0 before the weighting thereof and the calculation of the Performance Factor as described above. The final Performance Factor cannot exceed 2.0, regardless of the results of any individual matrix.

2. Except as herein expressly provided, the terms and conditions of the Plan shall remain unchanged and in full force and effect.

Exhibit 10.8

THE PROGRESSIVE CORPORATION
2011 GAINSHARING PLAN

1. *The Plan*. The Progressive Corporation and its subsidiaries (collectively, "Progressive" or the "Company") have adopted The Progressive Corporation 2011 Gainsharing Plan (the "Plan") as part of their overall compensation program. The Plan is performance-based and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the "Committee"). Plan years will coincide with Progressive's fiscal years.

2. *Participants*. Plan participants for each Plan year shall include all officers and regular employees of Progressive, unless determined otherwise by the Committee. The Gainsharing opportunity, if any, for those executive officers who participate in The Progressive Corporation 2007 Executive Bonus Plan (the "Executive Bonus Plan") will be provided by the Executive Bonus Plan, although participants in that plan may also participate in this Plan if and to the extent determined by the Committee.

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

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

4. *Paid Eligible Earnings*. Paid Eligible Earnings for any Plan year shall mean and include the following: regular, used Earned Time Benefit, sick, holiday (excluding, for all purposes hereunder, premium holiday pay for exempt employees), funeral and overtime pay, military pay, and retroactive payments of any of the foregoing items, received by the participant during the Plan year for work or services performed as an officer or employee of Progressive.

For purposes of the Plan, Paid Eligible Earnings shall exclude all other types of compensation, including, without limitation, any short-term or long-term disability payments made to the participant, the earnings replacement component of any workers' compensation award, any bonus, Gainsharing or other incentive compensation or equity-based awards, including, without limitation, payments from any discretionary cash fund, any dividend payments and unused Earned Time Benefit.

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

POSITION	TARGET %
Senior Executives and Executive Level Managers	60 - 150%
Business Leaders	35 - 60%
Directors and Senior Directors	20 - 35%
Middle Managers and Senior Managers	15 - 20%
Senior Professionals and Entry Level Managers	8 - 20%
Administrative Support and Entry Level Professionals	0 - 8%

Target Percentages will be established within the above ranges by, and may be changed with the approval of, the following officers of The Progressive Corporation (collectively, the “Designated Executives”): (a) the Chief Executive Officer, and (b) either the Chief Human Resource Officer or the Chief Financial Officer; provided that the Chief Human Resource Officer may establish appropriate procedures to evaluate the need for, and if appropriate, implement individual exceptions to the foregoing ranges. Target Percentages may be changed from year to year by the Designated Executives. Notwithstanding anything herein to the contrary, only the Committee may establish or modify the Target Percentages for the Company’s executive officers.

If a participant’s Target Percentage changes during a Plan year, the Target Percentages used to calculate such participant’s Annual Gainsharing Payment hereunder shall be weighted appropriately to reflect such participant’s tenure in each such position during the Plan year.

6. *The Performance Factor*.

A. Core Business Defined

The Performance Factor shall be determined by the performance of the Core Business during the Plan year, pursuant to the procedures and calculations described below. The “Core Business” shall be comprised of the following:

- The Agency Auto business unit, consisting of the auto business produced by independent agents or brokers, including Strategic Alliances Agency auto, but excluding all Agency Special Lines businesses;
- The Direct Auto business unit, consisting of the auto business produced by phone or over the Internet, but excluding all Direct Special Lines businesses;
- The Special Lines business unit, including Special Lines business generated by agents and brokers and directly by phone or over the Internet, but excluding umbrella policies; and
- The Commercial Auto business unit.

Each of the Agency Auto, Direct Auto, Special Lines and Commercial Auto business units is referred to herein as a "Business Unit" or "Unit." For all purposes under this Plan, the results of the Professional Liability business, the CAIP Servicing Group, the Company's Australia operations, the Midland Financial Group, Inc., umbrella policies, and other businesses in run-off are excluded from the Core Business results.

Notwithstanding the foregoing, net operating results from any business that is not included in and is not specifically excluded from the descriptions above, if any, will be apportioned among the appropriate Business Units or Sub-units (as defined below) in accordance with the respective amount(s) of net earned premiums generated by each such Business Unit or Sub-unit, and the apportioned net operating results will be included in the calculation of the GAAP combined ratio for such Business Unit(s) or Sub-unit(s). Assigned risk business is not included in determining the growth of any Business Unit or Sub-unit, but the net operating gains/losses for such assigned risk business will be included in determining the GAAP combined ratio for the applicable Business Unit or Sub-unit.

B. Matrices

For purposes of computing a performance score for the Core Business, operating performance results for each Business Unit, or a specified portion of the business written by a Business Unit , as hereafter defined (referred to as a "Business Sub-unit" or a "Sub-unit"), are evaluated using a performance matrix for the Plan year. Each matrix assigns performance scores to various combinations of profitability and growth outcomes for the applicable Business Unit or Sub-unit.

For 2011, and for each Plan year thereafter until otherwise determined by the Committee: (i) the Direct Auto Business Unit will be evaluated according to the performance of its respective "New" and "Renewal" Business Sub-units, using the performance measures further described below; and (ii) each of the Agency Auto, Commercial Auto and Special Lines Business Units will be evaluated according to the performance of the Business Unit as a whole, without regard to any Sub-unit performance. Therefore, separate Gainsharing matrices will be established for the following:

- Agency Auto;
- Direct Auto – New Sub-unit;
- Direct Auto – Renewal Sub-unit;
- Special Lines; and
- Commercial Auto.

C. Performance Measures

Growth. The growth measure for the Plan year under all matrices will be based on policies in force ("PIFs").

For all matrices other than those for the Direct Auto Business Unit, growth will be measured by the percentage change in average PIFs for the Plan year compared to the average PIFs of the immediately preceding fiscal year. Average PIFs for the Plan year and for the immediately preceding fiscal year will be determined by adding the fiscal-month-end number of PIFs for each month during such year and dividing the total by twelve.

For Direct Auto, the following will apply to the matrix for the applicable Business Sub-unit:

(i) For the "New" Business Sub-unit matrix, growth will be measured by the change in (a) the number of new policies written by the Direct Auto Business Unit during the applicable Plan year that remain in force (including, without limitation, as a result of renewal thereof) as of the last day of the Plan year, as compared with (b) the number of new policies written by such Business Unit during the immediately preceding Plan year that remained in force as of the last day of such immediately preceding Plan year.

(ii) For the "Renewal" Business Sub-unit matrix, growth will be measured by the PIF retention rate of the Direct Auto Business Unit for the Plan year – i.e., the percentage of the policies that were in force in such Business Unit on the first day of the Plan year that remain in force (including, without limitation, as a result of renewal thereof) as of the last day of the Plan year.

Profitability. For all Business Unit and Sub-unit matrices, the measurement of profitability will be the GAAP combined ratio for the Plan year for the applicable Unit or Sub-unit.

D. Calculation of Performance Factor

Performance Scores

Using the actual performance results and the Gainsharing matrix for each Business Unit or Sub-unit, as applicable, the GAAP combined ratio for each such Unit or Sub-unit will be matched with the growth levels achieved by such Unit or Sub-unit, to determine the performance score for each such Unit or Sub-unit.

The performance score for each of the Agency Auto, Special Lines and Commercial Auto Business Units, which will be used to calculate the Performance Factor as described further below, can vary from 0 to 2.0 and will be determined by reference to the applicable matrix.

The performance score for the Direct Auto Business Unit used to calculate the Performance Factor will be calculated by:

(i) Weighting the performance scores determined under the matrices for the New and Renewal Direct Auto Sub-units, using the following weighting factors:

- Two-thirds (2/3) from the score determined under the matrix for the Renewal Sub-unit; and
- One-third (1/3) from the score determined under the matrix for the New Sub-unit; and

(ii) Adding the weighted performance scores for the New and Renewal Sub-units to produce the Direct Auto Business Unit performance score.

The performance score for each of the Sub-Units of the Direct Auto Business Unit (and, therefore, for the Direct Auto Business Unit as a whole) can vary from 0 to 3.0. If, however, the performance score for the Direct Business Unit exceeds 2.0, such score shall be rounded down to 2.0 before the calculation of the Performance Factor as described immediately below.

Performance Factor

The resulting performance scores for each of the Agency Auto, Direct Auto, Commercial Auto and Special Lines Business Units will then be multiplied by a weighting factor, which shall be a fraction or decimal equivalent, determined by dividing the net earned premiums generated by such Business Unit during the Plan year by the net earned premiums generated by all of the Business Units comprising the Core Business in the aggregate. The sum of these weighted performance scores will be the Performance Factor for the Plan year.

E. Limitations

The final Performance Factor cannot exceed 2.0, regardless of the results of any individual matrix.

7. *Payment Procedures; Deferral*. Subject to Paragraph 9 below, no later than December 31 of each Plan year, each participant will receive an initial payment in respect of his or her Annual Gainsharing Payment for that Plan year equal to 75% of an amount calculated on the basis of Paid Eligible Earnings for the first 24 pay periods of the Plan year, estimated earnings for the remainder of the Plan year, and performance data through the first 11 months of the Plan year (estimated, if necessary). No later than February 28 of the following year, each participant will receive the balance of his or her Annual Gainsharing Payment, if any, for such Plan year, based on his or her Paid Eligible Earnings and performance data for the entire Plan year.

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

8. *Other Plans*. If, for any Plan year, an employee has been selected to participate in both this Plan and another cash incentive plan offered by the Company, then with respect to such employee, the Gainsharing formula set forth in Paragraph 3 hereof shall be appropriately adjusted by applying a weighting factor to reflect the proportion of the employee's total annual incentive opportunity that is being provided by this Plan. The Committee shall have full authority to determine the incentive plan or plans in which any employee will participate during any plan year and, if an employee is selected to participate in more than one plan, the weighting factor that will apply to each such plan.

9. *Qualification Date; Leave of Absence; Withholding*. Unless otherwise determined by the Committee, and except as expressly provided herein, in order to be entitled to receive an Annual Gainsharing Payment for any Plan year, the participant must be an active officer or regular employee of the Company on November 30 of the Plan year ("Qualification Date"). Individuals who are hired on or after December 1 of any Plan year are not entitled to an Annual Gainsharing Payment for that Plan year.

Any participant who is on a leave of absence covered by the Family and Medical Leave Act of 1993, as amended, personal leave of absence with the approval of the Company, military leave or short or long-term disability on the Qualification Date with respect to any Plan year will be entitled to receive an Annual Gainsharing Payment for such Plan year, calculated as provided in Paragraphs 3 through 6 above and based on the amount of Paid Eligible Earnings received by such participant during the Plan year.

All payments made hereunder will be net of any legally required deductions for federal, state and local taxes and other items.

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

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

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

Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions thereof, waive any of the requirements specified herein and make determinations hereunder and to select, approve, establish, change or

modify the Business Units or Sub-units and the Gainsharing formulae, weighting factors, performance targets and Target Percentages) may be exercised by the Designated Executives; provided, however, that only the Committee may take such actions or make such determinations for the Company's executive officers. In the event of a dispute or conflict, the determination of the Committee will govern.

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

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

14. *No Employment Rights*. Nothing in the Plan shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties or compensation.

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

16. *Prior Plans*. This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable to participants by or due from Progressive. Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 2010 Gainsharing Plan (the "Prior Plan"), which is and shall be deemed to be terminated as of December 31, 2010 (the "Prior Plan Termination Date"); provided, however, that any bonuses or other sums earned and payable under the Prior Plan with respect to any Plan year ended on or prior to the Prior Plan Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder.

17. *Effective Date*. This Plan is adopted, and is to be effective, as of January 1, 2011, which is the commencement of Progressive's 2011 fiscal year. This Plan shall be effective for the 2011 Plan year (which coincides with Progressive's 2011 fiscal year) and for each Plan year thereafter unless and until terminated by the Committee.

18. *Governing Law*. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

Exhibit 10.10

THE PROGRESSIVE CORPORATION

1995 INCENTIVE PLAN

SECTION 1. Purpose; Definitions.

The purpose of The Progressive Corporation 1995 Incentive Plan (the "Plan") is to enable The Progressive Corporation (the "Company") to attract, retain and reward key employees of the Company and its Subsidiaries and Affiliates and strengthen the mutuality of interests between such key employees and the Company's shareholders by offering such key employees equity or equity-based incentives.

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

(a) *"Affiliate"* means any entity (other than the Company and its Subsidiaries) that is designated by the Board as a participating employer under the Plan.

(b) *"Award"* means any award of Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Purchase Rights and Other Stock-Based Awards under the Plan.

(c) *"Board"* means the Board of Directors of the Company.

(d) *"Book Value"* means, as of any given date, on a per share basis (1) the shareholders' equity in the Company as of the end of the immediately preceding fiscal year as reflected in the Company's audited consolidated balance sheet as of such year-end date, subject to such adjustments as the Committee shall specify at or after grant, divided by (2) the number of outstanding shares of Stock as of such year-end date, subject to such adjustments as the Committee shall specify for events subsequent to such year-end date.

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

(f) *"Committee"* means the Committee referred to in Section 2 of the Plan.

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

(h) *"Deferred Stock"* means an award of the right to receive Stock at the end of a specified deferral period granted pursuant to Section 8.

(i) *"Disability"* means disability as determined under procedures established by the Committee for purposes of the Plan.

(j) *"Disinterested Person"* shall have the meaning set forth in Rule 16b-3(c)(2)(i) as promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor definition adopted by the Commission.

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

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

(m) *"Incentive Stock Option"* means any Stock Option intended to be and designated as an "Incentive Stock Option", within the meaning of Section 422 of the Code or any successor section thereto.

(n) *"Non-Qualified Stock Option"* means any Stock Option that is not an Incentive Stock Option.

(o) *"Other Stock-Based Award"* means an award granted pursuant to Section 10 that is valued, in whole or in part, by reference to, or is otherwise based on, Stock.

(p) *"Plan"* means The Progressive Corporation 1995 Incentive Plan, as amended from time to time.

(q) *"Restricted Stock"* means an award of shares that is granted pursuant to Section 7 and is subject to restrictions.

(r) *"Section 16 participant"* means a participant under the Plan who is then subject to Section 16 of the Exchange Act.

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

(t) *"Stock Appreciation Right"* means an award of rights that is granted pursuant to Section 6.

(u) *"Stock Option"* or *"Option"* means any option to purchase shares of Stock (including Restricted Stock and Deferred Stock, if the Committee so determines) that is granted pursuant to Section 5.

(v) *“Stock Purchase Right”* means an award of the right to purchase Stock that is granted pursuant to Section 9.

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

In addition, the terms *“Change in Control,” “Potential Change in Control”* and *“Change in Control Price”* shall have the meanings set forth, respectively, in Sections 11(b), (c) and (d) and the term *“Cause”* shall have the meaning set forth in Section 5(b)(8) below.

SECTION 2. Administration.

The Plan shall be administered by the Executive Compensation Committee of the Board (the “Committee”). The Committee shall consist of not less than three directors of the Company, all of whom shall be Disinterested Persons and “outside directors”, as defined in Section 162(m) of the Code and the regulations promulgated thereunder. Such directors shall be appointed by the Board and shall serve as the Committee at the pleasure of the Board. The functions of the Committee specified in the Plan shall be exercised by the Board if and to the extent that no Committee exists which has the authority to so administer the Plan.

The Committee shall have full power to interpret and administer the Plan and full authority to select the individuals to whom Awards will be granted and to determine the type and amount of Award(s) to be granted to each participant, the consideration, if any, to be paid for such Award(s), the timing of such Award(s), the terms and conditions of Awards granted under the Plan and the terms and conditions of the related agreements which will be entered into with participants. As to the selection of and grant of Awards to participants who are not Section 16 participants, the Committee may delegate its responsibilities to members of the Company’s management consistent with applicable law.

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

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

SECTION 3. Stock Subject to the Plan.

(a) *Aggregate Stock Subject to the Plan.* Subject to adjustment as provided below in Section 3(c), the total number of shares of Stock reserved and available for Awards under the Plan is 5,000,000. Any Stock issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) *Forfeiture or Termination of Awards of Stock.* If any Stock subject to any Award granted hereunder is forfeited or an Award otherwise terminates or expires without the issuance of Stock, the Stock subject to such Award shall again be available for distribution in connection with future Awards under the Plan as set forth in Section 3(a), unless the participant who had been awarded such forfeited Stock or the expired or terminated Award has theretofore received dividends or other benefits of ownership with respect to such Stock. For purposes hereof, a participant shall not be deemed to have received a benefit of ownership with respect to such Stock by the exercise of voting rights or the accumulation of dividends which are not realized due to the forfeiture of such Stock or the expiration or termination of the related Award without issuance of such Stock.

(c) *Adjustment.* In the event of any merger, reorganization, consolidation, recapitalization, share dividend, share split, combination of shares or other change in corporate structure of the Company affecting the Stock, such substitution or adjustment shall be made in the aggregate number of shares of Stock reserved for issuance under the Plan, in the number and option price of shares subject to outstanding Options granted under the Plan, in the number and purchase price of shares subject to outstanding Stock Purchase Rights granted under the Plan, and in the number of shares subject to Restricted Stock Awards, Deferred Stock Awards and any other outstanding Awards granted under the Plan as may be approved by the Committee, in its sole discretion; provided that the number of shares subject to any Award shall always be a whole number. Any fractional shares shall be eliminated.

(d) *Annual Award Limit.* No participant may be granted Stock Options or other Awards under the Plan with respect to an aggregate of more than 300,000 shares of Stock (subject to adjustment as provided in Section 3(c) hereof) during any calendar year.

SECTION 4. Eligibility.

Officers and other key employees of the Company and its Subsidiaries and Affiliates (but excluding members of the Committee and any person who serves only as a director) who are responsible for or contribute to the management, growth or profitability of the business of the Company or its Subsidiaries or Affiliates are eligible to be granted Awards under the Plan.

SECTION 5. Stock Options.

(a) *Grant.* Stock Options may be granted alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside of the Plan. However, no Incentive Stock Option shall be issued in tandem with any other Award other than a Stock Appreciation Right as provided for in Section 6. The Committee shall determine the individuals to whom, and the time or times at which, grants of Stock Options will be made, the number of shares purchasable under each Stock Option and the other terms and conditions of the Stock Options in addition to those set forth in Sections 5(b) and 5(c). Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be of two types which shall be indicated on their face: (i) Incentive Stock Options and (ii) Non-Qualified Stock Options. Subject to Section 5(c) hereof, the Committee shall have the authority to grant to any participant Incentive Stock Options, Non-Qualified Stock Options or both types of Stock Options.

(b) *Terms and Conditions.* Options granted under the Plan shall be evidenced by Option Agreements, shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(1) *Option Price.* The option price per share of Stock purchasable under a Non-Qualified Stock Option shall be determined by the Committee at the time of grant and shall not be less than fifty percent of the Fair Market Value of the Stock at the date of grant.

The option price per share of Stock purchasable under an Incentive Stock Option shall be determined by the Committee at the time of grant and shall be not less than 100% of the Fair Market Value of the Stock at the date of grant (or 110% of the Fair Market Value of the Stock at the date of grant in

the case of a participant who at the date of grant owns shares possessing more than ten percent of the total combined voting power of all classes of stock of the Company or its parent or subsidiary corporations (as determined under Section 424(d), (e) and (f) of the Code)).

(2) *Option Term.* The term of each Stock Option shall be determined by the Committee and may not exceed ten years from the date the Option is granted (or, with respect to Incentive Stock Options, five years in the case of a participant who at the date of grant owns shares possessing more than ten percent of the total combined voting power of all classes of stock of the Company or its parent or subsidiary corporations (as determined under Section 424(d), (e) and (f) of the Code)).

(3) *Exercise.* Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at or after grant; provided, however, that, except as provided in Section 5(b)(6) and Section 11, unless otherwise determined by the Committee at or after grant, no Stock Option shall be exercisable prior to six months and one day following the date of grant. If any Stock Option is exercisable only in installments or only after a specified vesting date, the Committee may accelerate or waive, in whole or in part, such installment exercise provisions or vesting date, at any time at or after grant based on such factors as the Committee shall determine, in its sole discretion.

(4) *Method of Exercise.* Subject to whatever installment exercise provisions apply with respect to such Stock Option, and the six month and one day holding period set forth in Section 5(b)(3), Stock Options may be exercised in whole or in part, at any time during the option period, by giving to the Company written notice of exercise specifying the number of shares of Stock to be purchased.

Such notice shall be accompanied by payment in full of the option price of the shares of Stock for which the Option is exercised, in cash or by check or such other instrument as the Committee may accept. Subject to the following sentence, unless otherwise determined by the Committee, in its sole discretion, at or after grant, payment, in full or in part, of the option price of (i) Incentive Stock Options may be made in the form of unrestricted Stock then owned by the participant and (ii) Non-Qualified Stock Options may be made in the form of unrestricted Stock then owned by the participant or Stock that is part of the Non-Qualified Stock Option being exercised. Notwithstanding the foregoing, any election by a Section 16 participant to satisfy such payment obligation, in

whole or in part, with Stock that is part of the Non-Qualified Stock Option being exercised shall be subject to approval by the Committee, in its sole discretion. The value of each such share surrendered or withheld shall be 100% of the Fair Market Value of the Stock on the date the Option is exercised.

No Stock shall be issued pursuant to an exercise of an Option until full payment has been made. A participant shall not have rights to dividends or any other rights of a shareholder with respect to any Stock subject to an Option unless and until the participant has given written notice of exercise, has paid in full for such shares, has given, if requested, the representation described in Section 14(a) and such shares have been issued to him.

(5) *Non-Transferability of Options.* No Stock Option shall be transferable by the participant other than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the participant's lifetime, only by the participant or, subject to Sections 5(b)(3) and 5(c), by the participant's authorized legal representative if the participant is unable to exercise an Option as a result of the participant's Disability.

(6) *Termination by Death.* Subject to Section 5(c), if any participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of death, any Stock Option held by such participant may thereafter be exercised, to the extent such Option was exercisable at the time of death or would have become exercisable within one year from the time of death had the participant continued to fulfill all conditions of the Option during such period (or on such accelerated basis as the Committee may determine at or after grant), by the estate of the participant (acting through its fiduciary), for a period of one year (or such other period as the Committee may specify at or after grant) from the date of such death. The balance of the Stock Option shall be forfeited.

(7) *Termination by Reason of Disability.* Subject to Sections 5(b)(3) and 5(c), if a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of Disability, any Stock Option held by such participant may thereafter be exercised, to the extent such Option was exercisable at the time of termination or would have become exercisable within one year from the time of termination had the participant continued to fulfill all conditions of the Option during such period (or on such accelerated basis as the Committee may determine at or after grant), by the participant or by the participant's duly authorized legal representative if the participant is unable

to exercise the Option as a result of the participant's Disability, for a period of one year (or such other period as the Committee may specify at or after grant) from the date of such termination of employment; provided, however, that in no event may any such Option be exercised prior to six months and one day from the date of grant; and provided, further, that if the participant dies within such one-year period (or such other period as the Committee shall specify at or after grant), any unexercised Stock Option held by such participant shall thereafter be exercisable by the estate of the participant (acting through its fiduciary) to the same extent to which it was exercisable at the time of death for a period of one year from the date of such termination of employment. The balance of the Stock Option shall be forfeited.

(8) *Other Termination.* Unless otherwise determined by the Committee at or after the time of granting any Stock Option, if a participant's employment by the Company or any Subsidiary or Affiliate terminates for any reason other than death or Disability, all Stock Options held by such participant shall thereupon immediately terminate, except that if the participant is involuntarily terminated by the Company or any Subsidiary or Affiliate without Cause, any such Stock Option may be exercised, to the extent otherwise exercisable at the time of such termination, at any time during the lesser of two months from the date of such termination or the balance of such Stock Option's term. For purposes of this Plan, "Cause" means a felony conviction of a participant or the failure of a participant to contest prosecution for a felony, or a participant's willful misconduct or dishonesty, any of which, in the judgment of the Committee, is harmful to the business or reputation of the Company or any Subsidiary or Affiliate.

(c) *Incentive Stock Options.* Notwithstanding Section 4, only key employees of the Company or any Subsidiary shall be eligible to receive Incentive Stock Options. Notwithstanding Sections 5(b)(6) and (7), an Incentive Stock Option shall be exercisable by (i) a participant's authorized legal representative (if the participant is unable to exercise the Incentive Stock Option as a result of the participant's Disability) only if, and to the extent, permitted by Section 422 of the Code and Section 16 of the Exchange Act and the rules and regulations promulgated thereunder and (ii) by the participant's estate, in the case of death, or authorized legal representative, in the case of Disability, no later than 10 years from the date the Incentive Stock Option was granted (in addition to any other restrictions or limitations which may apply). Anything in the Plan to the contrary notwithstanding, no term or provision of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the participant(s) affected, to disqualify any Incentive Stock Option under such Section 422 or any successor Section thereto.

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

SECTION 6. Stock Appreciation Rights.

(a) *Grant.* Stock Appreciation Rights may be granted alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside of the Plan. The Committee shall determine the individuals to whom, and the time or times at which, grants of Stock Appreciation Rights will be made and the other terms and conditions of the Stock Appreciation Rights in addition to those set forth in Section 6(b). Any Stock Appreciation Right granted under the Plan shall be in such form as the Committee may from time to time approve. In the case of Non-Qualified Stock Options, such rights may be granted either at or after the time of the grant of the related Non-Qualified Stock Options. In the case of Incentive Stock Options, such rights may be granted in tandem with Incentive Stock Options only at the time of the grant of such Incentive Stock Options and exercised only when the Fair Market Value of the Stock subject to the Option exceeds the option price of the Option.

Stock Appreciation Rights issued in tandem with Stock Options ("Tandem SARs") shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option, subject to such provisions as the Committee may specify at grant if a Stock Appreciation Right is granted with respect to less than the full number of shares of Stock subject to the related Stock Option.

All Stock Appreciation Rights granted hereunder shall be exercised, subject to Section 6(b), in accordance with the procedures established by the Committee for such purpose. Upon such exercise, the participant shall be entitled to receive an amount determined in the manner prescribed in Section 6(b).

(b) *Terms and Conditions.* Stock Appreciation Rights granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable:

(1) Tandem SARs shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6, and Stock Appreciation Rights granted separately ("Freestanding SARs") shall be exercisable as the Committee shall determine; provided, however, that any Stock Appreciation Right granted to a Section 16 participant shall not be exercisable at any time prior to six months and one day from the date of the grant of such Stock Appreciation Right, except that this limitation shall not apply in the event of the death of the participant prior to the expiration of the six-month and one-day period.

(2) Upon the exercise of a Stock Appreciation Right, a participant shall be entitled to receive an amount in cash or shares of Stock, as determined by the Committee, equal in value to the excess of the Fair Market Value of one share of Stock on the date of exercise of the Stock Appreciation Right over (i) the option price per share specified in the related Stock Option in the case of Tandem SARs, which price shall be fixed no later than the date of grant of the Tandem SARs, or (ii) the price per share specified in the related Stock Appreciation Rights Agreement in the case of Freestanding SARs, which price shall be fixed at the date of grant and shall be not less than fifty percent of the Fair Market Value of the Stock on the date of grant, multiplied by the number of shares of Stock in respect of which the Stock Appreciation Right shall have been exercised. The Committee, in its sole discretion, shall have the right to determine the form of payment (i.e. cash, Stock or any combination thereof) and to approve any election by the participant to receive cash, in whole or in part, upon exercise of the Stock Appreciation Right. When payment is to be made in Stock, the number of shares of Stock to be paid shall be calculated on the basis of the Fair Market Value of the Stock on the date of exercise. Notwithstanding the foregoing, the Committee may unilaterally limit the appreciation in value of any Stock Appreciation Right at any time prior to exercise.

(3) Upon the exercise of a Tandem SAR, the Stock Option or part thereof to which such Tandem SAR is related shall be deemed to have been exercised.

(4) In its sole discretion, the Committee may grant "Limited" Stock Appreciation Rights under this Section 6; that is, Freestanding SARs that become exercisable only in the event of a Change in Control or a Potential Change in Control, subject to such terms and conditions as the Committee may specify at grant. Such Limited Stock Appreciation Rights shall be settled solely in cash.

(5) Stock Appreciation Rights shall not be transferable by the participant other than by will or by the laws of descent and distribution, and all Stock Appreciation Rights shall be exercisable, during the participant's lifetime, only by the participant or, subject to Section 6(b)(6), by the participant's authorized legal representative if the participant is unable to exercise a Stock Appreciation Right as a result of the participant's Disability.

(6) Unless varied by the Committee, Stock Appreciation Rights shall be subject to the terms and conditions specified for Stock Options in Sections 5(b)(6), (7) and (8) and 5(d), except that the terms and conditions applicable to any Stock Appreciation Right held by a Section 16 participant shall not be varied in a manner that would cause the exercise or cancellation of such Stock Appreciation Right to fail to qualify for any applicable exemption from Section 16(b) of the Exchange Act provided by Rule 16b-3 thereunder.

SECTION 7. Restricted Stock.

(a) *Grant.* Shares of Restricted Stock may be issued alone, in addition to or in tandem with other Awards under the Plan or cash awards made outside of the Plan. The Committee shall determine the individuals to whom, and the time or times at which, grants of Restricted Stock will be made, the number of shares of Restricted Stock to be awarded to each participant, the price (if any) to be paid by the participant (subject to Section 7(b)), the date or dates upon which Restricted Stock Awards will vest and the period or periods within which such Restricted Stock Awards may be subject to forfeiture, and the other terms and conditions of such Awards in addition to those set forth in Section 7(b).

The Committee may condition the grant of Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee may determine in its sole discretion.

(b) *Terms and Conditions.* Restricted Stock awarded under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable. A participant who receives a Restricted Stock Award shall not have any rights with respect to such Award, unless and until such participant has executed an agreement evidencing the Award in the form approved from time to time by the Committee and has delivered a fully executed copy thereof to the Company, and has otherwise complied with the applicable terms and conditions of such Award.

(1) The purchase price for shares of Restricted Stock shall be determined by the Committee at the time of grant and may be equal to their par value or zero.

(2) Awards of Restricted Stock must be accepted by executing a Restricted Stock Award agreement and paying whatever price (if any) is required under Section 7(b)(1).

(3) Each participant receiving a Restricted Stock Award shall be issued a stock certificate in respect of such shares of Restricted Stock. Such certificate shall be registered in the name of such participant, and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award.

(4) The Committee shall require that the stock certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Stock Award, the participant shall have delivered to the Company a stock power, endorsed in blank, relating to the Stock covered by such Award.

(5) Subject to the provisions of this Plan and the Restricted Stock Award agreement, during a period set by the Committee commencing with the date of such Award (the “Restriction Period”), the participant shall not be permitted to sell, transfer, pledge, assign or otherwise encumber the shares of Restricted Stock awarded under the Plan. The Restriction Period shall not be less than six months and one day in duration (“Minimum Restriction Period”). Subject to these limitations and the Minimum Restriction Period requirement, the Committee, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions, in whole or in part, based on service, performance or such other factors and criteria as the Committee may determine, in its sole discretion.

(6) Except as provided in this Section 7(b)(6), Section 7(b)(5) and Section 7(b)(7), the participant shall have, with respect to the shares of Restricted Stock awarded, all of the rights of a shareholder of the Company, including the right to vote the Stock, and the right to receive any dividends. The Committee, in its sole discretion, as determined at the time of award, may permit or require the

payment of cash dividends to be deferred and, if the Committee so determines, reinvested, subject to Section 14(f), in additional Restricted Stock to the extent shares are available under Section 3, or otherwise reinvested. Stock dividends issued with respect to Restricted Stock shall be treated as additional shares of Restricted Stock that are subject to the same restrictions and other terms and conditions that apply to the shares with respect to which such dividends are issued.

(7) No Restricted Stock shall be transferable by a participant otherwise than by will or by the laws of descent and distribution.

(8) If a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of death, any Restricted Stock held by such participant shall thereafter vest or any restriction lapse, to the extent such Restricted Stock would have become vested or no longer subject to restriction within one year from the time of death had the participant continued to fulfill all of the conditions of the Restricted Stock Award during such period (or on such accelerated basis as the Committee may determine at or after grant). The balance of the Restricted Stock shall be forfeited.

(9) If a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of Disability, any Restricted Stock held by such participant shall thereafter vest or any restriction lapse, to the extent such Restricted Stock would have become vested or no longer subject to restriction within one year from the time of termination had the participant continued to fulfill all of the conditions of the Restricted Stock Award during such period (or on such accelerated basis as the Committee may determine at or after grant), subject in all cases to the Minimum Restriction Period requirement. The balance of the Restricted Stock shall be forfeited.

(10) Unless otherwise determined by the Committee at or after the time of granting any Restricted Stock, if a participant's employment by the Company or any Subsidiary or Affiliate terminates for any reason other than death or Disability, the Restricted Stock held by such participant which is unvested or subject to restriction at the time of termination shall thereupon be forfeited.

(c) *Minimum Value Provisions.* In order to better ensure that award payments actually reflect the performance of the Company and service of the participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Restricted Stock Award, subject to such performance, future service, deferral and other terms and conditions as may be specified by the Committee.

SECTION 8. Deferred Stock.

(a) *Grant.* Deferred Stock may be awarded alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside of the Plan. The Committee shall determine the individuals to whom, and the time or times at which, Deferred Stock shall be awarded, the number of shares of Deferred Stock to be awarded to any participant, the duration of the period (the "Deferral Period") during which, and the conditions under which, receipt of the Stock will be deferred, and the other terms and conditions of the Award in addition to those set forth in Section 8(b).

The Committee may condition the grant of Deferred Stock upon the attainment of specified performance goals or such other factors as the Committee shall determine, in its sole discretion.

(b) *Terms and Conditions.* Deferred Stock Awards shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(1) The purchase price for shares of Deferred Stock shall be determined at the time of grant and may be equal to their par value or zero, as determined by the Committee. Subject to the provisions of the Plan and the Award agreement referred to in Section 8(b)(9), Deferred Stock Awards may not be sold, assigned, transferred, pledged or otherwise encumbered during the Deferral Period. At the expiration of the Deferral Period (or the Elective Deferral Period referred to in Section 8(b)(8), where applicable), share certificates shall be delivered to the participant, or his legal representative, for the shares covered by the Deferred Stock Award. The Deferral Period applicable to any Deferred Stock Award shall not be less than six months and one day ("Minimum Deferral Period").

(2) Unless otherwise determined by the Committee at grant, amounts equal to any dividends declared during the Deferral Period with respect to the number of shares covered by a Deferred Stock Award will be paid to the participant currently, or deferred and deemed to be reinvested in additional Deferred Stock, or otherwise reinvested, all as determined at or after the time of the Award by the Committee, in its sole discretion.

(3) No Deferred Stock shall be transferable by a participant otherwise than by will or by the laws of descent and distribution.

(4) If a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of death, any Deferred Stock held by such participant shall thereafter vest or any restriction lapse, to the extent such Deferred Stock would have become vested or no longer subject to restriction within one year from the time of death had the participant continued to fulfill all of the conditions of the Deferred Stock Award during such period (or on such accelerated basis as the Committee may determine at or after grant). The balance of the Deferred Stock shall be forfeited.

(5) If a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of Disability, any Deferred Stock held by such participant shall thereafter vest or any restriction lapse, to the extent such Deferred Stock would have become vested or no longer subject to restriction within one year from the time of termination had the participant continued to fulfill all of the conditions of the Deferred Stock Award during such period (or on such accelerated basis as the Committee may determine at or after grant), subject in all cases to the Minimum Deferral Period requirement. The balance of the Deferred Stock shall be forfeited.

(6) Unless otherwise determined by the Committee at or after the time of granting any Deferred Stock Award, if a participant's employment by the Company or any Subsidiary or Affiliate terminates for any reason other than death or Disability, all Deferred Stock held by such participant which is unvested or subject to restriction shall thereupon be forfeited.

(7) Based on service, performance or such other factors or criteria as the Committee may determine, the Committee may, at or after grant, accelerate the vesting of all or any part of any Deferred Stock Award or waive a portion of the Deferral Period for all or any part of such Award, subject in all cases to the Minimum Deferral Period requirement.

(8) A participant may elect to further defer receipt of a Deferred Stock Award (or an installment of an Award) for a specified period or until a specified event (the "Elective Deferral Period"), subject in each case to the Committee's approval and the terms of this Section 8 and such other terms as are determined by the Committee, all in its sole discretion. Subject to any exceptions approved by the Committee, such election must be made at least 12 months prior to completion of the Deferral Period for such Deferred Stock Award (or such installment).

(9) Each such Award shall be confirmed by, and subject to the terms of, a Deferred Stock Award agreement evidencing the Award in the form approved from time to time by the Committee.

(c) *Minimum Value Provisions.* In order to better ensure that award payments actually reflect the performance of the Company and service of the participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other Award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Deferred Stock Award, subject to such performance, future service, deferral and other terms and conditions as may be specified by the Committee.

SECTION 9. Stock Purchase Rights.

(a) *Grant.* Stock Purchase Rights may be granted alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside the Plan. The Committee shall determine the individuals to whom, and the time or times at which, grants of Stock Purchase Rights will be made, the number of shares of Stock which may be purchased pursuant to the Stock Purchase Rights, and the other terms and conditions of the Stock Purchase Rights in addition to those set forth in Section 9(b). The Stock subject to the Stock Purchase Rights may be purchased, as determined by the Committee at the time of grant:

(1) at the Fair Market Value of such Stock on the date of grant;

(2) at 50% of the Fair Market Value of such Stock on the date of grant;

(3) at an amount equal to the Book Value of such Stock on the date of grant; or

(4) at an amount equal to the par value of such Stock on the date of grant.

Subject to Section 9(b) hereof, the Committee may also impose such deferral, forfeiture or other terms and conditions as it shall determine, in its sole discretion, on such Stock Purchase Rights or the exercise thereof.

Each Stock Purchase Right Award shall be confirmed by, and be subject to the terms of, a Stock Purchase Rights Agreement which shall be in form approved by the Committee.

(b) *Terms and Conditions.* Stock Purchase Rights may contain such additional terms and conditions not inconsistent with the terms of the Plan as the Committee shall deem desirable, and shall generally be exercisable for such period as shall be determined by the Committee. However, Stock Purchase Rights granted to Section 16 participants shall not become exercisable earlier than six months and one day after the grant date. Stock Purchase Rights shall not be transferable by a participant other than by will or by the laws of descent and distribution.

SECTION 10. Other Stock-Based Awards.

(a) *Grant.* Other Awards of Stock and other Awards that are valued, in whole or in part, by reference to, or are otherwise based on, Stock, including, without limitation, performance shares, convertible preferred stock, convertible debentures, exchangeable securities and Stock Awards or options valued by reference to Book Value or subsidiary performance, may be granted alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside of the Plan.

At the time the Stock or Other Stock-Based Award is granted, the Committee shall determine the individuals to whom and the time or times at which such Stock or Other Stock-Based Awards shall be awarded, the number of shares of Stock to be used in computing an Award or which are to be awarded pursuant to such Awards, the consideration, if any, to be paid for such Stock or Other Stock-Based Awards, and all other terms and conditions of the Awards in addition to those set forth in Section 10(b).

The provisions of Other Stock-Based Awards need not be the same with respect to each participant.

(b) *Terms and Conditions.* Other Stock-Based Awards shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(1) Subject to the provisions of this Plan and the Award agreement referred to in Section 10(b)(5) below, Stock awarded or subject to Awards made under this Section 10 may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the Stock is issued, or, if later, the date on which any applicable restriction, performance, holding or deferral period or requirement is satisfied or lapses. All Stock or Other Stock Based Awards granted under this Section 10 shall be subject to a minimum holding period (including any applicable restriction, performance and/or deferral periods) of six months and one day (“Minimum Holding Period”).

(2) Subject to the provisions of this Plan and the Award agreement and unless otherwise determined by the Committee at the time of grant, the recipient of an Other Stock-Based Award shall be entitled to receive, currently or on a deferred basis, interest or dividends or interest or dividend equivalents with respect to the number of shares of Stock covered by the Award, as determined at the time of the Award by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional Stock or otherwise reinvested.

(3) Subject to the Minimum Holding Period, any Other Stock-Based Award and any Stock covered by any such Award shall vest or be forfeited to the extent, at the times and subject to the conditions, if any, provided in the Award agreement, as determined by the Committee, in its sole discretion.

(4) In the event of the participant's Disability or death, or in cases of special circumstances, the Committee may, in its sole discretion, waive, in whole or in part, any or all of the remaining limitations imposed hereunder or under any related Award agreement (if any) with respect to any part or all of any Award under this Section 10, provided that the Minimum Holding Period requirement may not be waived, except in case of a participant's death.

(5) Each Award shall be confirmed by, and subject to the terms of, an agreement or other instrument evidencing the Award in the form approved from time to time by the Committee, the Company and the participant.

(6) Stock (including securities convertible into Stock) issued on a bonus basis under this Section 10 shall be issued for no cash consideration. Stock (including securities convertible into Stock) purchased pursuant to a purchase right awarded under this Section 10 shall bear a price of at least 50% of the Fair Market Value of the Stock on the date of grant. The purchase price of such Stock, and of any Other Stock Based Award granted hereunder, or the formula by which such price is to be determined, shall be fixed by the Committee at the time of grant.

(7) In the event that any "derivative security", as defined in Rule 16a-1(c) (or any successor thereto) promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act, is awarded pursuant to this Section 10 to any Section 16 participant, such derivative security shall not be transferrable other than by will or by the laws of descent and distribution.

SECTION 11. Change In Control Provision.

(a) *Impact of Event.* In the event of: (1) a "Change in Control" as defined in Section 11(b) or (2) a "Potential Change in Control" as defined in Section 11(c), the following acceleration and valuation provisions shall apply:

(1) Any Stock Appreciation Rights and any Stock Options awarded under the Plan not previously exercisable and vested shall become fully exercisable and vested;

(2) The restrictions and deferral limitations applicable to any Restricted Stock, Deferred Stock, Stock Purchase Rights and Other Stock-Based Awards shall lapse and such shares and awards shall be deemed fully vested; and

(3) The value of all outstanding Awards, in each case to the extent vested, shall, unless otherwise determined by the Committee in its sole discretion at or after grant but prior to any Change in Control or Potential Change in Control, be cashed out on the basis of the "Change in Control Price" as defined in Section 11(d) as of the date such Change in Control or such Potential Change in Control is determined to have occurred;

provided, however, that the provisions of Sections 11(a)(1)-(3) shall not apply with respect to Awards granted to any Section 16 participant which have been held by such participant for less than six months and one day as of the date that such Change in Control or Potential Change in Control is determined to have occurred.

(b) *Definition of Change in Control.* For purposes of Section 11(a), a "Change in Control" means the happening of any of the following:

(1) When any "person" as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act, but excluding the Company and any Subsidiary and any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities; provided, however, that the terms "person" and "group" shall not include any "Excluded Director", and the term "Excluded Director" means any

director who, on the effective date of the Plan, is the beneficial owner of or has the right to acquire an amount of Stock equal to or greater than five percent of the number of shares of Stock outstanding on such effective date; and further provided that, unless otherwise determined by the Board or any committee thereof, the terms "person" and "group" shall not include any entity or group of entities which has acquired Stock of the Company in the ordinary course of business for investment purposes only and not with the purpose or effect of changing or influencing the control of the Company, or in connection with or as a participant in any transaction having such purpose or effect, ("Investment Intent"), as demonstrated by the filing by such entity or group of a statement on Schedule 13G (including amendments thereto) pursuant to Regulation 13D under the Exchange Act, as long as such entity or group continues to hold such Stock with an Investment Intent;

(2) When, during any period of 24 consecutive months during the existence of the Plan, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof; provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this Section 11(b)(2); or

(3) The occurrence of a transaction requiring shareholder approval for the acquisition of the Company by an entity other than the Company or a Subsidiary through purchase of assets, by merger or otherwise; provided, however, a change in control shall not be deemed to be a Change in Control for purposes of the Plan if the Board approves such change prior to either (i) the commencement of any of the events described in Section (b)(l), (2), or (3) or (c)(l) or (ii) the commencement by any person other than the Company of a tender offer for Stock.

(c) *Definition of Potential Change in Control.* For purposes of Section 11(a), a "Potential Change in Control" means the happening of any one of the following:

(1) The approval by shareholders of an agreement by the Company, the consummation of which would result in a Change in Control of the Company as defined in Section 11(b); or

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

(d) *Change in Control Price.* For purposes of this Section 11, "Change in Control Price" means the highest price per share paid in any transaction reported on the New York Stock Exchange Composite Index, or paid or offered in any bona fide transaction related to a Change in Control or Potential Change in Control of the Company, at any time during the 60-day period immediately preceding the occurrence of the Change in Control (or, where applicable, the occurrence of the Potential Change in Control event), in each case as determined by the Committee, except that, in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, such price shall be based only on transactions reported for the date on which the participant exercises such Stock Appreciation Rights or, where applicable, the date on which a cashout occurs under Section 11(a)(3).

SECTION 12. Amendments and Termination.

The Board may at any time, in its sole discretion, amend, alter or discontinue the Plan, but no such amendment, alteration or discontinuation shall be made which would impair the rights of a participant under an Award theretofore granted, without the participant's consent. The Company shall submit to the shareholders of the Company for their approval any amendments to the Plan which are required by Section 16 of the Exchange Act, or the rules and regulations thereunder, to be approved by the shareholders.

The Committee may at any time, in its sole discretion, amend the terms of any Award, but no such amendment shall be made which would impair the rights of a participant under an Award theretofore granted, without the participant's consent; nor shall any such amendment be made which would make the applicable exemptions provided by Rule 16b-3 under the Exchange Act unavailable to any Section 16 participant holding the Award without the participant's consent. The Committee may also substitute new Stock Options for previously granted Stock Options (on a one-for-one or other basis), including previously granted Stock Options having a higher option price.

Subject to the above provisions, the Board shall have all necessary authority to amend the Plan to take into account changes in applicable securities and tax laws and accounting rules, as well as other developments.

SECTION 13. Unfunded Status of Plan.

The Plan is intended to constitute an “unfunded” plan for incentive and deferred compensation. With respect to any payments not yet made to a participant by the Company, nothing contained herein shall give any such participant any rights that are greater than those of a general creditor of the Company.

SECTION 14. General Provisions.

(a) The Committee may require each participant acquiring Stock pursuant to an Award under the Plan to represent to and agree with the Company in writing that the participant is acquiring the Stock without a view to distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

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

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

(c) Neither the adoption of the Plan, nor its operation, nor any document describing, implementing or referring to the Plan, or any part thereof, shall confer upon any participant under the Plan any right to continue in the employ, or as a director, of the Company or any Subsidiary or Affiliate, or shall in any way affect the right and power of the Company or any Subsidiary or Affiliate to terminate the employment, or service as a director, of any participant under the Plan at any time with or without assigning a reason therefor, to the same extent as the Company or any Subsidiary or Affiliate might have done if the Plan had not been adopted.

(d) For purposes of this Plan, a transfer of a participant between the Company and its Subsidiaries and Affiliates shall not be deemed a termination of employment.

(e) No later than the date as of which an amount first becomes includable in the gross income of the participant for federal income tax purposes with respect to any Award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any federal, state or local taxes or other items of any kind required by law to be withheld with respect to such amount. Subject to the following sentence, unless otherwise determined by the Committee, withholding obligations may be settled with Stock, including unrestricted Stock previously owned by the participant or Stock that is part of the Award that gives rise to the withholding requirement. Notwithstanding the foregoing, any election by a Section 16 participant to settle such tax withholding obligation with Stock that is part of such Award shall be subject to approval by the Committee, in its sole discretion. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company and its Subsidiaries and Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(f) The actual or deemed reinvestment of dividends or dividend equivalents in additional Restricted Stock (or in Deferred Stock or other types of Awards) at the time of any dividend payment shall only be permissible if sufficient shares of Stock are available under Section 3 for such reinvestment (taking into account then outstanding Stock Options, Stock Purchase Rights and other Plan Awards).

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

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

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

SECTION 15. Shareholder Approval; Effective Date of Plan.

The Plan was adopted by the Board on February 10, 1995 and is subject to approval by the holders of the Company’s outstanding Stock, in accordance with applicable law. The Plan will become effective on the date of such approval.

SECTION 16. Term of Plan.

No Award shall be granted pursuant to the Plan on or after February 10, 2005, but Awards granted prior to such date may extend beyond that date.

Exhibit 10.12

OBJECTIVE-BASED
NON-QUALIFIED STOCK OPTION AGREEMENT

This Agreement (the "Agreement") is made as of the day of , 20 between The Progressive Corporation, an Ohio corporation (the "Company"), and <NAME> (the "Optionee"). The Company hereby grants Optionee an option (the "Option") to purchase <TOTAL SHARES> Common Shares, $1.00 par value (the "Common Shares"), of the Company for a per share purchase price of $ (the "Option Price"). The Option has been granted pursuant to The Progressive Corporation 1995 Incentive Plan (the "Plan") and shall include and be subject to all provisions of the Plan, which are hereby incorporated herein by reference, and shall be subject to the following provisions of this Agreement:

1. Term. The Option shall become exercisable as follows:

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

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

2. Method of Exercise. Subject to Section 1 above, the Option shall be exercisable from time to time after the Vesting Date by written notice (in form approved or furnished by the Company) to the Company which shall:

   (a) state that the Option is thereby being exercised, the number of Common Shares with respect to which the Option is being exercised, each person in whose name any certificates for the Common Shares should be registered and his or her address and social security number;

   (b) be signed by the person or persons entitled to exercise the Option and, if the Option is being exercised by anyone other than the Optionee, be accompanied by proof satisfactory to counsel for the Company of the right of such person or persons to exercise the Option under the Plan and all applicable laws and regulations; and

   (c) be accompanied by such representations, warranties and agreements, in form and substance satisfactory to counsel for the Company, with respect to the investment intent of such person or persons exercising the Option as the Company may request.

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

4. Transferability. The Option shall not be transferable by the Optionee other than by will or by the laws of descent and distribution. Subject to the following sentence, during the lifetime of the Optionee, the Option shall be exercisable (subject to any other applicable restrictions on exercise) only by the Optionee for his or her own account. Upon the death or disability of the Optionee, the Option shall be exercisable (subject to any other applicable restrictions on exercise) only by the Optionee's estate (acting through its fiduciary) or by the Optionee's duly authorized legal representative, during the period and to the extent authorized in the Plan.

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

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

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

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

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

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

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

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

(iii) if the Optionee dies after the date of his or her retirement and has not exercised the Option, in whole or in part, prior to his or her death, the Optionee's estate shall have the right to exercise the Option within one (1) year of the date of the Optionee's death as to (A) all Common Shares as to which the Option has not been exercised prior to the date of the Optionee's

death, if the Option has vested and is exercisable as of the date of the Optionee's death, or (B) if the Option has not vested prior to the date of the Optionee's death, the Common Shares, if any, as to which the Option would have become exercisable pursuant to Section 5(e)(ii) hereof at any time during the one (1) year period beginning on the date of the Optionee's death (or such other period as the Committee may specify);

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Taxes. The Optionee hereby agrees that he or she shall pay to the Company, in cash, any federal, state and local taxes or other items of any kind required by law to be withheld with respect to the Option granted to him or her hereunder. If the Optionee does not make such payment to the Company, the Company shall have the right to deduct from any payment of any kind otherwise due to the Optionee from the Company (or from any Subsidiary or Affiliate of the Company), any federal, state and local taxes or other items of any kind required by law to be withheld with respect to the Option, the exercise thereof or the Common Shares to be purchased by the Optionee under this Agreement. The Option shall not be treated as an incentive stock option under Section 422 or any successor Section thereto of the Internal Revenue Code of 1986, as amended.

8. Definitions. Unless otherwise defined in this Agreement, capitalized terms will have the same meanings given them in the Plan.

THE PROGRESSIVE CORPORATION

DATE OF GRANT: ___________________________

BY: ___________________________
Charles E. Jarrett, Secretary

ACCEPTANCE OF AGREEMENT

The Optionee hereby: (a) acknowledges receiving a copy of the Plan Description dated (the “Plan Description”) relating to the Plan, and represents that he or she is familiar with all of the material provisions of the Plan, as set forth in the Plan Description; (b) accepts this Agreement and the Option granted to him or her under this Agreement subject to all provisions of the Plan and this Agreement; and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee relating to the Plan, this Agreement or the Option granted hereunder.

Optionee: ___________________________

Date: ___________________________

Exhibit 10.35

THIRD AMENDMENT TO THE PROGRESSIVE CORPORATION
EXECUTIVE DEFERRED COMPENSATION PLAN
(2003 Amendment and Restatement)

WHEREAS, The Progressive Corporation Executive Deferred Compensation Plan is currently maintained pursuant to a 2003 Amendment and Restatement and the First and Second Amendments thereto ("Plan"); and

WHEREAS, it is deemed desirable to amend the Plan further;

NOW, THEREFORE, the Plan is hereby amended in the respects hereinafter set forth:

1. Effective March 17, 2005, Section 4.2 of the Plan is hereby amended and restated in its entirety to provide as follows:

   "4.2 Investment of Accounts.

   All credits to a Deferral Account of a Participant shall be deemed to be invested in such Investment Fund or Funds as the Participant shall elect from time to time in accordance with Article 5. The number of shares of Stock to be credited to a Participant's Account by virtue of a Participant's initial election to invest a portion of a Deferral in the Company Stock Fund shall be determined on the date of the Deferral in accordance with such procedures as the Committee shall establish, based on the weighted average price paid for all shares of Stock purchased by the Trustee and deposited in the Trust on that date pursuant to Article 6. Notwithstanding the preceding provisions of this Section 4.2, (i) all credits to a Deferral Account of a Participant relating to a deferred Restricted Stock Award granted prior to March 17, 2005, shall be deemed to be invested in the Company Stock Fund until six (6) months and one (1) day following the expiration of the restrictions applicable to such Award, unless otherwise determined by the Committee at or after the deferral of such Award, and, thereafter, the preceding provisions of this Section 4.2 shall apply, and (ii) all credits to a Deferral Account of a Participant relating to a deferred Restricted Stock Award granted on or after March 17, 2005, shall be deemed to be invested in the Company Stock Fund until the balance of such Deferral Account has been distributed or withdrawn in accordance with Article 3."

2. Effective March 17, 2005, the following is hereby added to the end of Section 5.4 of the Plan:

   "Notwithstanding the preceding provisions of this Section 5.4, each Deferral of a Restricted Stock Award granted on or after March 17, 2005 shall be deemed to be invested in the Company Stock Fund until the Deferral Account to which such Deferral has been credited has been distributed or withdrawn in accordance with Article 3 of this Plan."

3. Except as expressly provided in this Amendment, the terms and provisions of the Plan shall remain entirely unchanged and continue in full force and effect.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Amendment to be executed by its duly authorized representative effective as of the date set forth above.

THE PROGRESSIVE CORPORATION

By: /s/ Charles E. Jarrett
Title: Vice President & Secretary

Exhibit 10.36

**FOURTH AMENDMENT TO THE PROGRESSIVE CORPORATION
EXECUTIVE DEFERRED COMPENSATION PLAN
(2003 Amendment and Restatement)**

WHEREAS, The Progressive Corporation Executive Deferred Compensation Plan is currently maintained pursuant to a 2003 Amendment and Restatement and the First through Third Amendments thereto ("Plan"); and

WHEREAS, it is deemed desirable to amend the Plan further;

NOW, THEREFORE, the Plan is hereby amended in the respects hereinafter set forth:

1. Effective September 1, 2005, Section 3.4 of the Plan is hereby amended and restated in its entirety to provide as follows:

3.4 Form of Distribution.

Distributions of Deferrals of Restricted Stock Awards granted in 2005 and later years shall be made in Stock, with any fractional shares of Stock and any portion of such distribution that is derived from cash dividends on deferred Restricted Stock Awards to be made in cash. All other Plan distributions shall be made in cash.

2. Effective September 1, 2005, the last sentence in Article 3, Section 3.5 shall be deleted and replaced by the following provisions:

The provisions of Section 3.4 shall apply to all withdrawals under this Section 3.5.

3. Effective December 1, 2005, the following is hereby added to the Plan as new paragraph (k) of Section 2.2:

"(k) Notwithstanding the preceding provisions of this Section 2.2 or any other provisions of the Plan, each Eligible Executive who elected to defer any portion of a Gainsharing Award that became payable or will become payable in 2005 or 2006 or a Restricted Stock Award granted in 2005 may revoke such election. Such revocation shall be in writing on such forms as the Committee shall prescribe and must be received by the Committee on or before December 30, 2005.

4. Except as expressly provided in this Amendment, the terms and provisions of the Plan shall remain entirely unchanged and continue in full force and effect.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Amendment to be executed by its duly authorized representative effective as of the date set forth above.

THE PROGRESSIVE CORPORATION

By: /s/ Charles E. Jarrett
Title: Vice President

Exhibit 10.43

The Progressive Corporation
Executive Deferred Compensation Plan
Performance-Based Restricted Stock Deferral Agreement

THIS DEFERRAL AGREEMENT is entered into pursuant to the provisions of The Progressive Corporation Executive Deferred Compensation Plan ("Plan"). All capitalized terms in this Agreement shall have the meanings ascribed to them in the Plan.

1. Deferral Election. I hereby elect to defer receipt of all Performance-Based Restricted Stock Awards granted to me in 2006 under The Progressive Corporation 2003 Incentive Plan. This election shall become effective as of the date the restrictions applicable to such Awards (or portion thereof) expire and shall not apply to any Award (or portion thereof) that fails to vest free of all restrictions.

2. Method of Distribution. I hereby elect that any distribution of the balance of the Deferral Account established pursuant to this Agreement made on account of Termination of Employment be paid as follows: (Select one)

- Single Lump Sum Payment
- Three Annual Installments
- Five Annual Installments
- Ten Annual Installments

I understand that Plan distributions made for reasons other than Termination of Employment will be made in a single lump sum payment, unless the Plan provides otherwise. I understand that I may change the method of distribution elected above only if and to the extent permitted by the Plan.

3. Investment of Deferral Account. I understand that each amount credited to the Deferral Account established pursuant to this Agreement shall be deemed to be invested in The Company Stock Fund until the day it is distributed. I also understand that this deemed investment is merely a device used to determine the amount payable to me under the Plan and does not provide me with any actual rights or interests in any particular funds, securities or property of the Company, any Affiliated Company or the Trust or in any stock of The Progressive Corporation. I also understand that my right to receive distributions under the Plan makes me a general creditor of the Company with no greater right or priority than any other general creditor of the Company.

4. Miscellaneous. I understand that this Agreement is subject to the terms, conditions and limitations of the Plan, as in effect from time to time, in all respects and that, except as expressly permitted by the Plan, all elections made in this Agreement are irrevocable. I acknowledge that I have received, read and understand the Plan Description dated December, 2005 relating to the Plan. I agree to accept as final and binding all decisions and interpretations of the Committee relating to the Plan, the Trust and this Agreement.

ALSO, I UNDERSTAND THAT THE PLAN IS LIKELY TO BE AMMENDED IN SIGNIFICANT RESPECTS FOLLOWING MY EXECUTION OF THIS AGREEMENT. I AGREE TO BE BOUND BY ALL SUCH AMENDMENTS AND BY ANY CHANGES SUCH AMENDMENTS MAY REQUIRE IN THE TERMS AND CONDITIONS OF THIS AGREEMENT.

NAME OF ELIGIBLE EXECUTIVE:
EMPLOYEE ID:
DATE:

Your electronic submission of this Election Form will create a date/time stamp and serve as your signature.

Exhibit 10.48

The Progressive Corporation
Executive Deferred Compensation Plan
Time-Based Restricted Stock Deferral Agreement

THIS DEFERRAL AGREEMENT is entered into pursuant to the provisions of The Progressive Corporation Executive Deferred Compensation Plan ("Plan"). All capitalized terms in this Agreement shall have the meanings ascribed to them in the Plan.

1. Deferral Elections. I hereby elect to defer receipt of all Time-Based Restricted Stock Awards granted to me in 2006 under The Progressive Corporation 2003 Incentive Plan. This election shall become effective as of the date the restrictions applicable to such Awards (or portion thereof) expire and shall not apply to any Award (or portion thereof) that fails to vest free of all restrictions.

2. Fixed Deferral Period. (The Plan gives you the option of electing a Fixed Deferral Period. If you elect a Fixed Deferral Period, the balance of your Deferral Account established pursuant to this Agreement will be distributed to you within 30 days after the end of the Fixed Deferral Period, or, if earlier, the date you die or incur a Termination of Employment or the date a Change in Control occurs. If you do not elect a Fixed Deferral Period, your Account will be distributed within 30 days after the earlier of the date you die or incur a Termination of Employment or the date a Change in Control occurs.) However, for certain executives, distributions due to Termination of Employment will not be made until six months after the employment termination date.

Please select one of the following:

- **I wish to elect a Fixed Deferral Period.**
- **I do not wish to elect a Fixed Deferral Period.**

I elect a fixed Deferral Period ending on [   ]

(*Must be a date at least 3 years after the end of the calendar year in which the Restricted Stock Award becomes fully vested. For example, if a Time-Based Restricted Stock Award vests in three equal installments in 2009, 2010 and 2011, you must select a date at least 3 years after the end of the calendar year in which the last installment vests (in this case, no earlier then – 01/01/2015).

3. Method of Distribution. I hereby elect that any distribution of the balance of the Deferral Account established pursuant to this Agreement made on account of Termination of Employment or expiration of a Fixed Deferral Period be paid as follows: **(Select one)**

- **Single Lump Sum payment**
- **Three Annual Installments**
- **Five Annual Installments**
- **Ten Annual Installments**

I understand that Plan distributions made for reasons other than Termination of Employment or expiration of a Fixed Deferral Period will be made in a single lump sum payment, unless the Plan provides otherwise. I understand that I may change the method of distribution elected above only if and to the extent permitted by the Plan.

4. Investment of Deferral Account. I understand that each amount credited to the Deferral Account established pursuant to this Agreement shall be deemed to be invested in The Company Stock Fund until the day it is distributed. I also understand that this deemed investment is merely a device used to

determine the amount payable to me under the Plan and does not provide me with any actual rights or interests in any particular funds, securities or property of the Company, any Affiliated Company or the Trust or in any stock of The Progressive Corporation. I also understand that my right to receive distributions under the Plan makes me a general creditor of the Company with no greater right or priority than any other general creditor of the Company.

5. Miscellaneous. I understand that this Agreement is subject to the terms, conditions and limitations of the Plan, as in effect from time to time, in all respects and that, except as expressly permitted by the Plan, all elections made in this Agreement are irrevocable. I acknowledge that I have received, read and understand the Plan Description dated December, 2005 relating to the Plan. I agree to accept as final and binding all decisions and interpretations of the Committee relating to the Plan, the Trust and this Agreement.

ALSO, I UNDERSTAND THAT THE PLAN IS LIKELY TO BE AMENDED IN SIGNIFICANT RESPECTS FOLLOWING MY EXECUTION OF THIS AGREEMENT. I AGREE TO BE BOUND BY ALL SUCH AMENDMENTS AND BY ANY CHANGES SUCH AMENDMENTS MAY REQUIRE IN THE TERMS AND CONDITIONS OF THIS AGREEMENT.

NAME OF ELIGIBLE EXECUTIVE:
EMPLOYEE ID:
DATE:

Your electronic submission of this Election Form will create a date/time stamp and serve as your signature.

Exhibit 10.62

2006 and 2007 Board of Directors Compensation

Compensation Component	Amount
Board Retainer	$110,000
Audit Committee Chair Retainer	$ 65,000
Audit Committee Member Retainer	$ 45,000
Compensation Committee Chair Retainer	$ 45,000
Compensation Committee Member Retainer	$ 40,000
Investment Committee Chair Retainer	$ 45,000
Investment Committee Member Retainer	$ 40,000
Additional Committee Chair Retainer*	$ 15,000
Additional Committee Member Retainer*	$ 10,000
Chairman of the Board	$ 200,000

* Excludes Executive Committee.

Exhibit 10.64

2010 Board of Directors Compensation

Compensation Component	Amount
Audit Committee Chair	$215,000
Audit Committee Member	$ 200,000
Compensation Committee Chair	$ 200,000
Compensation Committee Member	$ 190,000
Investment & Capital Committee Chair	$ 200,000
Investment & Capital Committee Member	$ 190,000
Additional Committee Chair*	$ 20,000
Additional Committee Member*	$ 15,000
Chairman of the Board	$ 260,000

* Excludes Executive Committee.

Exhibit 10.65

THE PROGRESSIVE CORPORATION EXECUTIVE SEPARATION ALLOWANCE PLAN (2006 AMENDMENT AND RESTATEMENT)

WHEREAS, The Progressive Corporation Executive Separation Allowance Plan ("Plan") is currently maintained pursuant to a plan document effective November 1, 2001; and

WHEREAS, it is deemed desirable to amend and restate the Plan;

NOW THEREFORE, effective December 31, 2006, the Plan is hereby amended and restated as set forth below:

SECTION 1 – DEFINITIONS

1.1 "Affiliated Company" means any entity in which the Company owns, directly or indirectly, more than fifty percent (50%) of the stock or assets.

1.2 "Applicable Group Insurance Plan", as to each Eligible Employee, means any employee benefit plan (including, but not limited to, The Progressive Health, Life and Disability Benefits Plan) in which the Eligible Employee is eligible to participate and which provides medical, dental, vision, life or disability coverage, as such plan may be in effect from time to time.

1.3 "Cause" means (i) an Eligible Employee's violation of Progressive's Code of Business Conduct and Ethics, provided that such violation would entitle the Company to terminate the Eligible Employee's employment under the Company's customary Code of Business Conduct and Ethics enforcement procedures or (ii) an Eligible Employee's failure to meet written job objectives, provided that such failure would entitle the Company to terminate the Eligible Employee's employment under the Company's customary performance management procedures. However, notwithstanding the preceding provisions of this Section 1.3, following a Change in Control clause (ii) of the foregoing definition shall no longer apply.

1.4 "Change in Control " means a "Change in Control" as defined in The Progressive Corporation 2003 Incentive Plan, as that Plan may be amended from time to time.

1.5 "Code" means the Internal Revenue Code of 1986, as amended.

1.6 "Company" means The Progressive Corporation, an Ohio corporation, or its successors.

1.7 "Compensation" as to each Eligible Employee means his/her rate of base salary or other base wages immediately prior to his/her Separation Date. This term does not include overtime pay, shift differentials, other pay differentials, Gainsharing, bonuses, commissions, stock-based compensation, incentive compensation, separate pay adjustments or allowances or any other forms of remuneration.

1.8 " Eligible Employee" means a regular, non-temporary employee of a Participating Employer who is eligible to receive annual restricted stock or other annual stock-based awards under The Progressive Corporation 2003 Incentive Plan or any similar plan or whose annual compensation within the meaning of Section 401(a)(17) of the Code exceeds the maximum amount allowed under such Code Section. Notwithstanding anything in the Plan to the contrary, Eligible Employees shall not include (i) any person classified by a Participating Employer or any Affiliated Company as an independent contractor or as an employee of an entity other than a Participating Employer or Affiliated Company, (ii) any person whose terms and conditions of employment are governed by a collective bargaining agreement, (iii) any person who receives a one-time restricted stock award or other stock-based award, but who is not eligible to receive regular, annual restricted stock awards or other stock-based awards.

1.9 "Grade Level" shall mean the grade level assigned by Progressive to the position held by an Eligible Employee immediately prior to termination of employment or Job Change.

1.10 "Participating Employer" shall mean each corporation that was an Affiliated Company as of December 31, 2006, and each corporation that becomes an Affiliated Company after that date, unless such entity has elected to withdraw from participation in the Plan pursuant to Section 11.

1.11 “Job Change” means either (i) a decrease in the Total Pay Package of an Eligible Employee’s current job, (ii) a transfer of an Eligible Employee to another job having a lesser Total Pay Package, or (iii) the imposition of significantly different job duties, shift, work location or number of scheduled work hours.

1.12 “Plan” means The Progressive Corporation Executive Separation Allowance Plan (2006 Amendment and Restatement), as set forth herein and as the same may be amended from time to time.

1.13 “Progressive” includes the Company and any other entity which from time to time is an Affiliated Company.

1.14 “Separation Agreement and General Release” means an agreement and release substantially in the form attached hereto as Exhibit A.

1.15 “Separation Date” means the effective date of any Eligible Employee’s termination of employment or resignation due to a Job Change.

1.16 “Total Pay Package” means salary, regular hourly wages and variable pay targets (including, but not limited to, Gainsharing, other incentives and stock-based compensation).

1.17 “Years of Service” as to each Eligible Employee means the period of time beginning on his/her most recent date of hire by a Participating Employer and ending on his/her most recent Separation Date. However, Years of Service shall not include any time during which an Eligible Employee has received long-term disability benefits under the Applicable Group Insurance Plan.

SECTION 2 – ENTITLEMENT TO SEPARATION ALLOWANCE

2.1 An Eligible Employee shall be entitled to receive a separation allowance under this Plan if (i) Progressive terminates his/her employment for reasons other than resignation (including retirement), death, disability, leave of absence or discharge for Cause, and (ii) the Eligible Employee signs a Termination Agreement and General Release and delivers it to the Company within ninety (90) days after the Eligible Employee’s Separation Date.

2.2 In addition, if, following a Change in Control, an Eligible Employee receives notice of a Job Change, he/she shall be entitled to receive a separation allowance under this Plan if (i) the Eligible Employee notifies his or her manager of resignation from employment, and (ii) the Eligible Employee signs a Separation Agreement and General Release and delivers it to the Company within ninety (90) days after the Eligible Employee’s Separation Date.

2.3 Notwithstanding the preceding provisions of this Section 2, no Eligible Employee shall be entitled to receive a separation allowance if he/she is on a medical or other leave of absence, except for an Eligible Employee who, on his or her Separation Date, is on a qualifying leave pursuant to the Family and Medical Leave Act, the Uniformed Services Employment and Reemployment Rights Act, or any other local, state or federal law pursuant to which the Eligible Employee has a lawful right to a separation allowance upon termination of employment or resignation due to Job Change.

SECTION 3 – AMOUNT OF SEPARATION ALLOWANCE

3.1 The separation allowance payable to each Eligible Employee who is entitled to such allowance under Section 2 above shall be equal to the number of weeks of Compensation set forth in the table below, based on the Eligible Employee's Grade Level and Years of Service as of his/her Separation Date:

Eligible Employees at Grade Levels 47 through 52	26 weeks of Compensation plus 2 additional weeks of Compensation for each full Year of Service in excess of 13 Years of Service, not to exceed an aggregate of 52 weeks of Compensation
Eligible Employees at Grade Levels 53, 54 and 55	52 weeks of Compensation
The Company's Chief Executive Officer and Eligible Employees who (i) report directly to him/her and (ii) have no assigned Grade Level	156 weeks of Compensation

3.2 Each Eligible Employee's separation allowance shall be paid in a lump sum within thirty (30) days following the later of (i) the Eligible Employee's Separation Date, or (ii) the expiration of the revocation period referred to in the Eligible Employee's signed Separation Agreement and General Release.

3.3 Progressive shall withhold from each separation allowance all applicable federal, state, and local taxes, Social Security taxes and other deductions required by law, and any other amounts due Progressive for any reason.

3.4 Each Eligible Employee's separation allowance payable under this Plan shall be reduced by the amount of any state-mandated separation allowance or severance payments payable by Progressive to such Eligible Employee.

3.5 Notwithstanding anything herein to the contrary, no separation allowance payments shall be made under this Plan to any Eligible Employee more than twenty-four (24) months after his/her Separation Date.

3.6 Each separation allowance payable under this Plan to an Eligible Employee who is affected by a "plant closing" or "mass layoff" within the meaning of the Worker Adjustment and Retraining Notification Act (29 U.S.C. §§ 2101-2109) ("WARN") shall be reduced by the amount of salary or other wages paid by Progressive to such Eligible Employee in respect of the period ("WARN Period") commencing on the date he/she receives written notice pursuant to WARN that Progressive will be terminating his/her employment and ending on his/her Separation Date, but only to the extent that the Eligible Employee has not earned wages from Progressive during such WARN Period.

3.7 An Eligible Employee who receives a separation allowance under this Plan shall be obligated to repay a portion of that separation allowance if he/she is hired by a Participating Employer as a regular employee within a period of time following his/her Separation Date that does not exceed the number of weeks of Compensation used in computing his/her separation allowance under Section 3.1. The amount of the repayment shall equal the difference between (a) the total separation allowance paid to the Eligible Employee and (b) the total separation allowance paid to the Eligible Employee multiplied by a fraction, the numerator of which is the number of weeks, rounded to the nearest whole week, beginning on the Eligible Employee's Separation Date and ending on his/her rehire date, and the denominator of which is the total number of weeks of Compensation used in computing his/her separation allowance under Section 3.1. Repayment shall be made at such time and in such manner as shall be determined by the Participating Employer which hires the Eligible Employee, in such Participating Employer's sole discretion.

SECTION 4 – CONTINUED WELFARE BENEFITS

4.1 A terminated Eligible Employee may elect to continue his/her and his/her dependents' medical, dental and vision coverages, if any, under the Applicable Group Insurance Plan (to the extent he/she and his/her dependents were receiving such coverages immediately prior to his/her Separation Date) for the periods provided in the Applicable Group Insurance Plan and subject to the terms and conditions thereof. If a terminated Eligible Employee who is entitled to a separation allowance under the preceding provisions of this Plan elects to continue his/her and/or his/her dependents' medical, dental and/or vision coverages under the Applicable Group Insurance Plan, the Eligible Employee's Participating Employer will pay the cost of continuing such coverages for a period not to exceed the number of weeks of Compensation used in computing the amount of his/her separation allowance under Section 3.1 above, provided that the Eligible Employee makes payments to the Participating Employer at such times as the Participating Employer shall specify equal to the contributions the Eligible Employee would have had to make for those coverages for such period had he/she continued to receive those coverages as an active employee during such period, all as determined by the Participating Employer.

SECTION 5 – ELIGIBILITY UNDER OTHER PLANS AND AGREEMENTS

5.1 Except as provided in Section 5.2, this Plan shall entirely supersede and replace all policies, plans, agreements, understandings and arrangements adopted or entered into before December 31, 2006, regarding separation allowances, severance pay and/or similar compensation payable by Progressive to terminated Eligible Employees (other than with respect to any Eligible Employees who may have incurred Separation Dates prior to December 31, 2006).

5.2 Individual employment, termination, severance and other agreements that include provisions regarding separation allowances, severance pay and/or similar compensation following termination of employment and that are entered into in writing with an Eligible Employee shall supersede and replace this Plan, except as otherwise expressly provided by such agreements; however, no such agreement entered into on or after December 31, 2006, shall be effective or enforceable unless approved in writing by the Board of Directors of the Company, and nothing in this Plan shall be construed as ratifying or validating any such agreements that have not been so approved.

SECTION 6 – CLAIMS PROCEDURES

6.1 The Company shall establish reasonable procedures under which a claimant, or his/her duly authorized representative, may present a claim for benefits under this Plan.

6.2 Unless such claim is allowed in full by the Company, written notice of the denial shall be furnished to the claimant within ninety (90) days (which may be extended by a period not to exceed an additional ninety (90) days if special circumstances so require and written notice to the claimant is given prior to the expiration of the initial ninety (90) day period describing such circumstances and indicating the date by which the Company expects to render its determination) setting forth the following in a manner calculated to be understood by the claimant:

(i) The specific reason(s) for the denial;

(ii) Specific references(s) to any pertinent provision(s) of the Plan or rules promulgated pursuant thereto on which the denial is based;

(iii) A description of any additional information or material as may be necessary to perfect the claim, together with an explanation of why it is necessary;

(iv) A description of the Plan's claims review procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review; and

(v) An explanation of the steps to be taken if the claimant wishes to resubmit his/her claim for review.

6.3 Within a reasonable period of time after the denial of the claim, but in any event, not to be more than sixty (60) days thereafter, the claimant or his/her duly authorized representative may make written application to the Company for a review of such denial. The claimant or his/her representative, may, upon request and free of charge, review or receive copies of documents, records and other information relevant to the claimant's claim for benefits, and may submit written comments, documents, records and other information relating to the claim for benefits.

6.4 If an appeal is timely filed, the Company shall conduct a full and fair review of the claim and mail or deliver to the claimant its written decision within sixty (60) days after the claimant's request for review (which may be extended by a period not to exceed an additional sixty (60) days if special circumstances or a hearing so require and written notice is given to the claimant prior to the expiration of the initial sixty (60) day period describing such special circumstances and indicating the date by which the Company expects to render its determination). In conducting its review, the Company shall take into account all comments, documents, records and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Company's decision on review shall:

(i) Be written in a manner calculated to be understood by the claimant;

(ii) State the specific reason(s) for the decision;

(iii) Make specific reference to pertinent provision(s) of the Plan;

(iv) State that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits; and

(v) Include a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA.

6.5 If a period of time is extended, as permitted under Sections 6.2 and 6.4 above, due to a claimant's failure to submit information to decide a claim, the period for making the benefit determination on review shall be tolled from the date on which the notification of the extension is sent to the claimant until the date on which the claimant responds to the request for additional information.

SECTION 7 – AMENDMENT AND TERMINATION

7.1 The Company, by action of the Compensation Committee of its Board of Directors, may amend, modify or terminate the Plan in whole or in part at any time for any reason without the consent of any Affiliated Company or any employee or other person; provided, however, that, except for legally required amendments, modifications and terminations, no such amendment, modification or termination shall impair the rights of any Eligible Employee who incurs a Separation Date prior to the date the Company adopts such amendment or modification or approves such termination.

7.2 Notwithstanding the provisions of Section 7.1, upon the occurrence of a Change in Control, the Plan may not be amended, modified or terminated in a way that impairs or reduces any of the rights or benefits of any individual who was an Eligible Employee as of the date such Change in Control occurred until after the third anniversary of the date such Change in Control occurred.

SECTION 8 – RIGHTS OF SETOFF

8.1 Progressive shall have the unrestricted right and power to set off against, or recover out of, any payments owed an Eligible Employee or other person under this Plan, at the time such payments would have otherwise been payable under this Plan, any amounts owed to Progressive by such Eligible Employee or other person.

SECTION 9 – FUNDING

9.1 All payments pursuant to this Plan shall be made from Progressive's general funds and nothing contained herein shall be deemed to require Progressive to, and Progressive shall not, physically segregate any sums from its general funds, or create any trust or escrow account, or make any special deposit, in respect of any amounts payable hereunder.

SECTION 10 – ADMINISTRATION

10.1 The Company shall be the Administrator of this Plan and shall be the "named fiduciary" within the meaning of Section 402 of the Employee Retirement Income Security Act of 1974, as amended, and, except as specified elsewhere herein, shall exercise all rights and duties with respect hereto, including, without limitation, the right:

(i) to make and enforce such rules and regulations as are necessary or proper for the efficient administration of this Plan; and

(ii) to interpret and construe this Plan and to decide all disputes and other matters arising hereunder, including but not limited to the right to determine eligibility for benefits and resolve possible ambiguities, inconsistencies or omissions. All such rules, interpretations and decisions shall be applied in a uniform manner to all persons similarly situated.

Except as otherwise specifically provided herein, no action or decision taken in accordance with this Plan by the Company or Progressive shall be relied upon as a precedent for any similar action or decision under any circumstances.

SECTION 11 – PARTICIPATION IN THE PLAN BY AFFILIATED COMPANIES

11.1 Any Affiliated Company shall automatically become a Participating Employer in this Plan as of the date such Affiliated Company becomes an Affiliated Company, subject to the provisions of Sections 11.2 and 11.3.

11.2 Each Participating Employer, as a condition of continued participation in this Plan, delegates to the Company the sole power and authority to operate the Plan, including the power and authority to amend or terminate the Plan.

11.3 Each Participating Employer may elect separately to withdraw from the Plan, but Plan amendments may be made only by the Company. Any such withdrawal shall be expressed in an instrument in writing executed by the withdrawing Participating Employer on order of its Board of Directors and filed with the Company.

SECTION 12 – EFFECTIVE DATE

12.1 This Plan shall be effective December 31, 2006, but only as to Eligible Employees who incur Separation Dates on or after such date.

IN WITNESS WHEREOF, the Company has hereunto caused this Amendment and Restatement to be executed by its duly authorized representative as of the   day of   , 2006.

THE PROGRESSIVE CORPORATION

BY: ______________________________
TITLE: ______________________________

EXHIBIT A

EXECUTIVE SEPARATION AGREEMENT AND GENERAL RELEASE

THIS AGREEMENT is entered into as of the day of , 20 between ("Executive") and ("Employer") pursuant to The Progressive Corporation Executive Separation Allowance Plan ("Plan").

WHEREAS, Executive's employment with Employer terminated (or will terminate) effective , 20 ; and

WHEREAS, Executive desires to receive certain separation allowance benefits under the Plan; and

WHEREAS, the Plan provides separation allowance benefits only to Executives who sign a Separation Agreement and General Release in the form specified in the Plan;

NOW, THEREFORE, Executive and Employer hereby agree as follows:

1. Employer shall pay Executive a separation allowance in the total gross amount of $ pursuant to Section 3 of the Plan, less applicable tax withholding, other legally required deductions and (except to the extent prohibited by law) amounts due Progressive for any reason. Such Separation Allowance shall be paid in a lump sum at the time specified in Section 3.2 of the Plan and subject to the limitations specified in the Plan.

2. [For Executives in Non-Final Pay States:] Employer shall pay Executive for all credited but unused Earned Time Benefit hours determined as of such Executive's Separation Date in accordance with Employer's standard practices within thirty (30) days following the expiration of the revocation period referred to at the end of this Agreement or at such earlier time as may be required by law.

   [For Executives in Final Pay States:] On or before Executive's Separation Date, Employer shall pay Executive for all accrued but unused Earned Time Benefit hours determined as of such Executive's Separation Date.

3. Executive shall be entitled to continue his/her and his/her dependents' medical, dental and vision coverages under The Progressive Health, Life and Disability Benefits Plan ("Group Insurance Plan") for the periods specified in the Group Insurance Plan, subject to the terms, conditions and limitations of the Group Insurance Plan. If Executive elects to continue any of such coverages, Employer shall pay the cost of continuing such coverages for a period not to exceed the number of weeks of Compensation used in computing the amount of the Executive's Separation Allowance under Section 1 above, provided that Executive makes payments to Employer at such times as Employer shall specify equal to the contributions the Executive would have had to make for those coverages for such period had he/she continued to receive those coverages as an active Executive during such period, all as determined by Employer. Executive also shall be entitled to the conversion privileges, if any, applicable to his/her life insurance and/or other coverages under the Group Insurance Plan.

4. If Executive is rehired by Progressive as a regular Executive within a period of time following his/her Separation Date that does not exceed the number of weeks of Compensation used in computing his/her separation allowance under Section 1 of this Agreement, Executive shall repay to Employer the amount specified in Section 3.7 of the Plan at the time and in the manner specified therein.

5. Executive agrees not to disparage or criticize Progressive, its business, its management or its products, and not to do or say anything that could disrupt Progressive's business or harm its interests or reputation.

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

7. Executive agrees that Executive will maintain the confidentiality of all Proprietary Information that Executive has received by virtue of Executive's employment with Progressive and will refrain from using such information for his/her own benefit or for the benefit of any other person or entity, and from disclosing such information to anyone other than to Progressive or its Executives, and then only after receiving explicit permission from Progressive to make such disclosure. For purposes of this Agreement, Proprietary Information includes all ideas, concepts, strategic plans, market analyses, business strategies, research and development projects, technologies and processes, rating and underwriting methods, formulae and information, training materials, agent or customer information, financial information and data, investment plans and other sensitive information and data relating to Progressive's business, as well as all other information that Progressive endeavors to keep confidential and that is not generally known by others with whom Progressive competes or does business, or with whom it plans to compete or do business, and any information which, if disclosed would assist in competition with Progressive, including, without limitation, customer lists, Executive lists, rate schedules underwriting information, the terms of contracts and policies, marketing plans, program design, trade secrets, and any such information provided by a third party to Progressive in confidence. Executive represents that upon Executive's separation, Executive will return to Progressive any records in Executive's possession containing Proprietary Information of Progressive or records that are the property of Progressive. Executive further agrees to honor Executive's obligations under the "Protecting Progressive Assets" policy set forth in Progressive's Code of Business Conduct and Ethics, including with respect to Proprietary Information and Inventions as defined therein.

8. If Executive fails to comply with or perform any of the provisions, covenants, obligations, terms or provisions of this Agreement or the Plan, or of any other agreement between Executive and Progressive that survives this Agreement, Employer's obligations hereunder shall terminate immediately.

9. In consideration of the above undertakings of Employer, Executive hereby releases Employer, Progressive and their respective affiliates, officers, directors, Executives, agents, successors and assigns (collectively, the "Released Entities"), from any and all

claims, liabilities, demands, actions, suits and causes of action, whether known or unknown, that Executive ever had or now has against any of the Released Entities, including but not limited to claims arising under the Age Discrimination in Employment Act, as amended, and other claims relating to Executive's employment with Progressive and the termination of that employment (collectively "Claims").

[If Executive is a California resident, include the following: Executive acknowledges that he/she has read and understands California Civil Code Section 1542, which reads as follows:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Executive hereby waives the provisions and protections of California Civil Code Section 1542 and agrees that the above release shall apply to all Claims that Executive ever had or now has against the Released Entities, regardless of whether Executive currently is aware of the Claims or suspects that they exist]

10. Executive agrees to cooperate fully with Employer in any litigation or other legal proceeding that may arise out of matters that were under Executive's responsibility or that were related to, or caused by, actions of the Executive.

11. All capitalized terms used in this Agreement shall have the meanings given to them in the Plan, unless otherwise required clearly by the context or defined specifically herein.

12. This Agreement, together with the Plan and the other documents referred to herein, constitutes the entire agreement of the parties, superseding all prior oral or written representations, agreements and understandings relating to the subject matter of this Agreement. Any modifications of this Agreement must be in a writing signed by both parties in order to be effective. Executive may not assign this Agreement or any of his/her rights or obligations hereunder without Employer's prior written consent. This Agreement is subject to the terms, provisions and limitations of the Plan in all respects.

13. Executive has read and understands all of the terms of this Agreement and Executive has been encouraged to consult with an attorney. Executive acknowledges that he/she has been given a period of at least forty-five (45) days to review this Agreement with an attorney and individuals of his/her own choosing and consider its effect, including Executive's release of rights. Executive signs this Agreement in exchange for the consideration to be given to him/her, which Executive acknowledges is adequate and satisfactory. Neither Progressive nor its agents, representatives or Executives have made any representations to Executive concerning the terms or effects of this Agreement other than those contained in this Agreement or the Plan.

14. IMPORTANT! YOU HAVE NINETY (90) DAYS AFTER YOUR TERMINATION DATE WITHIN WHICH TO SIGN THIS AGREEMENT AND RETURN IT TO EMPLOYER. IF YOU FAIL TO MEET THIS DEADLINE, YOU WILL NO LONGER BE ELIGIBLE FOR A SEPARATION ALLOWANCE. AFTER YOU HAVE SIGNED THIS AGREEMENT YOU HAVE SEVEN (7) DAYS WITHIN WHICH TO REVOKE IT FOR ANY REASON. YOU DO NOT NEED EMPLOYER'S CONSENT IN ORDER TO REVOKE THIS AGREEMENT, BUT YOU MUST GIVE NOTICE OF YOUR REVOCATION BY WRITING SENT TO EMPLOYER'S CHIEF LEGAL OFFICER AT 6300 WILSON MILLS ROAD, MAYFIELD VILLAGE, OHIO 44143 WITHIN THE SEVEN (7) DAY REVOCATION PERIOD. THIS AGREEMENT WILL NOT BE EFFECTIVE OR ENFORCEABLE UNTIL THE EXPIRATION OF THE SEVEN (7) DAY REVOCATION PERIOD.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date indicated above.

______________________________	
Witness	**Executive**
	By: ______________________________
	Title: ______________________________
______________________________	
Witness	**Employer**
	By: ______________________________
	Title: ______________________________

Exhibit 11

THE PROGRESSIVE CORPORATION
COMPUTATION OF EARNINGS PER SHARE
(millions - except per share amounts)

Years Ended December 31,	2010 Amount	2010 Per Share	2009 Amount	2009 Per Share	2008 Amount	2008 Per Share
Basic:						
Net income (loss)	$1,068.3	$1.62	$1,057.5	$1.59	$ (70.0)	$(.10)
Average shares outstanding	657.9		666.8		668.0	
Diluted:						
Net income (loss)[1]	$1,068.3	$1.61	$1,057.5	$1.57	$ (70.0)	$(.10)
Average shares outstanding	657.9		666.8		668.0	
Net effect of dilutive stock-based compensation	5.4		5.4		5.9	
Total	663.3		672.2		673.9	

[1] For 2008, amount represents basic earnings per share since diluted earnings per share was antidilutive due to the net loss for the year.

THE PROGRESSIVE CORPORATION
2010 ANNUAL REPORT TO SHAREHOLDERS

The Progressive Corporation and Subsidiaries
Consolidated Statements of Income
For the years ended December 31,

(millions — except per share amounts)	2010	2009	2008
Revenues			
Net premiums earned	$14,314.8	$14,012.8	$13,631.4
Investment income	520.1	507.0	637.7
Net realized gains (losses) on securities:			
Other-than-temporary impairment (OTTI) losses:			
Total OTTI losses	(19.1)	(80.9)	0
Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses	5.2	40.1	0
Net impairment losses recognized in earnings	(13.9)	(40.8)	0
Net realized gains (losses) on securities	110.0	67.9	(1,445.1)
Total net realized gains (losses) on securities	96.1	27.1	(1,445.1)
Service revenues	25.9	16.7	16.1
Net gain on extinguishment of debt	6.4	0	0
Total revenues	14,963.3	14,563.6	12,840.1
Expenses			
Losses and loss adjustment expenses	10,131.3	9,904.9	10,015.0
Policy acquisition costs	1,359.9	1,364.6	1,358.1
Other underwriting expenses	1,740.1	1,567.7	1,523.4
Investment expenses	11.9	11.1	8.8
Service expenses	21.4	19.4	20.4
Interest expense	133.5	139.0	136.7
Total expenses	13,398.1	13,006.7	13,062.4
Net Income (Loss)			
Income (loss) before income taxes	1,565.2	1,556.9	(222.3)
Provision (benefit) for income taxes	496.9	499.4	(152.3)
Net income (loss)	$ 1,068.3	$ 1,057.5	$ (70.0)
Computation of Earnings Per Share			
Basic:			
Average shares outstanding	657.9	666.8	668.0
Per share	$ 1.62	$ 1.59	$ (.10)
Diluted:			
Average shares outstanding	657.9	666.8	668.0
Net effect of dilutive stock-based compensation	5.4	5.4	5.9
Total equivalent shares	663.3	672.2	673.9
Per share[1]	$ 1.61	$ 1.57	$ (.10)

[1] For 2008, amount represents basic earnings per share since diluted earnings per share was antidilutive due to the net loss for the year.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Balance Sheets
December 31,

(millions)	2010	2009
Assets		
Investments — Available-for-sale, at fair value:		
Fixed maturities (amortized cost: $11,630.8 and $11,717.0)	$ 11,850.0	$ 11,563.4
Equity securities:		
Nonredeemable preferred stocks (cost: $601.3 and $665.4)	1,157.6	1,255.8
Common equities (cost: $1,021.7 and $598.4)	1,425.0	816.2
Short-term investments (amortized cost: $1,090.8 and $1,078.0)	1,090.8	1,078.0
Total investments	15,523.4	14,713.4
Cash	158.9	160.7
Accrued investment income	109.3	110.4
Premiums receivable, net of allowance for doubtful accounts of $114.9 and $116.4	2,738.4	2,454.8
Reinsurance recoverables, including $37.4 and $35.4 on paid losses and loss adjustment expenses	741.5	564.8
Prepaid reinsurance premiums	88.1	69.3
Deferred acquisition costs	417.2	402.2
Income taxes	189.0	416.7
Property and equipment, net of accumulated depreciation of $564.3 and $595.8	932.6	961.3
Other assets	251.9	195.7
Total assets	$21,150.3	$20,049.3
Liabilities and Shareholders' Equity		
Unearned premiums	$ 4,353.8	$ 4,172.9
Loss and loss adjustment expense reserves	7,071.0	6,653.0
Accounts payable, accrued expenses, and other liabilities [1]	1,718.4	1,297.6
Debt	1,958.2	2,177.2
Total liabilities	15,101.4	14,300.7
Common Shares, $1.00 par value (authorized 900.0; issued 797.7 and 797.8, including treasury shares of 135.3 and 125.2)	662.4	672.6
Paid-in capital	1,007.1	939.7
Retained earnings	3,595.7	3,683.1
Accumulated other comprehensive income (loss), net of tax:		
Net non-credit related OTTI losses, adjusted for valuation changes	(1.8)	(15.7)
Other net unrealized gains (losses) on securities	769.1	445.9
Total net unrealized gains (losses) on securities	767.3	430.2
Net unrealized gains on forecasted transactions	14.7	21.6
Foreign currency translation adjustment	1.7	1.4
Total accumulated other comprehensive income (loss)	783.7	453.2
Total shareholders' equity	6,048.9	5,748.6
Total liabilities and shareholders' equity	$21,150.3	$20,049.3

[1] See *Note 12 – Litigation* and *Note 13 – Commitments and Contingencies* for further discussion.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31,

(millions — except per share amounts)	2010		2009		2008	
Retained Earnings						
Balance, Beginning of year	$3,683.1		$2,697.8		$2,927.7	
Cumulative effect of change in accounting principle	0		189.6		0	
Net income (loss)	1,068.3	$1,068.3	1,057.5	$1,057.5	(70.0)	$ (70.0)
Cash dividends declared on common shares ($1.3987, $.1613, and $0 per share)	(924.8)		(108.5)		0	
Treasury shares purchased	(226.0)		(154.5)		(157.1)	
Other, net	(4.9)		1.2		(2.8)	
Balance, End of year	$3,595.7		$3,683.1		$2,697.8	
Accumulated Other Comprehensive Income (Loss), Net of Tax						
Balance, Beginning of year	$ 453.2		$ (51.9)		$ 492.8	
Cumulative effect of change in accounting principle	0		(189.6)		0	
Changes in:						
Net non-credit related OTTI losses, adjusted for valuation changes		13.9		(15.7)		0
Other unrealized gains (losses) on securities		323.2		712.3		(541.8)
Total net unrealized gains (losses) on securities		337.1		696.6		(541.8)
Net unrealized gains on forecasted transactions		(6.9)		(3.3)		(2.9)
Foreign currency translation adjustment		.3		1.4		0
Other comprehensive income (loss)	330.5	330.5	694.7	694.7	(544.7)	(544.7)
Balance, End of year	$ 783.7		$ 453.2		$ (51.9)	
Comprehensive Income (Loss)		$1,398.8		$1,752.2		$(614.7)
Common Shares, $1.00 Par Value						
Balance, Beginning of year	$ 672.6		$ 676.5		$ 680.2	
Stock options exercised	3.4		3.5		3.5	
Treasury shares purchased	(13.3)		(11.1)		(9.9)	
Restricted stock awards issued, net of forfeitures	(.3)		3.7		2.7	
Balance, End of year	$ 662.4		$ 672.6		$ 676.5	
Paid-In Capital						
Balance, Beginning of year	$ 939.7		$ 892.9		$ 834.8	
Stock options exercised	23.8		15.3		23.5	
Tax benefit from exercise/vesting of stock-based compensation	14.0		9.7		11.1	
Treasury shares purchased	(19.3)		(15.0)		(12.4)	
Restricted stock awards issued, net of forfeitures	.3		(3.7)		(2.7)	
Amortization of stock-based compensation	44.8		39.2		35.1	
Other	3.8		1.3		3.5	
Balance, End of year	$ 1,007.1		$ 939.7		$ 892.9	
Total Shareholders' Equity	$6,048.9		$5,748.6		$4,215.3	

There are 20.0 million Serial Preferred Shares authorized; no such shares are issued or outstanding.
There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31,

(millions)	2010	2009	2008
Cash Flows From Operating Activities			
Net income (loss)	$ 1,068.3	$ 1,057.5	$ (70.0)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	83.1	87.3	99.1
Amortization of fixed-income securities	229.2	230.8	249.6
Amortization of stock-based compensation	45.9	40.3	34.5
Net realized (gains) losses on securities	(96.1)	(27.1)	1,445.1
Net loss on disposition of property and equipment	2.3	13.3	1.6
Net gain on extinguishment of debt	(6.4)	0	0
Changes in:			
Premiums receivable	(283.6)	(46.2)	(13.5)
Reinsurance recoverables	(176.7)	(276.3)	46.6
Prepaid reinsurance premiums	(18.8)	(6.9)	7.4
Deferred acquisition costs	(15.0)	11.8	12.3
Income taxes	48.1	29.7	(423.8)
Unearned premiums	180.8	(3.0)	(34.5)
Loss and loss adjustment expense reserves	418.0	475.6	234.7
Accounts payable, accrued expenses, and other liabilities	210.2	(71.8)	(101.2)
Other, net	(10.0)	(28.2)	61.3
Net cash provided by operating activities	1,679.3	1,486.8	1,549.2
Cash Flows From Investing Activities			
Purchases:			
Fixed maturities	(4,491.7)	(10,046.3)	(7,593.9)
Equity securities	(511.4)	(624.2)	(598.3)
Short-term investments – auction rate securities	0	0	(631.5)
Sales:			
Fixed maturities	3,055.8	7,950.0	5,629.5
Equity securities	241.9	919.4	1,401.0
Short-term investments – auction rate securities	0	0	631.5
Maturities, paydowns, calls, and other:			
Fixed maturities	1,341.1	842.5	505.5
Equity securities	0	15.7	34.9
Net sales (purchases) of short-term investments – other	(11.5)	75.6	(771.0)
Net unsettled security transactions	(54.0)	(246.5)	177.2
Purchases of property and equipment	(64.7)	(66.6)	(98.5)
Sales of property and equipment	8.0	1.8	1.1
Net cash used in investing activities	(486.5)	(1,178.6)	(1,312.5)
Cash Flows From Financing Activities			
Proceeds from exercise of stock options	27.2	18.8	27.0
Tax benefit from exercise/vesting of stock-based compensation	14.0	9.7	11.1
Reacquisition of debt	(214.3)	0	0
Dividends paid to shareholders	(763.7)	0	(98.3)
Acquisition of treasury shares	(258.6)	(180.6)	(179.4)
Net cash used in financing activities	(1,195.4)	(152.1)	(239.6)
Effect of exchange rate changes on cash	.8	1.7	0
Increase (decrease) in cash	(1.8)	157.8	(2.9)
Cash, Beginning of year	160.7	2.9	5.8
Cash, End of year	$ 158.9	$ 160.7	$ 2.9

See notes to consolidated financial statements.

1. REPORTING AND ACCOUNTING POLICIES

Nature of Operations The Progressive Corporation, an insurance holding company formed in 1965, owned 54 subsidiaries and had 1 mutual insurance company affiliate as of December 31, 2010. Our insurance subsidiaries provide personal and commercial automobile insurance and other specialty property-casualty insurance and related services. Our Personal Lines segment writes insurance for personal autos and recreational vehicles through both an independent insurance agency channel and a direct channel. Our Commercial Auto segment writes primary liability and physical damage insurance for automobiles and trucks owned by small businesses through both the independent agency and direct channels. We operate our businesses throughout the United States; in December 2009, we began selling personal auto physical damage insurance via the Internet in Australia.

Basis of Consolidation and Reporting The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries, which are wholly owned, and a mutual company affiliate, for which we have a controlling financial interest, pursuant to accounting guidance adopted in 2010. All intercompany accounts and transactions are eliminated in consolidation.

Estimates We are required to make estimates and assumptions when preparing our financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (GAAP). As estimates develop into fact (e.g., losses are paid), results may, and will likely, differ from those estimates.

Investments Progressive's fixed-maturity securities, equity securities, and short-term investments are accounted for on an available-for-sale basis. See *Note 2 – Investments* for details regarding the composition of our investment portfolio.

Fixed-maturity securities include debt securities and redeemable preferred stocks, which may have fixed or variable principal payment schedules, may be held for indefinite periods of time, and may be used as a part of our asset/liability strategy or sold in response to changes in interest rates, anticipated prepayments, risk/reward characteristics, liquidity needs, or other economic factors. These securities are carried at fair value with the corresponding unrealized gains (losses), net of deferred income taxes, reported in accumulated other comprehensive income. Fair values are obtained from recognized pricing services or are quoted by market makers and dealers, with limited exceptions discussed in *Note 3 – Fair Value*.

Included in the fixed-maturity portfolio are asset-backed securities. The asset-backed securities are generally accounted for under the retrospective method. Under the current accounting guidance, the prospective method is used primarily for interest-only securities, non-investment-grade asset-backed securities, and certain asset-backed securities with sub-prime loan exposure or where there is a greater risk of non-performance and where it is possible the initial investment may not be substantially recovered. The retrospective method recalculates yield assumptions (based on changes in interest rates or cash flow expectations) historically to the inception of the investment holding period, and applies the required adjustment, if any, to the cost basis, with the offset recorded to investment income. The prospective method requires a calculation of future expected repayments and resets the yield to allow for future period adjustments; no current period impact to investment income or the security's cost is made based on the cash flow update. Prepayment assumptions are based on market expectations and are updated quarterly.

Equity securities include common stocks, nonredeemable preferred stocks, and other risk investments and are reported at quoted fair values. Changes in fair value of these securities, net of deferred income taxes, are reflected as unrealized gains (losses) in accumulated other comprehensive income. To the extent we hold any foreign equities or foreign currency hedges, any change in value due to exchange rate fluctuations would be limited by foreign currency hedges, if any, and would be recognized in income in the current period.

Short-term investments may include Eurodollar deposits, commercial paper, reverse repurchase transactions, and other securities expected to mature within one year. In addition, short-term investments can include auction rate securities (i.e., certain municipal bonds and preferred stocks). Due to the nature of auction rate securities, these securities are classified as short-term based upon their expected auction date (generally 7-49 days) rather than on their contractual maturity date

(which is greater than one year at original issuance). In the event that an auction fails, the security may need to be reclassified from short-term. Changes in fair value of these securities, net of deferred income taxes, are reflected as unrealized gains (losses) in accumulated other comprehensive income.

Trading securities are securities bought principally for the purpose of sale in the near term. To the extent we have trading securities, changes in fair value would be recognized in income in the current period. Derivative instruments, which may be used for trading purposes or classified as trading derivatives due to the characteristics of the transaction, are discussed below.

Derivative instruments may include futures, options, forward positions, foreign currency forwards, interest rate swap agreements, and credit default swaps and may be used in the portfolio for general investment purposes or to hedge the exposure to:

- Changes in fair value of an asset or liability (fair value hedge);
- Foreign currency of an investment in a foreign operation (foreign currency hedge); or
- Variable cash flows of a forecasted transaction (cash flow hedge).

To the extent we have derivatives held or issued for general investment purposes, these derivative instruments are recognized as either assets or liabilities and measured at fair value, with changes in fair value recognized in income as a component of net realized gains (losses) on securities during the period of change.

Derivatives designated as hedges are required to be evaluated on established criteria to determine the effectiveness of their correlation to, and ability to reduce the designated risk of, specific securities or transactions. Effectiveness is required to be reassessed regularly. Hedges that are deemed to be effective would be accounted for as follows:

- *Fair value hedge:* changes in fair value of the hedge, as well as the hedged item, would be recognized in income in the period of change while the hedge was in effect.
- *Foreign currency hedge:* changes in fair value of the hedge, as well as the hedged item, would be reflected as a change in translation adjustment as part of accumulated other comprehensive income. Gains and losses on the foreign currency hedge would offset the foreign exchange gains and losses on the foreign investment as they are recognized into income.
- *Cash flow hedge:* changes in fair value of the hedge would be reported as a component of accumulated other comprehensive income and subsequently amortized into earnings over the life of the hedged transaction.

If a hedge is deemed to become ineffective and discontinued, the following accounting treatment would be applied:

- *Fair value hedge:* the derivative instrument would continue to be adjusted through income, while the adjustment in the change in value of the hedged item would be reflected as a change in unrealized gains (losses) as part of accumulated other comprehensive income.
- *Foreign currency hedge:* changes in the value of the hedged item would continue to be reflected as a change in translation adjustment as part of accumulated other comprehensive income, but the derivative instrument would be adjusted through income for the current period.
- *Cash flow hedge:* changes in fair value of the derivative instrument would be reported in income for the current period.

For all derivative positions, net cash requirements are limited to changes in fair values, which may vary based upon changes in interest rates, currency exchange rates, and other factors. Exposure to credit risk is limited to the carrying value; collateral may be required to limit credit risk. We have elected not to offset fair value amounts that arise from derivative positions with the same counterparty under a master netting arrangement.

Investment securities are exposed to various risks such as interest rate, market, credit, and liquidity risk. Fair values of securities fluctuate based on the nature and magnitude of changing market conditions; significant changes in market conditions could materially affect the portfolio’s value in the near term. We regularly monitor our portfolio for price changes, which might indicate potential impairments, and perform detailed reviews of securities with unrealized losses based on predetermined guidelines. In such cases, changes in fair value are evaluated to determine the extent to which such

changes are attributable to (i) fundamental factors specific to the issuer, such as financial condition, business prospects, or other factors, (ii) market-related factors, such as interest rates or equity market declines, or (iii) credit-related losses, where the present value of cash flows expected to be collected are lower than the amortized cost basis of the security.

We analyze our debt securities to determine if we intend to sell, or if it is more likely than not that we will be required to sell, the security prior to recovery and, if so, we write down the security to its current fair value with the entire amount of the write-down recorded to earnings. To the extent that it is more likely than not that we will hold the debt security until recovery (which could be maturity), we determine if any of the decline in value is due to a credit loss (i.e., where the present value of cash flows expected to be collected is lower than the amortized cost basis of the security) and, if so, we recognize that portion of the impairment in the income statement, with the balance (i.e., non-credit related impairment) recognized as part of our net unrealized gains (losses) in accumulated other comprehensive income. When an equity security (common equity and nonredeemable preferred stock) in our investment portfolio has an unrealized loss in fair value that is deemed to be other-than-temporary, we reduce the book value of such security to its current fair value, recognizing the decline as a realized loss in the income statement. Any future changes in fair value, either increases or decreases, are reflected as changes in unrealized gains (losses) as part of accumulated other comprehensive income.

Realized gains (losses) on securities are computed based on the first-in first-out method and include write-downs on available-for-sale securities considered to have other-than-temporary declines in fair value (excluding non-credit related impairments), as well as holding period valuation changes on derivatives, trading securities, and hybrid instruments (securities with embedded call options, where the call option is a feature of the overall change in the value of the instrument).

Insurance Premiums and Receivables Insurance premiums written are earned into income on a pro rata basis over the period of risk, based on a daily earnings convention. Accordingly, unearned premiums represent the portion of premiums written that is applicable to the unexpired risk. We provide insurance and related services to individuals and small commercial accounts and offer a variety of payment plans. Generally, premiums are collected prior to providing risk coverage, minimizing our exposure to credit risk. We perform a policy level evaluation to determine the extent to which the premiums receivable balance exceeds the unearned premiums balance. We then age this exposure to establish an allowance for doubtful accounts based on prior experience.

Deferred Acquisition Costs Deferred acquisition costs include commissions, premium taxes, and other variable underwriting and direct sales costs incurred in connection with writing business. These costs are deferred and amortized over the policy period in which the related premiums are earned. We consider anticipated investment income in determining the recoverability of these costs. Management believes that these costs will be fully recoverable in the near term. We do not defer any advertising costs.

Loss and Loss Adjustment Expense Reserves Loss reserves represent the estimated liability on claims reported to us, plus reserves for losses incurred but not recorded (IBNR). These estimates are reported net of amounts estimated to be recoverable from salvage and subrogation. Loss adjustment expense reserves represent the estimated expenses required to settle these claims and losses. The methods of making estimates and establishing these reserves are reviewed regularly, and resulting adjustments are reflected in income currently. Such loss and loss adjustment expense reserves are susceptible to change in the near term.

Reinsurance Our reinsurance transactions primarily include premiums written under state-mandated involuntary plans for commercial vehicles (Commercial Auto Insurance Procedures/Plans – "CAIP") and premiums ceded to state-provided reinsurance facilities (e.g., Michigan Catastrophic Claims Association and North Carolina Reinsurance Facility) (collectively, "State Plans") (see *Note 7 – Reinsurance* for further discussion). We cede 100% of the premiums written in our professional liability insurance businesses as we continue our exit of these markets. Prepaid reinsurance premiums are earned on a pro rata basis over the period of risk, based on a daily earnings convention, which is consistent with premiums written.

Income Taxes The income tax provision is calculated under the balance sheet approach. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal items giving rise to such differences are investment securities (e.g., net unrealized gains (losses), write-downs, and derivative instruments), loss and loss adjustment expense reserves, unearned premiums reserves, deferred acquisition costs, property and equipment, and non-deductible accruals. We review our deferred tax assets regularly for recoverability. See *Note 5 – Income Taxes* for further discussion.

Property and Equipment Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is recognized over the estimated useful lives of the assets using accelerated methods for most computer equipment and the straight-line method for certain computer equipment and all other fixed assets. The useful lives range from 2 to 4 years for computer equipment and laptop computers, 10 to 40 years for buildings and improvements, and 3 to 10 years for all other property and equipment. Land and buildings comprised 76% and 77% of total property and equipment at December 31, 2010 and 2009, respectively.

Property and equipment include capitalized software developed or acquired for internal use. Total interest capitalized for the years ended December 31, was:

(millions)	Capitalized Interest
2010	$ 1.1
2009	2.6
2008	5.0

Guaranty Fund Assessments We are subject to state guaranty fund assessments, which provide for the payment of covered claims or other insurance obligations of insurance companies deemed insolvent. These assessments are accrued after a formal determination of insolvency has occurred, and we have written the premiums on which the assessments will be based.

Service Revenues and Expenses Our service businesses provide insurance-related services. Service revenues generated from processing business for involuntary CAIP plans are earned on a pro rata basis over the term of the related policies. Service expenses related to these CAIP plans include acquisition expenses, which are deferred and amortized over the period in which the related revenues are earned. Other service business revenues and expenses are recorded in the period in which they are earned or incurred.

Stock-Based Compensation We currently issue time-based and performance-based restricted stock unit awards to key members of management as our form of equity compensation, and time-based restricted stock awards to non-employee directors; prior to 2010, we issued restricted stock awards, instead of restricted stock unit awards, to employees. Collectively, we refer to these awards as “restricted equity awards.” We currently do not issue stock options as a form of equity compensation, although there are vested options still outstanding as of December 31, 2010. Compensation expense for time-based restricted equity awards with graded vesting is recognized over each respective vesting period. For performance-based restricted equity awards, compensation expense is recognized over the respective vesting periods.

We record an estimate for expected forfeitures of restricted equity awards based on our historical forfeiture rates. In addition, we shorten the vesting periods of certain restricted equity awards based on the “qualified retirement” provisions in our incentive compensation plans, under which (among other provisions) the vesting of 50% of outstanding time-based restricted equity awards will accelerate upon retirement if the participant is 55 years of age or older and satisfies certain years-of-service requirements.

The total compensation expense recognized for our stock-based compensation for the years ended December 31 was:

(millions)	2010	2009	2008
Pretax expense	$45.9	$40.3	$34.5
Tax benefit	16.1	14.1	12.1

Earnings Per Share Basic earnings per share is computed using the weighted average number of common shares outstanding, excluding both the time-based and performance-based unvested restricted stock awards that are subject to forfeiture. Diluted earnings per share include common stock equivalents assumed outstanding during the period. Our common stock equivalents include stock options and time-based restricted stock awards accounted for as equity awards. In periods during which we report a net loss, the calculated diluted earnings per share is antidilutive; therefore, basic earnings per share is reported.

Supplemental Cash Flow Information Cash includes only bank demand deposits. Non-cash activity includes declared but unpaid dividends. For the years ended December 31, we paid the following:

(millions)	2010	2009	2008
Income taxes, net of refunds	$434.0	$461.7	$258.0
Interest	138.4	144.7	144.7

New Accounting Standard During 2010, the Financial Accounting Standards Board issued an accounting standard update related to the accounting for the deferral of costs associated with the successful acquisition or renewal of insurance contracts. This standard is intended to help reduce diversity in practice and is effective for fiscal years beginning after December 15, 2011 (January 2012 for calendar-year companies). We are currently analyzing the impact this standard will have on our financial condition, cash flows, and results of operations, and anticipate that we will defer less acquisition costs under this standard.

Reclassifications Certain amounts in the Consolidated Financial Statements and Notes to Consolidated Financial Statements were reclassified for 2009 in order to conform to current-year presentation requirements.

2. INVESTMENTS

The following table presents the composition of our investment portfolio by major security type, consistent with our internal classification of how we manage, monitor, and measure the portfolio:

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)[1]	Fair Value	% of Total Fair Value
December 31, 2010						
Fixed maturities:						
U.S. government obligations	$ 3,203.2	$ 56.3	$ (16.9)	$ 0	$ 3,242.6	20.9%
State and local government obligations	1,955.5	43.0	(9.4)	0	1,989.1	12.8
Corporate debt securities	2,579.0	78.1	(13.3)	2.3	2,646.1	17.0
Residential mortgage-backed securities	567.1	17.8	(21.3)	0	563.6	3.6
Commercial mortgage-backed securities	1,772.1	66.9	(6.9)	0	1,832.1	11.8
Other asset-backed securities	1,063.9	12.4	(2.2)	(.1)	1,074.0	6.9
Redeemable preferred stocks	490.0	29.6	(17.1)	0	502.5	3.3
Other debt obligations	0	0	0	0	0	0
Total fixed maturities	11,630.8	304.1	(87.1)	2.2	11,850.0	76.3
Equity securities:						
Nonredeemable preferred stocks	601.3	560.2	0	(3.9)	1,157.6	7.5
Common equities	1,021.7	406.5	(3.2)	0	1,425.0	9.2
Short-term investments:						
Other short-term investments	1,090.8	0	0	0	1,090.8	7.0
Total portfolio[2,3]	$14,344.6	$1,270.8	$ (90.3)	$ (1.7)	$15,523.4	100.0%

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)[1]	Fair Value	% of Total Fair Value
December 31, 2009						
Fixed maturities:						
U.S. government obligations	$ 4,939.6	$ 6.4	$ (128.5)	$ 0	$ 4,817.5	32.8%
State and local government obligations	1,974.2	55.1	(5.3)	0	2,024.0	13.8
Corporate debt securities	1,244.9	43.4	(6.9)	0	1,281.4	8.7
Residential mortgage-backed securities	592.0	4.3	(79.9)	0	516.4	3.5
Commercial mortgage-backed securities	1,572.0	37.0	(18.9)	0	1,590.1	10.8
Other asset-backed securities	721.9	6.1	(1.8)	0	726.2	4.9
Redeemable preferred stocks	671.3	20.7	(85.3)	0	606.7	4.1
Other debt obligations	1.1	0	0	0	1.1	0
Total fixed maturities	11,717.0	173.0	(326.6)	0	11,563.4	78.6
Equity securities:						
Nonredeemable preferred stocks	665.4	597.6	0	(7.2)	1,255.8	8.5
Common equities	598.4	220.1	(2.3)	0	816.2	5.6
Short-term investments:						
Other short-term investments	1,078.0	0	0	0	1,078.0	7.3
Total portfolio[2,3]	$ 14,058.8	$ 990.7	$ (328.9)	$ (7.2)	$14,713.4	100.0%

[1] Represents net holding period gains (losses) on certain hybrid securities (discussed below).

[2] At December 31, 2010, we had $46.3 million of net unsettled security transactions offset in other assets, compared to $7.7 million offset in other liabilities at December 31, 2009.

[3] The total fair value of the portfolio includes $2.2 billion at December 31, 2010 and 2009, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

Our fixed-maturity securities include debt securities and redeemable preferred stocks. Common equities include common stocks and other equity-like investments (e.g., private equity investments and limited partnership interests in private equity and mezzanine funds). Other short-term investments include Eurodollar deposits, commercial paper, reverse repurchase transactions, and other investments which are expected to mature within one year. At December 31, 2010 and 2009, we had $0 and $0.9 million, respectively, in Treasury Bills issued by the Australian government, included in our other short-term investments.

Included in our fixed-maturity and equity securities are hybrid securities, which are reported at the following fair values at December 31:

(millions)	2010	2009
Fixed maturities:		
Corporate debt securities	$176.4	$ 0
Other asset-backed securities	14.9	0
Total fixed maturities	191.3	0
Equity securities:		
Nonredeemable preferred stocks	52.8	66.3
Total hybrid securities	$244.1	$66.3

As permitted under current accounting guidance, we elected to treat the change in valuation of these hybrid securities as a component of realized gains (losses), rather than separate the host contract and the derivative component based on the underlying structure of the instruments. Certain corporate debt securities are accounted for as hybrid securities since they were acquired at a substantial premium and contain a change of control put feature that permits the investor, at its sole option once the change of control is triggered, to put the security back to the issuer at a 1% premium to par. Due to this change of control put option and the substantial market premium paid, there is a potential that the election to put upon the occurrence of a change in control could result in the investment not returning substantially all of the original investment. The hybrid in the asset-backed portfolio was acquired at a deep discount to par due to a failing auction, and contains a put option (derivative feature) that allows the investor to put that security back to the auction at par. If the auction is restored, this embedded derivative has the potential to more than double our initial investment yield. The hybrid securities in our nonredeemable preferred stock portfolio are perpetual preferred stocks that have call features with fixed-rate coupons, whereby the change in value of the call features is a component of the overall change in value of the preferred stocks.

Our securities are reported at fair value, with the changes in fair value of these securities (other than hybrid securities and derivative instruments) reported as a component of accumulated other comprehensive income, net of deferred income taxes. The changes in fair value of the hybrid securities and derivative instruments are recorded as a component of net realized gains (losses) on securities.

At December 31, 2010, bonds and certificates of deposit in the principal amount of $137.2 million were on deposit to meet state insurance regulatory and/or rating agency requirements. We did not have any securities of any one issuer, excluding U.S. government obligations, with an aggregate cost or fair value exceeding 10% of total shareholders' equity at December 31, 2010 or 2009. At December 31, 2010, we did not have any debt securities that were non-income producing during the preceding 12 months.

Fixed Maturities The composition of fixed maturities by maturity at December 31, 2010 was:

(millions)	Cost	Fair Value
Less than one year	$ 1,546.6	$ 1,562.5
One to five years	7,704.9	7,895.3
Five to ten years	2,317.2	2,329.8
Ten years or greater	60.7	61.0
Total[1]	$11,629.4	$11,848.6

[1] Excludes $1.4 million of gains on the open credit default swap positions.

Asset-backed securities are classified in the maturity distribution table based upon their projected cash flows. All other securities which do not have a single maturity date are reported at expected average maturity. Contractual maturities may differ from expected maturities because the issuers of the securities may have the right to call or prepay obligations.

Gross Unrealized Losses As of December 31, 2010, we had $87.1 million of gross unrealized losses in our fixed-maturity securities and $3.2 million in our common equities. We currently do not intend to sell the fixed-income securities and determined that it is more likely than not that we will not be required to sell these securities for the period of time necessary to recover their cost bases. In addition, we may retain the common stocks to maintain correlation to the Russell 1000 Index, as long as the portfolio and index correlation remain similar. If our strategy was to change and these securities were determined to be other-than-temporarily impaired, we would recognize a write-down in accordance with our stated policy.

The following tables show the composition of gross unrealized losses by major security type and by the length of time that individual securities have been in a continuous unrealized loss position:

(millions)	Total Fair Value	Gross Unrealized Losses	Less than 12 Months		12 Months or Greater	
			Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2010						
Fixed maturities:						
U.S. government obligations	$ 495.3	$ (16.9)	$ 495.3	$ (16.9)	$ 0	$ 0
State and local government obligations	461.9	(9.4)	454.0	(8.7)	7.9	(.7)
Corporate debt securities	589.3	(13.3)	541.3	(11.6)	48.0	(1.7)
Residential mortgage-backed securities	314.1	(21.3)	74.0	(1.0)	240.1	(20.3)
Commercial mortgage-backed securities	332.0	(6.9)	269.7	(3.1)	62.3	(3.8)
Other asset-backed securities	214.8	(2.2)	209.8	(1.1)	5.0	(1.1)
Redeemable preferred stocks	216.7	(17.1)	0	0	216.7	(17.1)
Total fixed maturities	2,624.1	(87.1)	2,044.1	(42.4)	580.0	(44.7)
Equity securities:						
Common equities	60.5	(3.2)	57.3	(3.1)	3.2	(.1)
Total portfolio	$2,684.6	$ (90.3)	$ 2,101.4	$ (45.5)	$ 583.2	$ (44.8)

(millions)	Total Fair Value	Gross Unrealized Losses	Less than 12 Months		12 Months or Greater	
			Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2009						
Fixed maturities:						
U.S. government obligations	$ 4,595.3	$ (128.5)	$ 2,408.1	$ (6.4)	$ 2,187.2	$ (122.1)
State and local government obligations	448.6	(5.3)	41.3	(.2)	407.3	(5.1)
Corporate debt securities	344.2	(6.9)	264.6	(1.8)	79.6	(5.1)
Residential mortgage-backed securities	367.4	(79.9)	27.9	(2.5)	339.5	(77.4)
Commercial mortgage-backed securities	386.1	(18.9)	32.6	(.9)	353.5	(18.0)
Other asset-backed securities	81.6	(1.8)	71.6	(.3)	10.0	(1.5)
Redeemable preferred stocks	507.5	(85.3)	0	0	507.5	(85.3)
Total fixed maturities	6,730.7	(326.6)	2,846.1	(12.1)	3,884.6	(314.5)
Equity securities:						
Common equities	30.7	(2.3)	20.9	(1.7)	9.8	(.6)
Total portfolio	$ 6,761.4	$ (328.9)	$ 2,867.0	$ (13.8)	$ 3,894.4	$ (315.1)

Other-than-Temporary Impairment (OTTI) The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended December 31, 2010 and 2009, for which a portion of the OTTI losses were also recognized in accumulated other comprehensive income at the time the credit impairments were determined and recognized:

(millions)	Residential Mortgage-Backed	Commercial Mortgage-Backed	Corporate Debt	Total
Beginning balance at January 1, 2010	$ 41.1	$ .9	$ 6.5	$48.5
Credit losses for which an OTTI was previously recognized	3.0	.3	0	3.3
Credit losses for which an OTTI was not previously recognized	2.4	1.0	0	3.4
Change in recoveries of future cash flows expected to be collected [1]	(5.3)	(.4)	0	(5.7)
Reductions for previously recognized credit impairments written down to fair value [2]	(8.9)	(.8)	0	(9.7)
Ending balance at December 31, 2010	$ 32.3	$ 1.0	$ 6.5	$39.8

(millions)	Residential Mortgage-Backed	Commercial Mortgage-Backed	Corporate Debt	Total
Beginning balance at April 1, 2009 [3]	$ 24.2	$ 0	$ 6.5	$30.7
Credit losses for which an OTTI was previously recognized	1.4	0	0	1.4
Credit losses for which an OTTI was not previously recognized	15.5	.9	0	16.4
Change in recoveries of future cash flows expected to be collected [1]	0	0	0	0
Reductions for previously recognized credit impairments written down to fair value [2]	0	0	0	0
Ending balance at December 31, 2009	$ 41.1	$ .9	$ 6.5	$48.5

[1] Reflects expected recovery of prior period impairments that will be accreted into income over the remaining life of the security.

[2] Reflects reductions of prior credit impairments where the current credit impairment requires writing securities down to fair value (i.e., no remaining non-credit loss).

[3] Reflects the period since adoption of the new accounting standards, which took effect beginning in the second quarter 2009.

Since we determined that it is more likely than not that we will not be required to sell the securities prior to the recovery (which could be maturity) of their respective cost bases, in order to measure the amount of credit losses on the securities that were determined to be other-than-temporarily impaired, we considered a number of factors and inputs related to the individual securities. The methodology and significant inputs used to measure the amount of credit losses in our asset-backed portfolio included: current performance indicators on the underlying assets (e.g., delinquency rates, foreclosure rates, and default rates), credit support (via current levels of subordination), and historical credit ratings. Updated cash flow expectations were also generated by our portfolio managers based upon these performance indicators. In order to determine the amount of credit loss, if any, the net present value of the cash flows expected (i.e., expected recovery value) was calculated using the current book yield for each security, and was compared to its current amortized value. In the event that the net present value was below the amortized value, a credit loss was deemed to exist, and the security was written down.

Net Realized Gains (Losses) The components of net realized gains (losses) for the years ended December 31, were:

(millions)	2010	2009	2008
Gross realized gains on security sales			
Fixed maturities:			
U.S. government obligations	$ 39.8	$ 103.1	$ 243.2
State and local government obligations	10.0	35.2	17.3
Corporate and other debt securities	30.9	20.5	5.5
Residential mortgage-backed securities	0	0	0
Commercial mortgage-backed securities	1.0	.8	0
Other asset-backed securities	.8	0	0
Redeemable preferred stocks	8.5	0	0
Total fixed maturities	91.0	159.6	266.0
Equity securities:			
Nonredeemable preferred stocks	83.6	32.6	11.6
Common equities	13.8	148.5	320.7
Subtotal gross realized gains on security sales	188.4	340.7	598.3
Gross realized losses on security sales			
Fixed maturities:			
U.S. government obligations	(12.9)	(2.1)	(.7)
State and local government obligations	0	(7.6)	0
Corporate and other debt securities	(.5)	(.5)	(13.1)
Residential mortgage-backed securities	0	(3.2)	0
Commercial mortgage-backed securities	0	(9.9)	(1.4)
Other asset-backed securities	0	(.7)	(.4)
Redeemable preferred stocks	(5.2)	0	(1.8)
Total fixed maturities	(18.6)	(24.0)	(17.4)
Equity securities:			
Nonredeemable preferred stocks	0	(57.3)	(541.8)
Common equities	(7.2)	(40.0)	(179.3)
Subtotal gross realized losses on security sales	(25.8)	(121.3)	(738.5)
Net realized gains (losses) on security sales			
Fixed maturities:			
U.S. government obligations	26.9	101.0	242.5
State and local government obligations	10.0	27.6	17.3
Corporate and other debt securities	30.4	20.0	(7.6)
Residential mortgage-backed securities	0	(3.2)	0
Commercial mortgage-backed securities	1.0	(9.1)	(1.4)
Other asset-backed securities	.8	(.7)	(.4)
Redeemable preferred stocks	3.3	0	(1.8)
Total fixed maturities	72.4	135.6	248.6
Equity securities:			
Nonredeemable preferred stocks	83.6	(24.7)	(530.2)
Common equities	6.6	108.5	141.4
Subtotal net realized gains (losses) on security sales	162.6	219.4	(140.2)
Other-than-temporary impairment losses			
Fixed maturities:			
Corporate and other debt securities	0	0	(69.0)
Residential mortgage-backed securities	(11.1)	(32.0)	(38.2)
Commercial mortgage-backed securities	(1.9)	(.9)	(.6)
Redeemable preferred stocks	0	(6.1)	(301.0)
Total fixed maturities	(13.0)	(39.0)	(408.8)
Equity securities:			
Nonredeemable preferred stocks	0	(158.8)	(941.3)
Common equities	(.5)	(10.3)	(43.0)
Subtotal other-than-temporary impairment losses	(13.5)	(208.1)	(1,393.1)
Net holding period gains (losses)			
Hybrid securities	5.5	14.5	(73.6)
Derivative instruments	(58.5)	1.3	161.8
Subtotal net holding period gains (losses)	(53.0)	15.8	88.2
Total net realized gains (losses) on securities	$ 96.1	$ 27.1	$ (1,445.1)

Gross realized gains and losses were the result of traditional investment sales transactions in our fixed-income portfolio, affected by movements in credit spreads and interest rates, rebalancing of our equity-indexed portfolio, tax management, and holding period valuation changes on hybrids and derivatives. Also included are write-downs for securities determined to be other-than-temporarily impaired in our fixed-maturity and/or equity portfolios.

Net Investment Income The components of net investment income for the years ended December 31, were:

(millions)	2010	2009	2008
Fixed maturities:			
U.S. government obligations	$ 80.8	$ 79.6	$ 54.1
State and local government obligations	65.4	91.9	126.5
Corporate debt securities	84.3	48.2	53.4
Residential mortgage-backed securities	21.7	33.4	47.1
Commercial mortgage-backed securities	99.1	90.7	102.1
Other asset-backed securities	21.8	9.7	6.9
Redeemable preferred stocks	45.5	47.5	47.0
Other debt obligations	0	.3	1.3
Total fixed maturities	418.6	401.3	438.4
Equity securities:			
Nonredeemable preferred stocks	70.6	89.7	144.5
Common equities	27.3	13.3	38.9
Short-term investments:			
Auction-rate municipal obligations	0	0	1.4
Other short-term investments	3.6	2.7	14.5
Investment income	520.1	507.0	637.7
Investment expenses	(11.9)	(11.1)	(8.8)
Net investment income	$508.2	$495.9	$628.9

Trading Securities At December 31, 2010 and 2009, we did not hold any trading securities and we did not have any net realized gains (losses) on trading securities for the years ended December 31, 2010, 2009, and 2008.

Derivative Instruments We have invested in the following derivative exposures at various times: interest rate swaps, asset-backed credit default swaps, U.S. corporate debt credit default swaps, cash flow hedges, and equity options.

For all derivative positions discussed below, realized holding period gains and losses are netted with any upfront cash that may be exchanged under the contract to determine if the net position should be classified either as an asset or liability. To be reported as a component of the available-for-sale portfolio, the inception-to-date realized gain on the derivative position at period end would have to exceed any upfront cash received (net derivative asset). On the other hand, a net derivative liability would include any inception-to-date realized loss plus the amount of upfront cash received (or netted, if upfront cash was paid) and would be reported as a component of other liabilities. These net derivative assets/liabilities are not separately disclosed on the balance sheet due to their immaterial effect on our financial condition, cash flows, and results of operations.

The following table shows the status of our derivative instruments at December 31, 2010 and 2009, and for the years ended December 31, 2010, 2009, and 2008; amounts are on a pretax basis:

(millions)					Balance Sheet			Income Statement		
	Notional Value[1]					Fair Value		Net Realized Gains (Losses) on Securities		
	December 31,					December 31,		Years ended December 31,		
Derivatives designated as:	2010	2009	2008	Purpose	Classification	2010	2009	2010	2009	2008
Hedging instruments										
Closed:										
Foreign currency cash flow hedge[2]	$ 0	$ 8	$ 8	Forecasted transaction	Accumulated other comprehensive income	$ 0	$ 0	$ 0	$ 0	$ 0
Ineffective cash flow hedge[3]	223	0	0	Manage interest rate risk	NA	0	0	5.8	0	0
Non-hedging instruments										
Assets:										
Interest rate swaps	0	713	1,800	Manage portfolio duration	Investments - fixed maturities	0	.1	0	.1	104.3
Corporate credit default swaps	35	0	0	Manage credit risk	Investments - fixed maturities	1.3	0	2.5	0	0
Liabilities:										
Interest rate swaps	713	0	0	Manage portfolio duration	Other liabilities	(41.7)	0	(66.6)	0	0
Corporate credit default swaps	0	25	25	Manage credit risk	Other liabilities	0	(.8)	0	(.6)	(.7)
Closed:										
Interest rate swaps	0	4,186	1,550	Manage portfolio duration	NA	0	0	0	10.4	57.1
Corporate credit default swaps	25	7	545	Manage credit risk	NA	0	0	(.2)	(.4)	20.8
Asset-backed credit default swaps	0	0	140	General portfolio investing	NA	0	0	0	0	(19.7)
Equity options[4] (177,190 contracts)	NA	NA	NA	Manage price risk	NA	0	0	0	(9.1)	0
Foreign currency trade[2]	0	8	0	Manage currency risk	NA	0	0	0	.9	0
Total	NA	NA	NA			$(40.4)	$(.7)	$ (58.5)	$ 1.3	$161.8

[1] The amounts represent the value held at year-end for open positions and the maximum amount held during the year for closed positions.

[2] During the fourth quarter 2009, we reclassified our cash flow hedge and closed the position; see *Cash Flow Hedges* below for further discussion.

[3] During the third quarter 2010, we reclassified to net realized gains (losses) on securities the portion of the unrealized gain on forecasted transactions that was related to the $222.9 million of our Debentures that were extinguished pursuant to our Tender Offer (see *Cash Flow Hedges* below for further discussion).

[4] Each contract is equivalent to 100 shares of common stock of the issuer; we had no option activity in 2010 or 2008.

NA = Not Applicable

CASH FLOW HEDGES
We had no cash flow hedges open during 2010. During the third quarter 2010, we finalized our tender offer for, and purchased $222.9 million principal amount of, our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 that were issued in 2007 (see *Note 4 – Debt* for further discussion). We reclassified $5.8 million (pretax) from accumulated other comprehensive income on the balance sheet to net realized gains (losses) on securities on the income statement, reflecting the portion of the unrealized gain on forecasted transactions that was related to the Debentures that were extinguished pursuant to the tender offer. In anticipation of issuing the Debentures in 2007, we entered into a forecasted debt issuance hedge against a possible rise in interest rates. Upon issuance of the Debentures, the hedge was closed, and we recognized a pretax gain of $34.4 million, which was recorded as part of accumulated other comprehensive income. The $34.4 million gain, less the $5.8 million reclassification mentioned above, was deferred and is being recognized as an adjustment to interest expense over the 10-year fixed interest rate term of the Debentures. During 2010, 2009, and 2008, we recognized $2.7 million, $2.8 million, and $2.6 million, respectively, as an adjustment to interest expense.

In the fourth quarter 2009, we realized a foreign currency trade gain of $0.9 million, reflecting the previously deferred gain on our foreign currency cash flow hedge, which was opened during 2008 and closed in the second quarter 2009.

INTEREST RATE SWAPS
During the years ended December 31, 2010, 2009, and 2008, we invested in interest rate swap positions primarily to manage the fixed-income portfolio duration. During the year ended December 31, 2010, we held a 9-year interest rate swap position where we are paying a fixed rate and receiving a variable rate that was opened during the fourth quarter 2009. The swap has generated a realized loss during 2010, as interest rates have fallen since the inception of this position. As of December 31, 2010 and 2009, we delivered $52.2 million and $0, respectively, in cash collateral to the counterparty on this position. As of December 31, 2008, we had received $79.6 million in cash collateral from the counterparties on our then open interest rate swap positions, which amounts were invested in short-term securities.

CORPORATE CREDIT DEFAULT SWAPS
During the years ended December 31, 2010, 2009, and 2008, we held a position, which was opened during the third quarter 2008, on one corporate issuer within the financial services sector where we bought credit default protection in the form of a credit default swap for a 5-year time horizon. We hold this protection to reduce our exposure to additional valuation declines on a preferred stock position of the same issuer. As of December 31, 2010, we received $0.5 million in cash collateral from the counterparty on this corporate credit default swap position. As of December 31, 2009 and 2008, we delivered $0.6 million and $0, respectively, in cash collateral to the counterparty on this corporate credit default swap position.

During the second quarter 2010, we sold credit protection in the form of a corporate credit default swap on one issuer in the automotive sector for a 5-year time horizon. We acquired an equal par value amount of U.S. Treasury Notes with a similar maturity to cover the credit default swap's notional exposure. As of December 31, 2010, we received $1.1 million in cash collateral from the counterparty on this position.

During the second quarter 2010, we opened two positions on one corporate issuer within the industrial sector for which we bought credit default protection in the form of credit default swaps for 2-year and 4-year time horizons. We closed both positions prior to the start of the fourth quarter 2010. We paid $0.2 million in upfront cash when we entered into the 4-year exposure position. We held this protection to reduce our exposure to additional valuation declines on a corporate position of the same issuer due to potential future credit impairment. We also held a position during the second quarter 2009, for which we bought credit default protection in the form of credit default swaps for a 2-year time horizon on one corporate issuer within the industrial sector. We paid $0.6 million in upfront cash when we entered this position; the position was closed during the third quarter 2009.

During the fourth quarter 2008, we closed positions where we bought credit default protection in the form of credit default swaps for 3-year and 5-year time horizons on debt issuances of nine different corporate issuers within the financial services sector that we opened during the third quarter 2008. We originally purchased the protection to reduce our overall financial sector exposure given the heightened risk in the financial markets at the time and our exposure to financial firms.

EQUITY OPTIONS
We held no equity option positions during the year ended December 31, 2010. During the year ended December 31, 2009, we opened and closed positions where we simultaneously sold and purchased a substantially equivalent amount of call and put options, respectively, on Citigroup common stock, which related to our preferred stock holding. The purpose of this transaction was to effect a forward sale of a portion of the common stock we expected to receive from Citigroup resulting from the conversion of our preferred stock holding into common stock pursuant to Citigroup's exchange that occurred during the third quarter 2009. This was achieved through matching the strike price and term of the option contracts and was meant to offset the downside price risk of the common stock during the time period pending the exchange. All of the common stock we received from the preferred stock conversion was sold by the end of the third quarter 2009. We had no equity option positions during the year ended December 31, 2008.

ASSET-BACKED CREDIT DEFAULT SWAPS
We held no asset-backed credit default swap positions during the years ended December 31, 2010 and 2009. During the fourth quarter 2008, we closed a position for which we sold credit protection in the form of a credit default swap comprised of a basket of 20 asset-backed bonds supported by sub-prime mortgage loans. We covered the credit default swap's notional exposure by acquiring U.S. Treasury Notes of equal maturity and principal amount and reducing our overall exposure with any upfront cash received.

3. FAIR VALUE

We have categorized our financial instruments, based on the degree of subjectivity inherent in the method by which they are valued, into a fair value hierarchy of three levels, as follows:

- *Level 1*: Inputs are unadjusted, quoted prices in active markets for identical instruments at the measurement date (e.g., U.S. government obligations and active exchange-traded equity securities).
- *Level 2*: Inputs (other than quoted prices included within Level 1) that are observable for the instrument either directly or indirectly (e.g., certain corporate and municipal bonds and certain preferred stocks). This includes: (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- *Level 3*: Inputs that are unobservable. Unobservable inputs reflect our subjective evaluation about the assumptions market participants would use in pricing the financial instrument (e.g., certain structured securities and privately held investments).

Pursuant to generally accepted accounting principles, which require us to evaluate whether a market is distressed or inactive in determining the fair value for our portfolio, we review certain market level inputs to evaluate whether sufficient activity, volume, and new issuances existed to create an active market. Based on this evaluation, we concluded that there was sufficient activity related to the sectors and securities for which we obtained valuations.

The composition of the investment portfolio by major security type was:

(millions)	Fair Value Level 1	Level 2	Level 3	Total	Cost
December 31, 2010					
Fixed maturities:					
U.S. government obligations	$3,242.6	$ 0	$ 0	$ 3,242.6	$ 3,203.2
State and local government obligations	0	1,989.1	0	1,989.1	1,955.5
Corporate debt securities	0	2,616.6	29.5	2,646.1	2,579.0
Other debt obligations	0	0	0	0	0
Subtotal	3,242.6	4,605.7	29.5	7,877.8	7,737.7
Asset-backed securities:					
Residential mortgage-backed	0	466.9	96.7	563.6	567.1
Commercial mortgage-backed	0	1,804.6	27.5	1,832.1	1,772.1
Other asset-backed	0	1,069.0	5.0	1,074.0	1,063.9
Subtotal asset-backed securities	0	3,340.5	129.2	3,469.7	3,403.1
Redeemable preferred stocks:					
Financials	23.4	172.4	0	195.8	183.8
Utilities	0	71.4	0	71.4	70.2
Industrials	0	235.3	0	235.3	236.0
Subtotal redeemable preferred stocks	23.4	479.1	0	502.5	490.0
Total fixed maturities	3,266.0	8,425.3	158.7	11,850.0	11,630.8
Equity securities:					
Nonredeemable preferred stocks:					
Financials	490.2	565.1	0	1,055.3	514.3
Utilities	0	67.9	0	67.9	50.8
Industrials	0	34.4	0	34.4	36.2
Subtotal nonredeemable preferred stocks	490.2	667.4	0	1,157.6	601.3
Common equities:					
Common stocks[1]	1,413.2	0	0	1,413.2	1,017.6
Other equity-like investments	0	0	11.8	11.8	4.1
Subtotal common equities	1,413.2	0	11.8	1,425.0	1,021.7
Total fixed maturities and equity securities	$ 5,169.4	$9,092.7	$ 170.5	14,432.6	13,253.8
Short-term investments:					
Other short-term investments[2]				1,090.8	1,090.8
Total portfolio				$ 15,523.4	$14,344.6
Debt[3]				$ 2,105.7	$ 1,958.2

(millions)	Fair Value Level 1	Level 2	Level 3	Total	Cost
December 31, 2009					
Fixed maturities:					
U.S. government obligations	$ 4,817.5	$ 0	$ 0	$ 4,817.5	$ 4,939.6
State and local government obligations	0	2,024.0	0	2,024.0	1,974.2
Corporate debt securities	0	1,253.2	28.2	1,281.4	1,244.9
Other debt obligations	0	0	1.1	1.1	1.1
Subtotal	4,817.5	3,277.2	29.3	8,124.0	8,159.8
Asset-backed securities:					
Residential mortgage-backed	0	470.3	46.1	516.4	592.0
Commercial mortgage-backed	0	1,568.5	21.6	1,590.1	1,572.0
Other asset-backed	0	718.4	7.8	726.2	721.9
Subtotal asset-backed securities	0	2,757.2	75.5	2,832.7	2,885.9
Redeemable preferred stocks:					
Financials	17.8	231.9	0	249.7	277.2
Utilities	0	66.9	0	66.9	69.4
Industrials	0	237.0	53.1	290.1	324.7
Subtotal redeemable preferred stocks	17.8	535.8	53.1	606.7	671.3
Total fixed maturities	4,835.3	6,570.2	157.9	11,563.4	11,717.0
Equity securities:					
Nonredeemable preferred stocks:					
Financials	604.2	534.2	0	1,138.4	561.6
Utilities	0	65.8	0	65.8	50.8
Industrials	0	51.6	0	51.6	53.0
Subtotal nonredeemable preferred stocks	604.2	651.6	0	1,255.8	665.4
Common equities:					
Common stocks[1]	803.3	0	0	803.3	593.2
Other equity-like investments	0	0	12.9	12.9	5.2
Subtotal common equities	803.3	0	12.9	816.2	598.4
Total fixed maturities and equity securities	$6,242.8	$7,221.8	$170.8	13,635.4	12,980.8
Short-term investments:					
Other short-term investments[2]				1,078.0	1,078.0
Total portfolio				$14,713.4	$ 14,058.8
Debt[3]				$ 2,154.2	$ 2,177.2

[1] Common stocks are managed externally to track the Russell 1000 Index. Therefore, a break-out by major sector type is not provided.

[2] Due to the underlying nature of these securities, cost approximates fair value.

[3] Debt is not subject to measurement at fair value in the Consolidated Balance Sheets. Therefore, it is not broken out by hierarchy level; fair values are obtained from external sources.

Our portfolio valuations classified as either Level 1 or Level 2 in the above tables are priced exclusively by external sources, including: pricing vendors, dealers/market makers, and exchange-quoted prices. We did not have any transfers between Level 1 and Level 2 for the periods presented.

With limited exceptions, our Level 3 securities are also priced externally; however, due to several factors (e.g., nature of the securities, level of activity, and lack of similar securities trading to obtain observable market level inputs), these valuations are more subjective in nature. Certain private equity investments and fixed-income investments included in the Level 3 category are valued using external pricing supplemented by internal review and analysis.

At December 31, 2010, vendor-quoted prices represented approximately 63% of our Level 1 classifications, compared to 77% at December 31, 2009. The securities quoted by vendors in Level 1 represent holdings in our U.S. Treasury Notes, which are frequently traded and the quotes are considered similar to exchange trade quotes. The balance of our Level 1 pricing comes from quotes obtained directly from trades made on an active exchange.

At December 31, 2010, vendor-quoted prices comprised 94% of our Level 2 classifications, compared to 92% at December 31, 2009. We reviewed independent documentation detailing the pricing techniques and methodologies used by these pricing vendors and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield, and structure that were recently transacted. We continue to monitor any changes or modifications to their processes. We reviewed each sector for transaction volumes and determined that sufficient activity and liquidity existed to provide a credible source for market level valuations, despite being below historical averages, for all periods presented.

Broker/dealer-quoted prices represented the balance of our Level 2 classifications. In these instances, we typically use broker/dealers because the security we hold is not widely held or frequently traded and thus is not serviced by the pricing vendors. We reviewed independent documentation detailing the pricing techniques and methodologies used by these broker/dealers and determined that they used similar pricing techniques as the external vendor pricing sources discussed above. The broker/dealers have back office pricing desks, separate from the day-to-day traders that buy and sell the securities. This process creates uniformity in pricing when they quote externally to their various customers. The broker/dealer valuations are most often quoted in terms of spreads to various indices, and the spreads are based off of recent transactions adjusted for movements since the last trade or based off of similar securities currently trading in the market. These quotes are not considered binding offers to transact. From time to time, we will obtain more than one broker/dealer quote for a security, and we will also obtain a broker/dealer quote for those securities priced by vendors as further evaluation of market price. We believe these additional steps help to ensure that we are reporting the most representative price and validates our pricing methodology.

To the extent the inputs used by external pricers are determined to not contain sufficient observable market information, we will reclassify the affected security valuations to Level 3. At December 31, 2010 and 2009, securities in our fixed-maturity portfolio listed as Level 3 were comprised substantially of securities that were either: (i) private placement deals, (ii) thinly held and/or traded securities, or (iii) non-investment-grade securities with little liquidity. Based on these factors, it was difficult to independently verify observable market inputs that were used to generate the external valuations we received. At December 31, 2010 and 2009, we had one private common equity security with a value of $10.2 million that was priced internally. Additionally, at December 31, 2010, we had two fixed-maturity securities with an aggregate value of $0.5 million that were priced internally, compared to one fixed-maturity security with a value of $0.3 million at December 31, 2009.

During each valuation period, we create internal estimations of portfolio valuation (performance returns), based on current market-related activity (i.e., interest rate and credit spread movements and other credit-related factors) within each major sector of our portfolio. We compare our internally generated portfolio results with those generated based on quotes we received externally and research material valuation differences.

Based on the criteria described above, we believe that the current level classifications are appropriate based on the valuation techniques used and that our fair values accurately reflect current market assumptions in the aggregate.

The following tables provide a summary of changes in fair value associated with Level 3 assets for the years ended December 31, 2010 and 2009:

(millions)	Level 3 Fair Value							
	Fair Value at Dec. 31, 2009	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain)/Loss	Change in Valuation	Net Transfers In (Out)[1]	Fair value at Dec. 31, 2010
Fixed maturities:								
Asset-backed securities:								
Residential mortgage-backed	$ 46.1	$ (20.9)	$ 55.6	$ 0	$ 0	$ 4.8	$ 11.1	$ 96.7
Commercial mortgage-backed	21.6	0	0	0	0	5.4	.5	27.5
Other asset-backed	7.8	(2.6)	0	0	0	(.2)	0	5.0
Total asset-backed securities	75.5	(23.5)	55.6	0	0	10.0	11.6	129.2
Corporate debt securities	28.2	0	0	0	0	1.3	0	29.5
Other debt obligations	1.1	0	0	0	0	(1.1)	0	0
Redeemable preferred stocks:								
Industrials	53.1	0	0	0	0	0	(53.1)	0
Total fixed maturities	157.9	(23.5)	55.6	0	0	10.2	(41.5)	158.7
Equity securities:								
Nonredeemable preferred stocks:								
Industrials	0	0	0	0	0	0	0	0
Common equities:								
Other equity-like investments	12.9	(2.1)	0	(.3)	.3	1.0	0	11.8
Total Level 3 securities	$ 170.8	$ (25.6)	$ 55.6	$ (.3)	$ .3	$ 11.2	$ (41.5)	$ 170.5

[1] The net $(41.5) million of transfers out of Level 3 included: a $12.1 million transfer into Level 3 and subsequently transferred out of Level 3 at $(15.1) million due to sufficient trade volume, a $(53.1) million transfer out of Level 3 due to the availability of vendor pricing on a redeemable preferred stock, and $14.6 million of transfers into Level 3 due to the lack of trade volume.

(millions)	Level 3 Fair Value							
	Fair Value at Dec. 31, 2008	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain)/Loss	Change in Valuation	Net Transfers In (Out)[1]	Fair value at Dec. 31, 2009
Fixed maturities:								
Asset-backed securities:								
Residential mortgage-backed	$ .3	$ (3.9)	$ 49.4	$ 0	$ 0	$ .3	$ 0	$ 46.1
Commercial mortgage-backed	26.4	(.8)	0	(23.3)	6.3	20.2	(7.2)	21.6
Other asset-backed	11.0	(3.5)	11.0	0	0	.3	(11.0)	7.8
Total asset-backed securities	37.7	(8.2)	60.4	(23.3)	6.3	20.8	(18.2)	75.5
Corporate debt securities	24.2	0	0	0	0	4.0	0	28.2
Other debt obligations	3.0	0	0	(1.1)	(1.8)	1.0	0	1.1
Redeemable preferred stocks:								
Industrials	44.7	0	0	0	0	8.4	0	53.1
Total fixed maturities	109.6	(8.2)	60.4	(24.4)	4.5	34.2	(18.2)	157.9
Equity securities:								
Nonredeemable preferred stocks:								
Industrials	112.3	(15.2)	0	(99.8)	(.6)	3.3	0	0
Common equities:								
Other equity-like investments	13.5	(.1)	0	0	0	(.5)	0	12.9
Total Level 3 securities	$ 235.4	$ (23.5)	$ 60.4	$(124.2)	$ 3.9	$ 37.0	$ (18.2)	$ 170.8

[1] Of the $(18.2) million of transfers out of Level 3, $(11.0) million was due to a privately placed other asset-backed security that was priced internally at acquisition. The security was transferred into the Level 2 category once pricing was provided by a vendor. The remaining $(7.2) million transferred out of Level 3 and placed into the Level 2 category reflects changes in the inputs used to measure fair value during the period.

4. DEBT

Debt at December 31 consisted of:

(millions)	2010 Carrying Value	2010 Fair Value	2009 Carrying Value	2009 Fair Value
6.375% Senior Notes due 2012 (issued: $350.0, December 2001)	$ 349.6	$ 369.3	$ 349.2	$ 375.1
7% Notes due 2013 (issued: $150.0, October 1993)	149.6	165.0	149.5	166.9
6 5/8% Senior Notes due 2029 (issued: $300.0, March 1999)	294.8	329.9	294.7	317.9
6.25% Senior Notes due 2032 (issued: $400.0, November 2002)	394.2	433.3	394.1	409.4
6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (issued: $1,000.0, June 2007; outstanding: $777.1)	770.0	808.2	989.7	884.9
Total	$1,958.2	$2,105.7	$2,177.2	$2,154.2

All of the outstanding debt was issued by The Progressive Corporation. Debt includes amounts we have borrowed and contributed to the capital of our insurance subsidiaries or used, or have available for use, for other business purposes. Fair values are obtained from external sources. There are no restrictive financial covenants or credit rating triggers on our debt.

Interest on all debt is payable semiannually at the stated rates. However, the 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (the "Debentures") will only bear interest at this fixed annual rate through, but excluding, June 15, 2017. Thereafter, the Debentures will bear interest at an annual rate equal to the three-month LIBOR plus 2.0175%, and the interest will be payable quarterly. In addition, subject to certain conditions, we have the right to defer the payment of interest on the Debentures for one or more periods not exceeding ten consecutive years each. During any such deferral period, among other conditions, interest would continue to accrue, including interest on the deferred interest, and we generally would not be able to declare or pay any dividends on, or repurchase any of, our common shares.

Except for the Debentures, all principal is due at the maturity stated in the table above. The Debentures will become due on June 15, 2037, the scheduled maturity date, but only to the extent that we have received sufficient net proceeds from the sale of certain qualifying capital securities. We must use our commercially reasonable efforts, subject to certain market disruption events, to sell enough qualifying capital securities to permit repayment of the Debentures in full on the scheduled maturity date or, if sufficient proceeds are not realized from the sale of such qualifying capital securities by such date, on each interest payment date thereafter. Any remaining outstanding principal will be due on June 15, 2067, the final maturity date.

The 7% Notes are noncallable. The 6.375% Senior Notes, the 6 5/8% Senior Notes, and the 6.25% Senior Notes (collectively, "Senior Notes") may be redeemed in whole or in part at any time, at our option, subject to a "make-whole" provision. The Debentures may be redeemed, in whole or in part, at any time: (a) prior to June 15, 2017, at a redemption price equal to the greater of (i) 100% of the principal amount of the Debentures being redeemed, or (ii) a "make-whole" amount, in each case plus any accrued and unpaid interest; or (b) on or after June 15, 2017, at a redemption price equal to 100% of the principal amount of the Debentures being redeemed, plus any accrued and unpaid interest.

In June 2010, we commenced an offer to purchase for cash (the "Tender Offer") up to $350 million in aggregate principal amount of our Debentures. The Tender Offer expired on July 8, 2010. We received valid tenders from holders of the Debentures in the aggregate principal amount of $222.9 million. All of the tendering holders validly tendered by the early tender date of June 23, 2010 and received consideration of $950 per $1,000 principal amount of the Debentures accepted for purchase, which included an early tender payment of $50 per $1,000 principal amount of Debentures accepted. We recognized a net gain on the debt extinguishment of $6.4 million, after deducting expenses and fees associated with the Tender Offer and related Consent Solicitation discussed below.

As a condition of the Tender Offer, we solicited consents (the "Consent Solicitation") from the holders of our 6.25% Senior Notes to terminate the Replacement Capital Covenant (the "RCC") relating to the 6.25% Senior Notes. The RCC was originally entered into by Progressive in June 2007 for the benefit of the holders of the 6.25% Senior Notes in connection with the issuance of the Debentures. Under the RCC, we agreed that we would not repay, redeem, defease, or purchase all or any part of the Debentures before June 15, 2047, unless Progressive was to obtain a specified portion of the funds used in the transaction through the sale of its common shares or certain other equity or equity-like securities. The RCC was

terminated on June 23, 2010, the expiration date of the Consent Solicitation, at which time we had received the consent of holders of a majority of the outstanding aggregate principal amount of the 6.25% Senior Notes. Those holders who validly delivered their consent by the expiration date received a consent fee of $5.00 for each $1,000 principal amount of their 6.25% Senior Notes.

Prior to issuance of the Senior Notes and Debentures, we entered into forecasted debt issuance hedges against possible rises in interest rates. Upon issuance of the applicable debt securities, the hedges were closed. At that time, we recognized, as part of accumulated other comprehensive income, unrealized gains (losses), on a pretax basis, of:

(millions)	Original Unrealized Gain (Loss)	Unamortized Balance at December 31, 2010
6.375% Senior Notes	$ 18.4	$ 2.6
6 5/8% Senior Notes	(4.2)	(3.7)
6.25% Senior Notes	5.1	4.5
Debentures	34.4	19.2

The gains (losses) on these hedges are deferred and are being recognized as adjustments to interest expense over the life of the related debt issuances for the Senior Notes, and over the 10-year fixed interest rate term for the Debentures. In July 2010, we reclassified $5.8 million (pretax) from accumulated other comprehensive income on the balance sheet to net realized gains (losses) on securities on the income statement, reflecting the portion of the unrealized gain on forecasted transactions that was related to the Debentures that were extinguished pursuant to the Tender Offer.

On December 31, 2010, we entered into an amendment to the 364-Day Secured Liquidity Credit Facility Agreement (“Credit Facility Agreement”) with PNC Bank, National Association (PNC), successor to National City Bank, which extended the expiration date of our outstanding credit facility agreement until December 31, 2011, unless earlier terminated pursuant to the terms of the agreement. Under this agreement, we may borrow up to $125 million, which may be increased to $150 million at our request but subject to PNC’s discretion. The purpose of the credit facility is to provide liquidity in the event of disruptions in our cash management operations, such as disruptions in the financial markets or related facilities that affect our ability to transfer or receive funds. We may borrow funds, on a revolving basis, either in the form of Eurodollar Loans or Base Rate Loans. Eurodollar Loans will bear interest at one-, two-, three-, or six-month LIBOR (as selected by us) plus 50 basis points for the selected period. Base Rate Loans will bear daily interest at the greater of (a) PNC’s prime rate for such day, (b) the federal funds effective rate for such day plus 1/2% per annum, or (c) one-month LIBOR plus 2% per annum. Any borrowings under this agreement will be secured by a lien on certain marketable securities held in our investment portfolio. Facility fees of $62,500 in 2010 and $12,500 in 2009 were paid as consideration for this revolving agreement. In addition, in January 2009, we deposited $125 million into an FDIC-insured deposit account (as part of the FDIC Temporary Liquidity Guarantee program) at PNC to provide us with additional cash availability in the event of such a disruption to our cash management operations; as of January 1, 2010, this deposit is no longer covered by FDIC insurance, and the deposit has been converted to an interest-bearing account. Our access to these funds is unrestricted. However, if we withdraw funds from this account for any reason other than in connection with a disruption in our cash management operations, the availability of borrowings under the PNC credit facility will be reduced on a dollar-for-dollar basis until such time as we replenish the funds to the deposit account. There are no rating triggers under the credit agreement. We had no borrowings under this arrangement in 2010 or 2009.

Aggregate principal payments on debt outstanding at December 31, 2010, are:

(millions) Year	Payments
2011	$ 0
2012	350.0
2013	150.0
2014	0
2015	0
Thereafter	1,477.1
Total	$1,977.1

5. INCOME TAXES

The components of our income tax provision (benefit) were as follows:

(millions)	2010	2009	2008
Current tax provision	$433.9	$ 491.0	$ 255.4
Deferred tax expense (benefit)	63.0	8.4	(407.7)
Total income tax provision (benefit)	$496.9	$499.4	$ (152.3)

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

($ in millions)	2010		2009		2008	
Income (loss) before income taxes	$1,565.2		$1,556.9		$(222.3)	
Tax at statutory rate	$ 547.8	35%	$ 544.9	35%	$ (77.8)	35%
Tax effect of:						
Exempt interest income	(19.4)	(1)	(26.7)	(2)	(38.7)	17
Dividends received deduction	(17.2)	(1)	(17.9)	(1)	(35.0)	16
Tax-deductible dividends	(13.0)	(1)	0	0	0	0
Other items, net	(1.3)	0	(.9)	0	(.8)	0
Total income tax provision (benefit)	$ 496.9	32%	$ 499.4	32%	$ (152.3)	68%

Deferred income taxes reflect the effect for financial statement reporting purposes of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 2010 and 2009, the components of the net deferred tax asset were as follows:

(millions)	2010	2009
Deferred tax assets:		
Unearned premiums reserve	$ 302.3	$ 290.5
Investment basis differences	286.3	345.4
Non-deductible accruals	158.9	158.5
Loss and loss adjustment expense reserves	120.4	118.9
Other	5.0	1.4
Deferred tax liabilities:		
Net unrealized gains on securities	(413.2)	(231.6)
Hedges on forecasted transactions	(7.9)	(11.6)
Deferred acquisition costs	(146.0)	(140.8)
Property and equipment	(105.4)	(97.9)
Prepaid expenses	(12.6)	(8.8)
Deferred gain on extinguishment of debt	(5.8)	0
Other	(3.8)	(4.0)
Net deferred tax asset	178.2	420.0
Net income taxes recoverable (payable)	10.8	(3.3)
Income taxes	$ 189.0	$ 416.7

The decrease in our net deferred tax asset during the year is primarily due to the net unrealized gains that occurred in the investment portfolio and sales of securities for which we had previously recorded other-than-temporary impairments. Although realization of the deferred tax asset is not assured, management believes that it is more likely than not that the deferred tax asset will be realized based on our expectation that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes.

We have been a participant in the Compliance Assurance Program (CAP) since 2007. Under CAP, the IRS begins its examination process for the tax year before the tax return is filed, by examining significant transactions and events as they occur. The goal of the CAP program is to expedite the exam process and to reduce the level of uncertainty regarding a taxpayer’s tax filing positions.

For the 2008 and 2009 tax years, the IRS has completed its examination and we have received partial acceptance letters for both years. One issue remains open for both years, relating to partial worthlessness deductions on certain debt instruments; we expect this issue to be resolved in 2011.

All federal income tax years prior to 2007 are closed. The IRS exam for 2007 has been completed and we consider this year to be effectively settled, although technically the statute of limitations remains open until three years from the return filing date.

We recognize interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. We have not recorded any unrecognized tax benefits, or any related interest and penalties, as of December 31, 2010 and 2009. The 2009 tax provision includes an interest benefit (net of tax) of $0.3 million related to the settlement of the 2004-2007 IRS exams.

6. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the loss and loss adjustment expense reserves is summarized as follows:

(millions)	2010	2009	2008
Balance at January 1	$ 6,653.0	$ 6,177.4	$ 5,942.7
Less reinsurance recoverables on unpaid losses	529.4	244.5	287.5
Net balance at January 1	6,123.6	5,932.9	5,655.2
Incurred related to:			
Current year	10,451.7	10,040.9	9,981.8
Prior years	(320.4)	(136.0)	33.2
Total incurred	10,131.3	9,904.9	10,015.0
Paid related to:			
Current year	6,841.0	6,542.2	6,700.4
Prior years	3,047.0	3,172.0	3,036.9
Total paid	9,888.0	9,714.2	9,737.3
Net balance at December 31	6,366.9	6,123.6	5,932.9
Plus reinsurance recoverables on unpaid losses	704.1	529.4	244.5
Balance at December 31	$ 7,071.0	$ 6,653.0	$ 6,177.4

As reflected in the table above, we experienced favorable reserve development in both 2010 and 2009, compared to total unfavorable development in 2008. Approximately 70% of the favorable development in 2010 was attributable to accident year 2009, while the balance was mostly due to claims from accident years 2007 and 2006. The favorable development in 2009 was primarily due to favorable development for accident year 2008 and accident years 2006 and prior. For 2008, the unfavorable development was heavily weighted towards claims from the 2006 accident year with favorable development for periods older than that.

In 2010, approximately 70% of the favorable reserve development was attributable to our Personal Lines business, with the balance in our Commercial Auto business. Our Agency and Direct channels contributed almost equal amounts of favorable development in our Personal Lines business. The development partially reflected favorable settlement of larger losses in both personal auto and Commercial Auto. During 2010, the reserves for our defense cost and containment expenses also developed favorably for accident year 2009, primarily reflecting fewer claims being litigated and a greater percentage of those cases being handled by our in-house counsel. Our incurred but not recorded reserves also developed favorably during the year due to lower severity and frequency of late emerging claims.

In 2009, approximately 90% of the favorable reserve development was attributable to our personal auto and Commercial Auto products, with each contributing nearly equal amounts; the balance was in our special lines products. The favorable development we experienced in our total Personal Lines business in 2009 was primarily related to lower than expected defense and cost containment costs, while the favorable development in our Commercial Auto business was primarily due to favorable settlements on larger losses.

The total prior year unfavorable reserve development in 2008 principally arose in our Commercial Auto business, while our Personal Lines business, in aggregate, experienced very little development, despite two states experiencing significant unfavorable development in our personal injury protection claims. The majority of the development in 2008 was driven by an

increase in the number of late reported Commercial Auto claims, as well as an increase in the estimated severity on those claims, in both the business auto and truck markets.

Because we are primarily an insurer of motor vehicles, we have limited exposure to environmental, asbestos, and general liability claims. We have established reserves for such exposures, in amounts that we believe to be adequate based on information currently known. These claims are not expected to have a material effect on our liquidity, financial condition, cash flows, or results of operations.

We write personal and commercial auto insurance in the coastal states, which could be exposed to hurricanes or other natural catastrophes. Although the occurrence of a major catastrophe could have a significant effect on our monthly or quarterly results, we believe that, based on historical performance, such an event would not be so material as to disrupt the overall normal operations of Progressive. We are unable to predict the frequency or severity of any such events that may occur in the near term or thereafter.

7. REINSURANCE

The effect of reinsurance on premiums written and earned for the years ended December 31 was as follows:

	2010		2009		2008	
(millions)	**Written**	**Earned**	**Written**	**Earned**	**Written**	**Earned**
Direct premiums	$ 14,700.0	$ 14,519.2	$ 14,196.3	$ 14,199.4	$ 13,775.6	$ 13,810.1
Ceded	(223.2)	(204.4)	(193.4)	(186.6)	(171.3)	(178.7)
Net premiums	$ 14,476.8	$ 14,314.8	$ 14,002.9	$ 14,012.8	$ 13,604.3	$ 13,631.4

Our ceded premiums are attributable to premiums written under state-mandated involuntary Commercial Auto Insurance Procedures/Plans, and premiums ceded to state-provided reinsurance facilities (together referred to as “State Plans”), and premiums ceded related to our non-auto programs.

Reinsurance contracts do not relieve us from our obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to Progressive. Since the majority of our reinsurance is through State Plans, our exposure to losses from their failure is minimal, since the plans are funded by mechanisms supported by the insurance companies in the state. We evaluate the financial condition of our other reinsurers and monitor concentrations of credit risk to minimize our exposure to significant losses from reinsurer insolvencies. The majority of the reinsurance on our non-auto programs relates to our professional liability insurance businesses, which were sold during 2010 and are currently in run-off.

At December 31, 2010, approximately 60% of the “prepaid reinsurance premiums” was comprised of State Plans, compared to about 50% at December 31, 2009. As of both December 31, 2010 and 2009, approximately 90% of the “reinsurance recoverables” was attributable to State Plans. The remainder of the “prepaid reinsurance premiums” and “reinsurance recoverables” was primarily related to non-auto programs.

Losses and loss adjustment expenses were net of reinsurance ceded of $312.7 million in 2010, $417.6 million in 2009, and $109.2 million in 2008. During 2009, we changed our loss reserving process regarding lifetime estimates for claims ceded to a state-provided reinsurance program, which increased both the amount of ceded loss reserves and the corresponding reinsurance recoverables on unpaid losses and, therefore, had no impact on our results of operations.

8. STATUTORY FINANCIAL INFORMATION

Consolidated statutory policyholders’ surplus was $5,073.0 million and $4,953.6 million at December 31, 2010 and 2009, respectively. Statutory net income was $1,049.1 million, $1,300.8 million, and $368.4 million for the years ended December 31, 2010, 2009, and 2008, respectively.

At December 31, 2010, $454.9 million of consolidated statutory policyholders’ surplus represented net admitted assets of our insurance subsidiaries and affiliate that are required to meet minimum statutory surplus requirements in such entities’ states of domicile. The companies may be licensed in states other than their states of domicile, which may have higher minimum statutory surplus requirements. Generally, the net admitted assets of insurance companies that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the companies are licensed.

During 2010, the insurance subsidiaries paid aggregate cash dividends of $1,215.7 million to the parent company. Based on the dividend laws currently in effect, the insurance subsidiaries could pay aggregate dividends of $949.8 million in 2011 without prior approval from regulatory authorities, provided the dividend payments are not made within 12 months of previous dividends paid by the applicable subsidiary.

9. EMPLOYEE BENEFIT PLANS

Retirement Plans Progressive has a defined contribution pension plan ("401(k) Plan") that covers all United States employees who are 18 years of age or older and have been employed with the company for at least 30 days. Under this plan, Progressive matches up to a maximum of 6% of an employee's eligible compensation contributed to the plan. Employee and company matching contributions are invested, at the direction of the employee, in a number of investment options available under the plan, including various mutual funds and a Progressive common stock fund. As of December 3, 2010, the Progressive common stock fund was converted to an employee stock ownership program within the 401(k) Plan.

Prior to January 1, 2009, Progressive had a two-tiered Retirement Security Program. The first tier was a self-directed defined contribution pension plan (SDRP) covering all employees who met requirements as to age and length of service. Company contributions varied from 1% to 5% of annual eligible compensation up to the Social Security wage base, based on years of eligible service and could be invested by a participant in any of the investments available under the plan.

The second tier was a 401(k) long-term savings plan (LTSP) under which Progressive matched amounts contributed to the plan by an employee, up to a maximum of 3% of the employee's eligible compensation. Company matching contributions could be invested by a participant in any of the investments available under the plan.

Matching contributions made by the company for the years ended December 31, were:

(millions)	2010	2009	2008
401(k) Plan	$61.3	$60.7	$ NA
SDRP	NA	NA	25.5
LTSP	NA	NA	30.9
Total	$61.3	$60.7	$56.4

NA = Not Applicable

Postemployment Benefits Progressive provides various postemployment benefits to former or inactive employees who meet eligibility requirements, and to their beneficiaries and covered dependents. Postemployment benefits include salary continuation and disability-related benefits, including workers' compensation and, if elected, continuation of health-care benefits for specified limited periods. The liability for these benefits was $20.8 million and $23.9 million at December 31, 2010 and 2009, respectively.

Postretirement Benefits We provide postretirement health and life insurance benefits to all employees who met requirements as to age and length of service at December 31, 1988. There are approximately 100 people in this group of employees. Our funding policy for these benefits is to contribute annually, to a 501(c)(9) trust, the maximum amount that can be deducted for federal income tax purposes.

Incentive Compensation Plans – Employees Our incentive compensation includes both non-equity incentive plans (cash) and equity incentive plans. Cash incentive compensation includes a cash bonus program for a limited number of senior executives and our Gainsharing program for other employees; the bases of these programs are similar in nature. Equity incentive compensation plans provide for the granting of restricted stock awards and restricted stock unit awards (collectively, "restricted equity awards") to key members of management. Prior to 2003, we granted non-qualified stock options (NQSOs) as equity-based incentive compensation (see below). The amounts charged to income for the incentive compensation plans for the years ended December 31, were:

	2010		2009		2008	
(millions)	Pretax	After Tax	Pretax	After Tax	Pretax	After Tax
Cash	$257.3	$167.2	$120.4	$ 78.3	$140.3	$ 91.2
Equity	45.9	29.8	40.3	26.2	34.5	22.4

Our 2003 Incentive Plan, which provides for the granting of equity-based awards to key members of management, has 18.7 million shares currently authorized, net of restricted equity awards cancelled; 2.3 million shares remain available for future awards. In addition, our 2010 Equity Incentive Plan, approved by shareholders in April 2010, has 18.0 million shares authorized and available for future awards. As of December 31, 2010, no awards have been granted from this plan. Our 1995 Incentive Plan has expired; however, NQSOs made under that plan prior to its expiration will remain in effect until they are exercised or expire.

In 2003, we began issuing restricted equity awards in lieu of NQSOs. In March 2010, we began issuing restricted stock units in lieu of restricted stock as the basis for our equity awards. The restricted equity awards were issued as either time-based or performance-based awards. The time-based awards vest in equal installments upon the lapse of specified periods of time, typically three, four, and five years.

The performance-based awards are granted to approximately 40 executives and senior managers, in addition to their time-based awards, to provide additional compensation for achieving pre-established profitability and growth targets. Vesting for all awards is based upon the achievement of predetermined performance goals within specified time periods. The targets for the performance-based awards, as well as the ultimate number of shares or units that may vest, vary by grant. The performance-based awards granted in 2010 may vest from 0% to 200% of the award amount, and have a target value of 100%. Performance awards made in March 2009, may vest from 0% to 100% of the award amount. Performance-based awards made prior to March 2009 would either vest or be forfeited in full (i.e., no partial vesting).

Generally, time-based and performance-based equity awards are expensed pro rata over their respective vesting periods based on the market value of the awards at the time of grant. However, the restricted stock awards granted in 2004 that were deferred pursuant to our deferred compensation plan are accounted for as liability awards, since distributions from the deferred compensation plan for these awards will be made in cash; accordingly, we record expense on a pro rata basis based on the current market value of our common shares at the end of each reporting period. Only performance-based awards remain unvested from this grant.

Prior to 2003, we granted NQSOs. These options became exercisable at various dates not earlier than six months after the date of grant, and remain exercisable for up to ten years from the date of the award. All remaining options outstanding vested on or before January 1, 2007 and will expire on December 31, 2011, if not exercised prior to that date. All options granted had an exercise price equal to the market value of the common shares on the date of grant. All option exercises are settled in Progressive common shares from existing treasury shares.

A summary of all employee restricted equity award activity during the years ended December 31, follows:

	2010		2009		2008	
Restricted Equity Awards[1]	Number of Shares[1]	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning of year	10,614,016	$ 17.04	8,260,696	$ 20.39	6,868,850	$ 22.33
Add (deduct):						
Granted[2]	2,841,400	17.50	4,072,152	12.08	3,038,793	15.98
Vested	(1,337,647)	22.72	(1,239,281)	23.14	(1,281,560)	19.98
Forfeited	(435,943)	15.58	(479,551)	16.98	(365,387)	21.61
End of year[3,4]	11,681,826	$ 16.55	10,614,016	$ 17.04	8,260,696	$ 20.39
Available, end of year	20,328,180		4,753,038		8,424,255	

[1] Includes both restricted stock units and restricted stock. Upon vesting, all units will be converted on a one-for-one basis into Progressive common shares.

[2] In 2010, we began reinvesting dividend equivalents on restricted stock units. For 2010, the number granted includes 134,644 units at a weighted average grant date fair value of $0, since the dividends were factored into the grant date fair value of the original grant.

[3] Includes performance-based awards at their target value. At December 31, 2010, we expect 2,707,572 performance-based awards to vest, based upon our current estimate of the achievement of pre-determined performance goals.

[4] At December 31, 2010, the total unrecognized compensation cost related to unvested equity awards was $78.8 million. This compensation expense will be recognized into the income statement over the weighted average vesting period of 2.56 years.

Following is a summary of restricted equity awards, which vested during the year ended December 31, 2010:

	Number of Shares/Units	Aggregate Fair Value (millions)[1]
Deferred	222,740	$ 5.1
Non-deferred	1,114,907	25.3
Total	1,337,647	$ 30.4

[1] Based on the respective grant date stock prices.

During the fourth quarter 2010, we declared a $1.00 per common share, or $663.2 million, extraordinary cash dividend to shareholders of record at the close of business on December 20, 2010. Since the holders of the outstanding stock option awards were not entitled to receive the cash dividend, we were required to increase the number of shares and reduce the exercise price of any of our then outstanding stock option awards in accordance with the antidilution provisions of our incentive plans. This adjustment is reflected in the appropriate tables below for 2010; prior year activity has not been adjusted.

Following is a summary of all employee stock option activity during the years ended December 31:

	2010		2009		2008	
Options Outstanding	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Beginning of year	5,102,888	$ 9.31	8,503,273	$ 7.71	11,738,502	$ 7.75
Add:						
Antidilution adjustment	97,387	NA	NA	NA	NA	NA
Deduct:						
Exercised	(3,283,859)	7.87	(3,394,633)	5.31	(3,235,229)	7.86
Forfeited	0	0	(5,752)	5.69	0	0
End of year	1,916,416	$ 11.31	5,102,888	$ 9.31	8,503,273	$ 7.71
Exercisable, end of year	1,916,416	$ 11.31	5,102,888	$ 9.31	8,503,273	$ 7.71

NA = Not Applicable

The total pretax intrinsic value of options exercised during the year ended December 31, 2010, was $40.8 million, based on the actual stock price at time of exercise.

The following employee stock options were outstanding and exercisable as of December 31, 2010:

Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life	Closing Stock Price
1,916,416	$ 11.31	$ 16.4 million	1.0 year	$19.87

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the difference between our closing stock price and the exercise price of the options, which is the amount that would have been received by the option holders, before taxes, had all option holders exercised their options as of that date. All of the exercisable options at December 31, 2010, were “in-the-money.”

Incentive Compensation Plans – Directors Our 2003 Directors Equity Incentive Plan, which provides for the granting of equity-based awards, including restricted stock awards, to non-employee directors of Progressive, has 1.4 million shares currently authorized, net of restricted stock awards cancelled; 0.8 million shares remain available for future restricted stock grants. Our 1998 Directors’ Stock Option Plan has expired; however, stock option awards made under this plan prior to its expiration are still in effect.

In 2003, we began issuing restricted stock awards to non-employee directors as the equity component of their compensation. We plan to continue to grant restricted stock to our non-employee directors and not to change to restricted stock units as we have with our employees. The restricted stock awards are issued as time-based awards. The vesting period (i.e., requisite service period) must be a minimum of six months and one day. During 2010, we granted a restricted

stock award to a newly appointed director which vested in six months and one day. The time-based awards granted to date have typically included vesting periods of 11 or 12 months from the date of each grant. The restricted stock awards are expensed pro rata over their respective vesting periods based on the market value of the awards at the time of grant.

Prior to 2003, we granted nonqualified stock options as the equity component of the directors' compensation. These options became exercisable at various dates not earlier than six months, and remain exercisable for up to ten years from the date of grant. All options granted had an exercise price equal to the market value of the common shares on the date of grant and, under the then applicable accounting guidance, no compensation expense was recorded. All option exercises are settled in Progressive common shares from existing treasury shares.

Restricted stock awards are granted to non-employee directors as their sole compensation for serving as members of the Board of Directors.

A summary of all directors restricted stock activity during the years ended December 31, follows:

	2010		2009		2008	
Restricted Stock	**Number of Shares**	**Weighted Average Grant Date Fair Value**	**Number of Shares**	**Weighted Average Grant Date Fair Value**	**Number of Shares**	**Weighted Average Grant Date Fair Value**
Beginning of year	118,984	$ 15.79	105,420	$ 17.96	68,595	$ 23.52
Add (deduct):						
Granted	112,670	20.75	129,467	15.78	105,420	17.96
Vested	(122,109)	15.82	(105,420)	17.96	(68,595)	23.52
Forfeited	0	0	(10,483)	15.74	0	0
End of year	109,545	$ 20.86	118,984	$ 15.79	105,420	$ 17.96
Available, end of year[1]	757,201		869,871		988,855	

[1] Represents shares available under the 2003 Directors Equity Incentive Plan.

A summary of all stock option activity for both current and former directors during the years ended December 31, follows:

	2010		2009		2008	
Options Outstanding	**Number of Shares**	**Weighted Average Exercise Price**	**Number of Shares**	**Weighted Average Exercise Price**	**Number of Shares**	**Weighted Average Exercise Price**
Beginning of year	312,545	$ 8.46	401,357	$ 8.60	628,813	$ 7.97
Add:						
Antidilution adjustment[1]	5,787	NA	NA	NA	NA	NA
Deduct:						
Exercised	(198,207)	7.07	(88,812)	9.10	(227,456)	6.86
End of year	120,125	$ 10.34	312,545	$ 8.46	401,357	$ 8.60
Exercisable, end of year[2]	120,125	$ 10.34	312,545	$ 8.46	401,357	$ 8.60

NA = Not Applicable

[1] See discussion above under *Incentive Compensation Plans – Employees*.

[2] The 1998 Directors' Stock Option Plan has expired.

The total pretax intrinsic value of options exercised during the year ended December 31, 2010, was $2.5 million, based on the actual stock price at time of exercise.

The following director stock options were outstanding and exercisable as of December 31, 2010:

Number of Shares	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**	**Weighted Average Remaining Contractual Life**	**Closing Stock Price**
120,125	$ 10.34	$ 1.1 million	0.8 years	$19.87

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the difference between our closing stock price and the exercise price of the options, which is the amount that would have been received by the option holders, before taxes, had all option holders exercised their options as of that date. All of the exercisable options at December 31, 2010, were “in-the-money.”

Deferred Compensation We maintain The Progressive Corporation Executive Deferred Compensation Plan (“Deferral Plan”) that permits eligible executives to defer receipt of some or all of their annual bonuses and all of their annual equity awards. Deferred cash compensation is deemed invested in one or more investment funds, including common shares of Progressive, offered under the Deferral Plan and elected by the participant. All Deferral Plan distributions attributable to deferred cash compensation will be paid in cash.

For all equity awards granted on or after March 2005, and deferred pursuant to the Deferral Plan, the deferred amounts are deemed invested in common shares and are ineligible for transfer to other investment funds in the Deferral Plan; distributions of these deferred awards will be made in common shares. For all restricted stock awards granted prior to March 2005, the deferred amounts are eligible to be transferred to any of the investment funds in the Deferral Plan; distributions of these deferred awards will be made in cash.

We reserved 3.6 million common shares for issuance under the Deferral Plan. An irrevocable grantor trust has been established to provide a source of funds to assist us in meeting our liabilities under the Deferral Plan.

The Deferral Plan Irrevocable Grantor Trust account held the following assets at December 31:

(millions)	2010	2009
Progressive common shares[1]	$ 31.1	$ 23.1
Other investment funds	67.3	62.6
Total	$98.4	$ 85.7

[1] Includes 0.5 million and 0.2 million common shares as of December 31, 2010 and 2009, respectively, to be distributed in common shares.

10. SEGMENT INFORMATION

We write personal auto and other specialty property-casualty insurance and provide related services throughout the United States. Our Personal Lines segment writes insurance for personal autos and recreational vehicles. The Personal Lines segment is comprised of both the Agency and Direct businesses. The Agency business includes business written by our network of more than 30,000 independent insurance agencies, including brokerages in New York and California, and strategic alliance business relationships (other insurance companies, financial institutions, and national agencies). The Direct business includes business written directly by us online and by phone.

Our Commercial Auto segment writes primary liability and physical damage insurance for automobiles and trucks owned by small businesses in the business auto and truck markets. This segment is distributed through both the independent agency and direct channels.

Our other indemnity businesses manage our run-off businesses, including the run-off of our professional liability insurance for community banks, which was sold in 2010.

Our service businesses provide insurance-related services, including processing CAIP business and serving as an agent for homeowners insurance through our programs with three unaffiliated homeowner insurance companies.

All segment revenues are generated from external customers and we do not have a reliance on any major customer.

We evaluate segment profitability based on pretax underwriting profit (loss) for the Personal Lines and Commercial Auto businesses. In addition, we use pretax underwriting profit (loss) for the other indemnity businesses and pretax profit (loss) for the service businesses. Pretax underwriting profit (loss) is calculated as net premiums earned less each of (i) losses and loss adjustment expenses, (ii) policy acquisition costs, and (iii) other underwriting expenses. Service business profit (loss) is the difference between service business revenues and service business expenses.

Expense allocations are based on certain assumptions and estimates primarily related to revenue and volume; stated segment operating results would change if different methods were applied. We do not allocate assets or income taxes to operating segments. In addition, we do not separately identify depreciation and amortization expense by segment, and such allocation would be impractical. Companywide depreciation expense was $83.1 million in 2010, $87.3 million in 2009, and $99.1 million in 2008. The accounting policies of the operating segments are the same as those described in *Note 1 –Reporting and Accounting Policies*.

Following are the operating results for the years ended December 31:

(millions)	2010 Revenues	2010 Pretax Profit (Loss)	2009 Revenues	2009 Pretax Profit (Loss)	2008 Revenues	2008 Pretax Profit (Loss)
Personal Lines						
Agency	$ 7,419.7	$ 601.0	$ 7,414.8	$ 579.2	$ 7,362.0	$ 360.7
Direct	5,407.2	291.1	4,951.1	357.9	4,485.8	274.8
Total Personal Lines[1]	12,826.9	892.1	12,365.9	937.1	11,847.8	635.5
Commercial Auto	1,474.2	185.0	1,623.3	229.8	1,762.2	94.1
Other indemnity	13.7	6.4	23.6	8.7	21.4	5.3
Total underwriting operations	14,314.8	1,083.5	14,012.8	1,175.6	13,631.4	734.9
Service businesses	25.9	4.5	16.7	(2.7)	16.1	(4.3)
Investments[2]	616.2	604.3	534.1	523.0	(807.4)	(816.2)
Net gain on extinguishment of debt	6.4	6.4	0	0	0	0
Interest expense	NA	(133.5)	NA	(139.0)	NA	(136.7)
Consolidated total	$14,963.3	$1,565.2	$14,563.6	$1,556.9	$12,840.1	$(222.3)

[1] Personal auto insurance accounted for 90% of the total Personal Lines segment net premiums earned in 2010, 2009, and 2008; insurance for our special lines products (e.g., motorcycles, ATVs, RVs, mobile homes, watercraft, and snowmobiles) accounted for the balance of the Personal Lines net premiums earned.

[2] Revenues represent recurring investment income and total net realized gains (losses) on securities; pretax profit is net of investment expenses.

NA = Not Applicable

Progressive's management uses underwriting margin and combined ratio as primary measures of underwriting profitability. The underwriting margin is the pretax underwriting profit (loss) expressed as a percentage of net premiums earned (i.e., revenues from insurance operations). Combined ratio is the complement of the underwriting margin. Following are the underwriting margins/combined ratios for our underwriting operations for the years ended December 31:

	2010 Underwriting Margin	2010 Combined Ratio	2009 Underwriting Margin	2009 Combined Ratio	2008 Underwriting Margin	2008 Combined Ratio
Personal Lines						
Agency	8.1%	91.9	7.8%	92.2	4.9%	95.1
Direct	5.4	94.6	7.2	92.8	6.1	93.9
Total Personal Lines	7.0	93.0	7.6	92.4	5.4	94.6
Commercial Auto	12.5	87.5	14.2	85.8	5.3	94.7
Other indemnity[1]	NM	NM	NM	NM	NM	NM
Total underwriting operations	7.6	92.4	8.4	91.6	5.4	94.6

[1] Underwriting margins/combined ratios are not meaningful (NM) for our other indemnity businesses due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

11. OTHER COMPREHENSIVE INCOME (LOSS)

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

	2010			2009			2008		
(millions)	Pretax	Tax (Provision) Benefit	After Tax	Pretax	Tax (Provision) Benefit	After Tax	Pretax	Tax (Provision) Benefit	After Tax
Unrealized gains (losses) arising during period:									
Fixed maturities	$302.9	$ (106.0)	$196.9	$ 519.4	$ (181.8)	$337.6	$(407.6)	$ 142.7	$(264.9)
Equity securities	241.7	(84.6)	157.1	671.7	(235.1)	436.6	(238.6)	83.5	(155.1)
Net non-credit related OTTI losses, adjusted for valuation changes[1]	21.4	(7.5)	13.9	(24.1)	8.4	(15.7)	0	0	0
Reclassification adjustment for (gains) losses realized in net income:									
Fixed maturities	46.3	(16.2)	30.1	(8.5)	3.0	(5.5)	9.7	(3.4)	6.3
Equity securities	(93.7)	32.8	(60.9)	(86.7)	30.3	(56.4)	(197.1)	69.0	(128.1)
Change in unrealized gains (losses)[2]	518.6	(181.5)	337.1	1,071.8	(375.2)	696.6	(833.6)	291.8	(541.8)
Net unrealized gains on forecasted transactions[3]	(10.6)	3.7	(6.9)	(5.1)	1.8	(3.3)	(4.4)	1.5	(2.9)
Foreign currency translation adjustment	1.2	(.9)	.3	1.4	0	1.4	0	0	0
Other comprehensive income (loss)	$509.2	$ (178.7)	$330.5	$1,068.1	$ (373.4)	$694.7	$(838.0)	$ 293.3	$(544.7)

[1] For a further breakout of the components of this line, see table below.

[2] December 31, 2009 excludes the $189.6 million ($291.8 million pretax) cumulative effect of change in accounting principle we recorded in June 2009 in accordance with the new accounting guidance for other-than-temporary impairments we adopted during the second quarter 2009.

[3] Entered into for the purpose of managing interest rate risk associated with our debt issuances, and managing foreign currency risk associated with our forecasted foreign currency transaction. We expect to reclassify $4.8 million into income during the next 12 months. During the third quarter 2010, we reclassified $5.8 million (pretax) from accumulated other comprehensive income to net realized gains/losses on securities, reflecting the portion of the unrealized gain on the forecasted transaction that was related to the Debentures that were extinguished pursuant to our Tender Offer (see *Note 4 – Debt* for further discussion).

The components of the net non-credit related OTTI losses, adjusted for valuation changes, for the years ended December 31, were as follows:

	2010			2009			2008		
(millions)	Pretax	Tax (Provision) Benefit	After Tax	Pretax	Tax (Provision) Benefit	After Tax	Pretax	Tax (Provision) Benefit	After Tax
Changes in:									
Non-credit related OTTI losses[1]	$ (9.5)	$ 3.3	$ (6.2)	$(40.1)	$ 14.0	$(26.1)	$ 0	$ 0	$ 0
Additional credit-related OTTI losses recognized on previously recorded non-credit related losses	4.3	(1.5)	2.8	0	0	0	0	0	0
Net non-credit related OTTI losses[2]	(5.2)	1.8	(3.4)	(40.1)	14.0	(26.1)	0	0	0
Sales/valuation changes on previously recorded non-credit related losses	26.6	(9.3)	17.3	16.0	(5.6)	10.4	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	$21.4	$ (7.5)	$13.9	$(24.1)	$ 8.4	$(15.7)	$ 0	$ 0	$ 0

[1] Amount represents the portion of OTTI losses recognized in other comprehensive income during the year.

[2] A positive amount for the year reflects credit losses reclassed from other comprehensive income that exceeded the amount of non-credit OTTI losses recognized in other comprehensive income during the year.

12. LITIGATION

The Progressive Corporation and/or its insurance subsidiaries are named as defendants in various lawsuits arising out of claims made under insurance policies in the ordinary course of our business. All legal actions relating to such insurance claims are considered by us in establishing our loss and loss adjustment expense reserves.

In addition, The Progressive Corporation and/or its insurance subsidiaries are named as defendants in a number of class action or individual lawsuits arising out of the operations of the insurance subsidiaries. Other insurance companies face many of these same issues. The lawsuits discussed below are in various stages of development. We plan to contest these suits vigorously, but may pursue settlement negotiations in some cases, if appropriate. The outcomes of these cases are uncertain at this time.

Under current accounting guidance, we establish accruals for lawsuits when it is probable that a loss has been incurred and we can reasonably estimate its potential exposure, which may include a range of loss (referred to as a loss that is both “probable and estimable” in the discussion below). Certain of the cases for which we have established accruals under this standard are mentioned in the discussion below. Based on currently available information, we believe that our accruals for these lawsuits are reasonable and that the amounts accrued did not have a material effect on our consolidated financial condition or results of operations. However, if any one or more of these cases results in a judgment against, or settlement by, our insurance subsidiaries for an amount that is significantly greater than the amount so accrued, the resulting liability could have a material effect on our consolidated financial condition, cash flows, and results of operations.

As to lawsuits that do not satisfy both parts of this GAAP standard (i.e., the loss is not both probable and estimable), we have not established an accrual at this time. In the event that any one or more of these cases results in a substantial judgment against, or settlement by, Progressive, the resulting liability could also have a material effect on our consolidated financial condition, cash flows, and results of operations.

The following is a discussion of potentially significant pending cases at December 31, 2010, and certain cases resolved during the three-year period then ended. Unless specifically noted: (i) we do not consider the losses from these cases to be probable and estimable, and we are unable to estimate a range of loss, if any, at this time; and (ii) settlements were not material to our consolidated financial condition, cash flows, or results of operations. The outcomes of the pending cases are uncertain, but in each case we do not believe that the outcome will have a material impact on our consolidated financial condition, cash flows, and results of operations.

Pending cases at December 31, 2010 include:

- One certified class action lawsuit seeking interest on personal injury protection (PIP) payments that allegedly were late.
- Two putative class actions alleging that we violate the “make-whole” and “common-fund” doctrines. Specifically, it is alleged that we may obtain reimbursement of medical payments made on behalf of an insured only when the insured has been made whole by the person who caused the insured’s injuries and that we further must deduct from the reimbursement amount a proportionate share of the insured’s legal fees for pursuing the person who caused the insured’s injuries.
- Four putative class action lawsuits challenging the labor rates our insurance subsidiaries pay to auto body repair shops. One action was brought on behalf of insureds, while the other three were brought on behalf of repair facilities.
- Two putative class action lawsuits challenging Progressive’s insurance subsidiaries’ practice in Florida of adjusting PIP and first-party medical payments.
- Two putative class action lawsuits, that challenge our insurance subsidiaries’ use of certain automated database vendors or software to assist in the adjustment of bodily injury claims where the plaintiffs allege that these databases or software systematically undervalue the claims.
- One putative class action lawsuit challenging our policy form with regard to rejecting uninsured motorist coverage.
- One bankruptcy court action alleging that premiums collected from an agent that is now bankrupt amounted to fraudulent and or preferential transfers.

- Two putative class actions challenging Progressive's evaluation of physical damage claims regarding diminution of value.
- One putative class action challenging the criteria for the "good driver" discount.
- Two putative class actions challenging the manner in which Progressive grants a discount for anti-theft devices.
- Two putative class actions alleging that Progressive charged insureds for illusory uninsured motorist / underinsured motorist coverage on multiple vehicle policies.

Cases settled during 2010 include:

- One putative class action lawsuit challenging our notice of cancellation form for nonpayment of premium and subsequent denial of automobile coverage; an accrual has been established.

Cases settled during 2009 include:

- One certified class action lawsuit that challenged our insurance subsidiaries' use of certain automated database vendors or software to assist in the adjustment of bodily injury claims; settlement was completed in 2010.
- Eight class action lawsuits, which were consolidated in one settlement agreement, and six individual lawsuits, which challenged certain aspects of our insurance subsidiaries use of credit information and compliance with notice requirements under the federal Fair Credit Reporting Act; payments were made during 2009 and the administration of this class action settlement was completed in 2010.
- One certified nationwide class action lawsuit challenging our insurance subsidiaries' practice of taking betterment on boat repairs; settlement was completed in 2009.
- One putative class action lawsuit alleging that Progressive's insurance subsidiaries used non-conforming underinsured motorist rejection forms; settlement was completed in 2009.
- One certified class action lawsuit alleging that Progressive's insurance subsidiaries failed to offer certain enhanced PIP benefits; an accrual has been established.
- Three state class action lawsuits related to over-charging municipal tax to policyholders; an accrual has been established.

Cases settled during 2008 include:

- One putative class action lawsuit challenging the installment fee program used by our insurance subsidiaries; settlement was completed in 2008.
- One class action lawsuit challenging our classification of certain job titles under the Fair Labor Standards Act; settlement was completed in 2009.

13. COMMITMENTS AND CONTINGENCIES

We have certain noncancelable operating lease commitments with lease terms greater than one year for property and computer equipment. The minimum commitments under these agreements at December 31, 2010, were as follows:

(millions) Year	Commitments
2011	$ 68.4
2012	55.6
2013	35.7
2014	21.4
2015	9.7
Thereafter	14.5
Total	$ 205.3

Some of the leases have options to renew at the end of the lease periods. The expense we incurred for the leases disclosed above, as well as other operating leases that may be cancelable or have terms less than one year, was:

(millions) Year	Expense
2010	$ 96.7
2009	109.0
2008	124.8

We also have certain noncancelable purchase obligations. The minimum commitment under these agreements at December 31, 2010, was $182.8 million.

As of December 31, 2010, we had no open investment funding commitments; we had no uncollateralized lines or letters of credit as of December 31, 2010 or 2009.

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Progressive Corporation and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Cleveland, Ohio
March 1, 2011

Management's Report on Internal Control over Financial Reporting

Progressive's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control structure was designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control – Integrated Framework,* management concluded that our internal control over financial reporting was effective as of December 31, 2010.

During the fourth quarter 2010, there were no changes in our internal control over financial reporting identified in the internal control review process that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PricewaterhouseCoopers LLP, an independent registered public accounting firm that audited the financial statements included in this Annual Report, has audited, and issued an attestation report on the effectiveness of, our internal control over financial reporting as of December 31, 2010; such report appears herein.

CEO and CFO Certifications

Glenn M. Renwick, President and Chief Executive Officer of The Progressive Corporation, and Brian C. Domeck, Vice President and Chief Financial Officer of The Progressive Corporation, have issued the certifications required by Sections 302 and 906 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations with respect to Progressive's 2010 Annual Report on Form 10-K, including the financial statements provided in this Report. Among other matters required to be included in those certifications, Mr. Renwick and Mr. Domeck have each certified that, to the best of his knowledge, the financial statements, and other financial information included in the Annual Report on Form 10-K, fairly present in all material respects the financial condition, results of operations, and cash flows of Progressive as of, and for, the periods presented. See Exhibits 31 and 32 to Progressive's Annual Report on Form 10-K for the complete Section 302 and 906 certifications, respectively.

The consolidated financial statements and the related notes, together with the supplemental information, should be read in conjunction with the following discussion and analysis of the consolidated financial condition and results of operations.

I. OVERVIEW

The Progressive Corporation is a holding company that does not have any revenue producing operations, physical property, or employees of its own. The Progressive Group of Insurance Companies, together with our non-insurance subsidiaries, comprise what we refer to as Progressive. Progressive has been in business since 1937 and is estimated to be the country's fourth largest private passenger auto insurer based on net premiums written during 2010. Our insurance companies offer personal and commercial automobile insurance and other specialty property-casualty insurance and related services throughout the United States; in December 2009, we began selling personal auto insurance in Australia. Our Personal Lines segment writes insurance for private passenger automobiles and recreational vehicles through more than 30,000 independent insurance agencies and directly to consumers online and over the phone. Our Commercial Auto segment, which writes through both the independent agency and direct channels, offers insurance for cars and trucks (e.g., pick-up or panel trucks) owned by small businesses and is estimated to be in the top four in its industry. These underwriting operations, combined with our service and investment operations, make up the consolidated group.

The Progressive Corporation receives cash through subsidiary dividends, borrowings, security sales, and other transactions, and uses these funds to contribute to its subsidiaries (e.g., to support growth), to make payments to shareholders and debt holders (e.g., dividends and interest, respectively), to repurchase its debt and common shares, and for other business purposes that might arise. In 2010, the holding company received $1.2 billion from its subsidiaries, net of capital contributions. The holding company's funds are generally held in a non-insurance subsidiary; this subsidiary had $2.2 billion of marketable securities at year-end 2010.

During 2010, our capital position was very strong and, consistent with our long-standing policy, we took several actions to return underleveraged capital to our investors. We returned $1.4 billion to investors during the year through dividends and repurchases of securities. During the summer, we retired $222.9 million of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 at a total cost of $214.3 million, including expenses. During the year, we repurchased 13.3 million of our common shares at a total cost of $258.6 million. In the fourth quarter 2010, we declared an extraordinary cash dividend of $1.00 per common share for a total of $663.2 million. In addition, in December 2010, we declared our annual variable dividend, based on 2010 underwriting results. Using the variable dividend formula, which included a Gainshare factor of 1.50, after-tax underwriting income of $704.3 million, and the 25% target factor established by the Board of Directors, this dividend amounted to $.3987 per share, or $263.8 million; the dividend was paid to shareholders in February 2011.

For 2010, Progressive generated net income of $1.1 billion, or $1.61 per share, driven by strong underwriting profitability and solid investment returns. Our insurance operations generated 3% growth in written premiums, 2% growth in earned premiums, and 7% growth in policies in force, and produced a 7.6% underwriting profit margin. We continued to make progress on several initiatives intended to help spur our personal auto insurance growth, as explained below. Our Commercial Auto business continues to feel the effect of the weakened economy and competitive pressures on its ability to generate both premium and policy growth, but contributed to profitability with a 12.5% underwriting margin.

During 2010, our investment portfolio generated investment income of $520.1 million, plus net realized gains of $96.1 million. We ended 2010 with $8.0 billion of total capital (debt and equity), $0.1 billion more than at the start of the year, despite the actions discussed above. We continue to manage our investing and financing activities in order to maintain sufficient capital to support all the insurance we can profitably underwrite and service, while returning underleveraged capital to shareholders.

A. Operations

In 2010, our insurance subsidiaries generated underwriting profitability of 7.6%, which exceeded our targeted profitability objective of 4%. Both our Personal Lines and Commercial Auto businesses contributed to our strong profitability. In Personal Lines, 40 jurisdictions met or exceeded their target profitability, with only 4 jurisdictions not generating an underwriting profit in 2010. In Commercial Auto, 43 states generated an underwriting profit during the year.

We realized $320.4 million, or 2.2 combined ratio points, of favorable prior accident year development during the year. About 70% of this development was in our Personal Lines business, split equally between the Agency and Direct businesses; the balance was in our Commercial Auto business. For the year, our overall incurred auto accident frequency increased less than 0.5% and severity decreased about 1.5%, compared to the prior year. The slight increase in overall auto frequency was primarily attributable to an increase in frequency for our bodily injury coverage. The decline in severity during the year was due to declines in bodily injury and property coverages; severity of personal injury protection, which covers injured parties regardless of any fault in certain states, increased about 3% year-over-year.

On a year-over-year basis, net premiums written and earned increased 3% and 2%, respectively. Changes in net premiums written are a function of new business applications (i.e., issued policies), premium per policy, and retention.

During 2010, total new auto applications increased 7% on a year-over-year basis, primarily driven by a 9% increase in our Direct business. The momentum that was building during the second half of 2009 in our Agency auto business continued into 2010 with a 4% increase in new applications. For both our Agency and Direct businesses, demand was stronger on a year-over-year basis earlier in the year, but Agency, more so than Direct, maintained a reasonably consistent pattern throughout 2010.

When evaluating new business application growth on a state-by-state basis, 40 out of 51 jurisdictions increased total auto applications in 2010. In Agency auto, 33 states and the District of Columbia saw new applications increase, while our Direct auto business had year-over-year increases in all but 6 states. Our special lines products (e.g., motorcycles, ATVs, RVs, mobile homes, watercraft, and snowmobiles) generated an increase in new applications of about 10%, while new applications in our Commercial Auto business declined about 1%.

We are continuing with our efforts to spur personal auto insurance growth through several initiatives aimed at providing consumers with distinctive new business options. These initiatives include:

- Name Your Price®, which is a program that provides Direct auto consumers the opportunity, within certain parameters, to select the price they would like to pay for auto insurance
- new product models in our auto business, which are designed to improve competitiveness through further price segmentation
- the expansion of Snapshot℠, our usage-based insurance product, and
- efforts to further penetrate customer households through cross-selling products.

During 2010, on a year-over-year basis, our average written premium per policy for our Agency auto business remained relatively flat. In our Direct auto business, average written premium per policy was 3% lower than the prior year, thus tempering the Direct written premium growth to 9%. The decrease in the Direct auto business written premium per policy primarily reflects the shifts in the mix of our business (e.g., state mix, drivers with proof of prior insurance, and older age vehicles). Commercial Auto also continued to experience declines in premiums per policy, reflecting shifts in our mix of business (e.g., greater percentage of liability-only policies, changes in geographical mix, and more policies qualifying for discounts). The special lines products average written premiums declined 2% year-over-year.

Companywide policies in force increased 7% on a year-over-year basis since December 31, 2009. This increase reflects about 762,000 additional Personal Lines policies and little change in the number of Commercial Auto policies. The biggest contributor to this growth was our Direct auto business where policies in force grew 13%, or 409,000 policies. Agency auto policies in force increased about 181,000 policies, or 4%, while our special lines products increased about 172,000 policies, or 5%. Despite growth in 2010, Agency auto has not yet gotten back to its all-time high policy level. The effects of the economy continued to hinder our Commercial Auto business growth as policies in force remained relatively flat. We believe that our Commercial Auto business will need to see growth re-emerge in some of its larger states to regain some of the declines we have experienced in this segment. Similar to the efforts in our personal auto products, our Commercial Auto group has been actively redesigning its product offerings to best position us for the future.

To further grow policies in force, it is critical that we retain our customers for longer periods, which is why increasing retention remains one of our most important priorities. In 2010, we continued to increase customer retention, as measured by policy life expectancy. Total personal auto policy life expectancy increased 5% on a year-over-year basis, with our Agency and Direct auto policy life expectancies increasing 8% and 2%, respectively. Our actions during 2010, including our improved loyalty programs and commitment to rate stability at renewal, contributed to the policy life expectancy lengthening and allowed both Agency and Direct to reach their all-time highs in retention. The policy life expectancy for both our Commercial Auto business and special lines products declined slightly from the prior year. We realize the importance that retention has on our ability to continue to grow profitably and will maintain our focus on providing customers with other insurance-related products and services they may need over time in our ongoing efforts to increase retention.

B. Investments and Capital Management

The fair value of our investment portfolio was $15.5 billion at December 31, 2010. We were comfortable with the composition of our investment portfolio during 2010, and continued to diligently manage our credit exposure and added to our common equity position. We ended the year with our assets allocated 24% to Group I securities (i.e., common equities, redeemable and nonredeemable preferred stocks (preferred stocks), and non-investment-grade and non-rated fixed-maturity securities) and 76% to Group II securities (i.e., all other fixed-maturity securities, including U.S. Treasury Notes, municipal bonds, asset-backed securities, and corporate debt, as well as short-term investments). This portfolio composition is within our asset allocation strategy to maintain 0-25% of our portfolio in Group I, with the balance (75-100%) of our portfolio in Group II securities.

Our investment portfolio produced a fully taxable equivalent (FTE) total return of 7.8% for 2010. We experienced gains in both our common stock and fixed-income portfolios, with FTE returns of 17.0% and 6.9%, respectively. We continue to maintain our fixed-income portfolio strategy of investing in high-quality securities. At December 31, 2010, the fixed-income portfolio had a weighted average credit quality of AA-. Our fixed-income portfolio's duration at December 31, 2010 was 2.0 years, a measure which reflects the portfolio's exposure to changes in interest rates. We positioned our portfolio duration at the low end of our duration guidelines with the view that, with interest rates extraordinarily low, the risk of higher rates exceeded the gain potential from a decrease in rates. Our preference is for credit and reinvestment risk over interest rate risk at this time.

At December 31, 2010, our total capital (debt plus equity) was $8.0 billion, up from $7.9 billion held at December 31, 2009. We continue to manage our investing and financing activities in order to maintain sufficient capital to support all of the insurance we can profitably underwrite and service. As discussed above, during the year, we executed several actions to return underleveraged capital to investors, including share repurchases, debt retirement, and the payment of dividends, including an extraordinary dividend.

II. FINANCIAL CONDITION

A. Holding Company

In 2010, The Progressive Corporation, the holding company, received $1.2 billion of dividends, net of capital contributions, from its subsidiaries. For the three-year period ended December 31, 2010, The Progressive Corporation received $2.3 billion of dividends from its subsidiaries, net of capital contributions. Regulatory restrictions on subsidiary dividends are described in *Note 8 – Statutory Financial Information*.

Progressive's debt-to-total capital (debt plus equity) ratios at December 31, 2010, 2009, and 2008 were 24.5%, 27.5%, and 34.0%, respectively. During July 2010, we repurchased $222.9 million in aggregate principal amount of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (the "Debentures") in connection with a Tender Offer that began in June 2010. The Tender Offer is discussed in further detail in the *Liquidity and Capital Resources* section below. We did not issue or retire any other debt securities during the last three years.

During 2010, we repurchased 13.3 million of our common shares. The total cost to repurchase these shares was $258.6 million, with an average cost of $19.40 per share. During the three-year period ended December 31, 2010, we repurchased 34.3 million of our common shares at a total cost of $618.6 million (average cost of $18.03 per share).

Progressive maintains a policy of declaring an annual variable dividend, payable shortly after the close of the year. The annual variable dividend is based on a target percentage of after-tax underwriting income multiplied by a companywide performance factor ("Gainshare factor"), subject to the limitations discussed below. The target percentage is determined by

our Board of Directors on an annual basis and announced to shareholders and the public. The Board determined the target percentage to be 25% for 2010, and 20% for both 2009 and 2008, of annual after-tax underwriting income. For 2011, the Board has determined the target percentage to be 33 $^{1}/_{3}$% of annual after-tax underwriting income.

The Gainshare factor can range from zero to two and is determined by comparing our operating performance for the year to certain predetermined profitability and growth objectives approved by the Board. This Gainshare factor is also used in the variable cash incentive program currently in place for our employees (referred to as our “Gainsharing program”). Although recalibrated every year, the structure of the Gainsharing program generally remains the same. For 2010, the Gainshare factor was 1.50, compared to .71 in 2009 and .80 in 2008, reflecting strong policies in force growth and underwriting profitability achieved in 2010.

Our annual variable dividend program is subject to certain limitations. If the Gainshare factor is zero or if our after-tax comprehensive income (net income plus the after-tax change in net unrealized gains (losses), among other factors) is less than after-tax underwriting income, no dividend will be paid, as was the case for 2008.

Following is a summary of our shareholder dividend activity since 2007, the year our annual variable dividend began:

(millions, except per share amounts)

Year	Dividend Type	Declared	Paid	Amount Per Share	Amount Total[1]
2010	Annual	December 2010	February 2011	$ .3987	$ 263.8
2010	Extraordinary	October 2010	December 2010	1.0000	663.2
2009	Annual	December 2009	February 2010	.1613	108.4
2008[2]	Annual	—	—	—	—
2007	Annual	December 2007	January 2008	.1450	98.7
2007	Extraordinary	June 2007	September 2007	2.0000	1,412.2

[1] Based on shares outstanding as of the record date.

[2] No annual variable dividend was declared based on 2008 results, reflecting the fact that we had an after-tax comprehensive loss of $614.7 million, despite reporting $477.7 million of after-tax underwriting income for the same period.

B. Liquidity and Capital Resources

Progressive’s insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. As an auto insurer, our claims liabilities are generally short in duration. Generally, at any point in time, approximately 50% of our outstanding reserves are paid within the following twelve months and less than 15% are still outstanding after three years. See *Claims Payment Patterns*, a supplemental disclosure provided in this Annual Report, for further discussion on the timing of claims payments.

As of December 31, 2010, our consolidated statutory policyholders’ surplus was $5.1 billion, compared to $5.0 billion at December 31, 2009. Our net premiums written-to-surplus ratio was 2.9 to 1 at year-end 2010, compared to 2.8 at year-end 2009 and 3.0 at year-end 2008. We also have access to $2.2 billion in a non-insurance subsidiary, portions of which could be contributed to the capital of our insurance subsidiaries to support growth as needed. In addition, our risk-based capital ratios, which are a series of dynamic surplus-related formulas that contain a variety of factors that are applied to financial balances based on the degree of certain risks (e.g., asset, credit, and underwriting), are well in excess of minimum requirements. See *Note 8 – Statutory Financial Information* for any regulatory restrictions on subsidiary dividends.

For the three years ended December 31, 2010, operations generated positive cash flows of $4.7 billion, and cash flows are expected to remain positive in both the short-term and reasonably foreseeable future. As of December 31, 2010, 76% of our portfolio was invested in U.S. Treasury Notes, municipal bonds, asset-backed securities, corporate debt, and short-term investments (Group II securities). In addition, our fixed-income portfolio duration was 2.0 years, with a weighted average credit quality of AA-. At year end, we held $4.3 billion in short-term investments and U.S. Treasury securities. We believe that we have sufficient readily available marketable securities to cover our claims payments without having a negative effect on our cash flows from operations. See Item 1A, “Risk Factors,” in our Form 10-K filed with the SEC for a discussion of certain matters that may affect our portfolio and capital position.

Based upon our capital planning and forecasting efforts, we believe that we have sufficient capital resources, cash flows from operations, and borrowing capacity to support our current and anticipated business, scheduled principal and interest payments on our debt, and expected capital requirements. The covenants on our existing debt securities do not include any rating or credit triggers that would require an adjustment of the interest rate or an acceleration of principal payments in the event our securities are downgraded by a rating agency. We have no scheduled debt maturities until January 2012.

Progressive seeks to deploy capital in a prudent manner and uses multiple data sources and modeling tools to estimate the frequency, severity, and correlation of identified exposures, including, but not limited to, catastrophic losses, natural disasters, and other significant business interruptions to estimate our potential capital needs.

Management views our capital position as consisting of three layers, each with a specific size and purpose. The first layer of capital, which we refer to as "regulatory capital," is the amount of capital we need to satisfy state insurance regulatory requirements and support our objective of writing all the business we can write and service, consistent with our underwriting discipline of achieving a 96 combined ratio. This capital is held within our various insurance entities.

The second layer of capital we call "extreme contingency." While our regulatory capital is, by definition, a cushion for absorbing financial consequences of adverse events, such as loss reserve development, litigation, weather catastrophes, or investment market corrections, we view that as a base and hold additional capital for even more extreme conditions. The modeling used to quantify capital needs for these conditions is quite extensive, including tens of thousands of simulations, representing our best estimates of such contingencies based on historical experience. This capital is held either at a non-insurance subsidiary of the holding company or in our insurance entities, where it is potentially eligible for a dividend up to the holding company.

The third layer of capital is capital in excess of the sum of the first two layers and provides maximum flexibility to repurchase stock or other securities, consider acquisitions, and pay dividends to shareholders, among other purposes. This capital is largely held at a non-insurance subsidiary of the holding company.

At all times during the last two years, our total capital exceeded the sum of our regulatory capital layer plus our self-constructed extreme contingency load. However, in the first quarter 2009, the amount of capital in our third layer was diminished, principally due to decreased valuations for securities held in our investment portfolio. During this time, our capital management practices allowed us to manage our business without having to sell securities at values that were below our long-term assessment of the value of the investments. At December 31, 2010, we held total capital (debt plus equity) of $8.0 billion at book value, compared to $7.9 billion at book value at December 31, 2009.

The combination of strong operating and investment results increased the amount of capital in our third layer to a level that allowed our Board of Directors to take several actions to return underleveraged capital to our investors. In June 2010, we commenced an offer to purchase for cash (the "Tender Offer") up to $350 million in aggregate principal amount of our Debentures. The Tender Offer expired in July 2010. We received valid tenders from holders of the Debentures in the aggregate principal amount of $222.9 million. All of the tendering holders validly tendered by the early tender date and received consideration of $950 per $1,000 principal amount of the Debentures accepted for purchase, which included an early tender payment of $50 per $1,000 principal amount of Debentures accepted. The total cost of the debt Tender Offer, including the Consent Solicitation and all associated fees, was $214.3 million, resulting in a net gain of $6.4 million on the debt extinguishment. See *Note 4 – Debt* for additional information, including details of the Consent Solicitation to holders of our 6.25% Senior Notes due 2032, which allowed us to terminate the Replacement Capital Covenant and proceed with the Tender Offer.

We continued our practice of repurchasing our common shares when we deem it appropriate. During 2010, we repurchased 13.3 million shares at a total cost of $258.6 million.

As part of our capital strategy, in October 2010, the Board declared an extraordinary cash dividend of $1.00 per common share, payable on December 29, 2010 to shareholders of record at the close of business on December 20, 2010. This extraordinary cash dividend was in the aggregate amount of $663.2 million.

In addition, in December 2010, we declared our annual variable dividend, based on 2010 underwriting results. Using the variable dividend formula, which included a Gainshare factor of 1.50, after-tax underwriting income of $704.3 million, and the 25% target factor established by the Board of Directors, this dividend amounted to $.3987 per share, or $263.8 million; the dividend was paid to shareholders in February 2011.

Short-Term Borrowings

During the last three years, we did not engage in short-term borrowings to fund our operations. As discussed above, our insurance operations create liquidity by collecting and investing insurance premiums in advance of paying claims. Information concerning our insurance operations can be found below under *Results of Operations – Underwriting*, and details about our investment portfolio can be found below under *Results of Operations – Investments*.

In order to provide liquidity in the event of disruptions in our cash management operations, such as disruptions in the financial markets or related facilities, that could affect our ability to transfer or receive funds, we currently have a 364-Day Secured Liquidity Credit Facility Agreement with PNC Bank, National Association (PNC). Under this agreement, we may borrow up to $125 million, which may be increased to $150 million at our request but subject to PNC's discretion. Any borrowings under this agreement would be secured by a lien on certain marketable securities held in our investment portfolio. We had no borrowings under this arrangement in 2010 or 2009. See *Note 4 – Debt* for further discussion of our credit facility.

C. Commitments and Contingencies

Contractual Obligations

A summary of our noncancelable contractual obligations as of December 31, 2010, follows:

	Payments due by period				
(millions)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt	$ 1,977.1	$ 0	$ 500.0	$ 0	$ 1,477.1
Interest payments on debt	1,321.1	129.8	226.0	193.9	771.4
Operating leases	205.3	68.4	91.3	31.1	14.5
Purchase obligations	182.8	90.6	76.1	16.1	0
Loss and loss adjustment expense reserves	7,071.0	3,759.1	2,385.8	585.8	340.3
Total	$10,757.3	$4,047.9	$3,279.2	$826.9	$2,603.3

Purchase obligations represent our noncancelable commitments for goods and services (e.g., software licenses and maintenance on information technology equipment). Unlike many other forms of contractual obligations, loss and loss adjustment expense (LAE) reserves do not have definitive due dates and the ultimate payment dates are subject to a number of variables and uncertainties. As a result, the total loss and LAE reserve payments to be made by period, as shown above, are estimates based on our recent payment patterns. To further understand our claims payments, see *Claims Payment Patterns*, a supplemental disclosure provided in this Annual Report. In addition, we annually publish a comprehensive *Report on Loss Reserving Practices*, which was most recently filed with the SEC on a Form 8-K on June 30, 2010, that further discusses our claims payment development patterns.

We did not enter into any significant new contractual commitments outside the ordinary course of business during 2010 or 2009.

As discussed in the *Liquidity and Capital Resources* section above, we believe that we have sufficient borrowing capacity, cash flows, and other capital resources to satisfy these contractual obligations.

Off-Balance-Sheet Arrangements

Our off-balance-sheet leverage includes derivative positions (as disclosed in *Note 2 – Investments* and the *Derivative Instruments* section of this Management's Discussion and Analysis), operating leases, and purchase obligations (disclosed in the table above).

Other
We currently have no significant construction underway.

We maintain insurance on our real property and other physical assets, including coverage for losses due to business interruptions caused by covered property damage. However, the insurance will not compensate us for losses that may occur due to disruptions in service as a result of a computer, data processing, or telecommunications systems failure that is unrelated to covered property damage, nor will the insurance necessarily compensate us for all losses resulting from covered events. To help maintain functionality and reduce the risk of significant interruptions of our operations, we maintain back-up systems or facilities for certain of our principal systems and services. We still may be exposed, however, should these measures prove to be unsuccessful or inadequate against severe, multiple, or prolonged service interruptions or against interruptions of systems where no back-up currently exists. In addition, we have established emergency management teams, which are responsible for responding to business disruptions and other risk events. The teams' ability to respond successfully may be limited depending on the nature of the event, the completeness and effectiveness of our plans to maintain business continuity upon the occurrence of such an event, and other factors beyond our control.

III. RESULTS OF OPERATIONS — UNDERWRITING

A. Growth

(millions)	2010	2009	2008
NET PREMIUMS WRITTEN			
Personal Lines			
Agency	$ 7,490.2	$ 7,391.2	$ 7,322.3
Direct	5,534.2	5,061.9	4,556.5
Total Personal Lines	13,024.4	12,453.1	11,878.8
Commercial Auto	1,449.5	1,533.9	1,704.8
Other indemnity	2.9	15.9	20.7
Total underwriting operations	$14,476.8	$14,002.9	$13,604.3
Growth over prior year	3%	3%	(1)%
NET PREMIUMS EARNED			
Personal Lines			
Agency	$ 7,419.7	$ 7,414.8	$ 7,362.0
Direct	5,407.2	4,951.1	4,485.8
Total Personal Lines	12,826.9	12,365.9	11,847.8
Commercial Auto	1,474.2	1,623.3	1,762.2
Other indemnity	13.7	23.6	21.4
Total underwriting operations	$14,314.8	$14,012.8	$13,631.4
Growth over prior year	2%	3%	(2)%

Net premiums written represent the premiums generated from policies written during the period less any premiums ceded to reinsurers. Net premiums earned, which are a function of the premiums written in the current and prior periods, are earned as revenue over the life of the policy using a daily earnings convention.

Progressive generated an increase in total written and earned premiums during 2010 and 2009, as compared to a decline in 2008. The increase in premiums, which started during the latter part of 2008 and continued throughout 2009 and 2010, reflects the increase in new applications and our efforts to increase retention, as well as continued work on several initiatives aimed at providing consumers with distinctive new insurance options (discussed below). The Commercial Auto business continues to be negatively affected by the economy, with declines in both written and earned premium during the last three years.

Policies in force, our preferred measure of growth, represents all policies under which coverage was in effect as of the end of the period specified. As of December 31, our policies in force were:

(thousands)	2010	2009	2008
POLICIES IN FORCE			
Personal Lines			
Agency auto	4,480.1	4,299.2	4,288.6
Direct auto	3,610.4	3,201.1	2,824.0
Total auto	8,090.5	7,500.3	7,112.6
Special lines[1]	3,612.2	3,440.3	3,352.3
Total Personal Lines	11,702.7	10,940.6	10,464.9
Growth over prior year	7%	5%	3%
Commercial Auto	510.4	512.8	539.4
Growth over prior year	0%	(5)%	0%

[1] Includes insurance for motorcycles, ATVs, RVs, mobile homes, watercraft, snowmobiles, and similar items, as well as a personal umbrella product.

To analyze growth, we review new policies, rate levels, and the retention characteristics of our books of business. During the last three years, we experienced the following growth in new and renewal applications:

	Growth Over Prior Year		
	2010	2009	2008
APPLICATIONS			
Personal Lines			
New	7%	6%	(5)%
Renewal	5%	6%	4%
Commercial Auto			
New	(1)%	(9)%	(8)%
Renewal	(4)%	2%	4%

The increase in new applications for our Personal Lines business reflects solid growth in both our Direct and Agency auto businesses. The majority of the growth in 2010 occurred during the first part of the year. We have seen an increase in quoting activity in both our Agency and Direct businesses. Although we are unable to definitively identify what is driving this increase, we believe that our advertising campaign, product enhancements, and brand-building efforts, along with consumers evaluating their choices in response to the current economy, may be contributors. Our Commercial Auto business continued to experience a decline in new business applications, although the rate of decrease in 2010 is much lower than the declines in 2009 and 2008. This business continues to be affected by the economic downturn, particularly in the housing and construction sectors.

We continue to pursue initiatives aimed at providing consumers with distinctive new auto insurance options. During 2010, we completed the countrywide rollout of a program, which was introduced in 2008, called Name Your Price®. Under this program, Direct auto consumers receive coverage recommendations from which they are able to design a quote based on the price they would like to pay for their auto insurance; we then will tell them the level of coverage that price provides. Name Your Price is now available in all 50 states and the District of Columbia, including 11 states added during 2010.

During 2010, we also continued the rollout of new auto product models, which further refine our segmentation and incorporate the best design elements of the Agency and Direct auto products. We introduced these models in 16 states during 2010, bringing the total number of states to 19 at the end of the year. We plan to continue the rollout to about 15-20 additional states during 2011.

In addition, Snapshot℠, our usage-based insurance product, is now available to Direct auto consumers in 27 states, including 8 states added during 2010, and Agency auto customers in 9 of those 27 states. We plan to continue expansion of Snapshot into about 15 additional states in 2011, depending on regulatory approval and business results. We currently have three patents, and additional patent applications pending, with respect to usage-based insurance.

We are also continuing with our efforts to further penetrate customer households through cross-selling products. Progressive Home Advantage®, the program in which we “bundle” our auto product with property insurance provided by one of three unaffiliated insurance carriers, is becoming an integral part of our consumer offerings. The program is currently

available to Agency customers in 43 states and Direct customers in 48 states and the District of Columbia; this program is not available to customers in Florida and Alaska. In addition, we are focused on selling auto policies to our special lines customers and vice versa. These multi-product customers are an important part of our strategic agenda, since they tend to stay with us longer, have better loss experience, and represent a sizable segment of the market.

In 2010, we increased our focus on the mobile space by upgrading our mobile Web site for policy services and added the ability to quote auto insurance in 13 states. In addition, we elevated apps for iPhones and Androids during the year. We plan to invest in adding more mobile capabilities as consumer demand for these services continues to grow.

During the last three years, we experienced the following change in average written premium per policy:

	Change Over Prior Year		
	2010	2009	2008
WRITTEN PREMIUM PER POLICY			
Personal Lines — auto	(1)%	(2)%	(2)%
Commercial Auto	(6)%	(7)%	(4)%

In each of the last three years, both our personal auto, which accounts for approximately 90% of our Personal Lines business, and Commercial Auto businesses experienced a decrease in written premium per policy, despite rate increases taken each year. The decrease is primarily the result of shifts in our mix of business. Adjusting rates is a continuous process and we will continue to evaluate future rate needs and react quickly as we recognize changing trends. See below for additional discussion on written premium per policy for our Agency and Direct auto channels and our Commercial Auto business.

Another important element affecting growth is customer retention. One measure of retention is policy life expectancy, which is our actuarial estimate of the average length of time that a policy will remain in force before cancellation or lapse in coverage. The following table shows the year-over-year change in policy life expectancy for the last three years:

	Change Over Prior Year		
	2010	2009	2008
POLICY LIFE EXPECTANCY			
Personal Lines:			
Auto	5%	3%	11%
Special lines	(1)%	(3)%	1%
Commercial Auto	(1)%	0%	(2)%

Our improved loyalty programs and our efforts to stabilize rates at renewal contributed to the lengthening policy life expectancies in our personal auto business. Both our special lines and Commercial Auto businesses have not seen significant changes in policy life expectancy over the last several years. Realizing the importance that retention has on our ability to continue to grow profitably, we continue to emphasize competitive pricing, quality service, and other retention initiatives for our current customers.

B. Profitability

Profitability for our underwriting operations is defined by pretax underwriting profit, which is calculated as net premiums earned less losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses. We also use underwriting profit margin, which is underwriting profit expressed as a percentage of net premiums earned, to analyze our results. For the three years ended December 31, our underwriting profitability measures were as follows:

	2010		2009		2008	
	Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)	
($ in millions)	$	Margin	$	Margin	$	Margin
Personal Lines						
Agency	$ 601.0	8.1%	$ 579.2	7.8%	$360.7	4.9%
Direct	291.1	5.4	357.9	7.2	274.8	6.1
Total Personal Lines	892.1	7.0	937.1	7.6	635.5	5.4
Commercial Auto	185.0	12.5	229.8	14.2	94.1	5.3
Other indemnity[1]	6.4	NM	8.7	NM	5.3	NM
Total underwriting operations	$1,083.5	7.6%	$1,175.6	8.4%	$734.9	5.4%

[1] Underwriting margins for our other indemnity businesses are not meaningful (NM) due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

During 2010, we increased our advertising expenditures and recognized additional Gainsharing expense; our Gainshare factor was 1.50 in 2010, compared to .71 and .80 in 2009 and 2008, respectively. These higher costs were partially offset by a greater amount of favorable prior accident year development in 2010, as compared to 2009. In 2008, we recognized slight unfavorable prior accident year development. The amount of catastrophe losses we experienced was comparable in 2010 and 2009, while the 2008 combined ratio was higher by about 0.5 points, reflecting losses from hurricanes Ike and Gustav, as well as hail storms and floods in the Midwest and Great Plains.

Further underwriting results for our Personal Lines business, including its channel components, the Commercial Auto business, and other indemnity businesses, as defined in *Note 10 – Segment Information*, were as follows:

Underwriting Performance[1]	2010	2009	2008
Personal Lines – Agency			
Loss & loss adjustment expense ratio	70.6	71.1	73.7
Underwriting expense ratio	21.3	21.1	21.4
Combined ratio	91.9	92.2	95.1
Personal Lines – Direct			
Loss & loss adjustment expense ratio	72.6	72.3	73.3
Underwriting expense ratio	22.0	20.5	20.6
Combined ratio	94.6	92.8	93.9
Total Personal Lines			
Loss & loss adjustment expense ratio	71.4	71.5	73.5
Underwriting expense ratio	21.6	20.9	21.1
Combined ratio	93.0	92.4	94.6
Commercial Auto			
Loss & loss adjustment expense ratio	65.1	64.7	73.2
Underwriting expense ratio	22.4	21.1	21.5
Combined ratio	87.5	85.8	94.7
Total Underwriting Operations[2]			
Loss & loss adjustment expense ratio	70.8	70.7	73.5
Underwriting expense ratio	21.6	20.9	21.1
Combined ratio	92.4	91.6	94.6
Accident year-Loss & loss adjustment expense ratio[3]	73.0	71.7	73.3

[1] Ratios are expressed as a percentage of net premiums earned.

[2] Combined ratios for the other indemnity businesses are not presented separately due to the low level of premiums earned by, and the variability of loss costs in, such businesses. For the years ended December 31, 2010, 2009, and 2008, these businesses generated an underwriting profit of $6.4 million, $8.7 million, and $5.3 million, respectively.

[3] The accident year ratio includes only the losses that occurred during the period noted. As a result, accident period results will change over time as our estimates of loss costs improve or deteriorate when payments are made or reserves for that accident period are reviewed.

Losses and Loss Adjustment Expenses (LAE)

(millions)	2010	2009	2008
Change in net loss and LAE reserves	$ 243.3	$ 190.7	$ 277.7
Paid losses and LAE	9,888.0	9,714.2	9,737.3
Total incurred losses and LAE	$10,131.3	$9,904.9	$10,015.0

Claims costs, our most significant expense, represent payments made, and estimated future payments to be made, to or on behalf of our policyholders, including expenses needed to adjust or settle claims. Claims costs are defined by loss severity and frequency and are influenced by inflation and driving patterns, among other factors. Accordingly, anticipated changes in these factors are taken into account when we establish premium rates and loss reserves. Our reserves would differ if the underlying assumptions were changed. See *Critical Accounting Policies* for a discussion of the effect of changing estimates.

Our total loss and loss adjustment expense ratio was relatively unchanged in 2010 compared to 2009, while 2008 was nearly 3 points higher. Catastrophe losses contributed 0.8 points in 2010 to our loss and loss adjustment expense ratio, compared to 0.7 points in 2009 and 1.2 points in 2008. The large amount of catastrophe losses in 2008 primarily related to hurricanes Ike and Gustav, and hail storms and floods in the Midwest and Great Plains. We recognized favorable prior accident year development in 2010 and 2009 and slight unfavorable development in 2008. On an accident year basis, our 2009 loss and loss adjustment expense ratio was about 1.5 points lower than both 2010 and 2008, primarily reflecting lower frequency in our Commercial Auto business in 2009, compared to the other two years.

The following discussion on our severity and frequency trends excludes the impact from comprehensive coverage due to the volatility related to certain types of losses, such as catastrophe losses and glass claims.

During 2010, total personal auto incurred severity (i.e., average cost per claim, including both paid losses and the change in reserves) was down about 1.5% compared to the prior year, but was relatively flat in 2009 and increased about 3% in 2008, over the prior-year periods. In 2010, we experienced a decrease in severity for bodily injury coverage and the property coverages, while personal injury protection (PIP) severity increased about 3%. We also saw a decrease in severity in the property coverages in 2009 and an increase in PIP severity, while bodily injury severity remained relatively flat. The overall increase in severity in 2008 was primarily from increases in both bodily injury and PIP coverages, while the severity for the property coverages in total was relatively flat. It is difficult to estimate future severity, especially for bodily injury and PIP claims, but we continue to monitor changes in the underlying costs, such as medical costs, health care reform, jury verdicts, and regulatory changes, which may affect severity. The severity we experience also will vary with changes in our mix of business by policy limits and coverages.

Our incurred frequency of auto accidents, on a calendar-year basis, remained relatively flat in both 2010 and 2009 and declined in 2008, compared to the prior-year periods. In 2010, we experienced a slight increase in frequency in bodily injury and PIP coverages, while the frequency in the property coverages remained flat. In 2009, decreases in the property coverages frequency were offset by increases in our bodily injury and PIP coverages. In 2008, we saw declines in frequency in the property, bodily injury, and PIP coverages. We cannot predict with any certainty the degree or direction of frequency change that we will experience in the future. We continue to analyze trends to distinguish changes in our experience from external factors, such as changes in the number of vehicles per household, miles driven, gasoline prices, greater vehicle safety, and unemployment rates, versus those resulting from shifts in the mix of our business, to allow us to more accurately reserve for our loss exposure.

The table below presents the actuarial adjustments implemented and the loss reserve development experienced in the years ended December 31:

($ in millions)	2010	2009	2008
Actuarial Adjustments			
Reserve decrease/(increase)			
Prior accident years	$ 124.6	$ 3.9	$ (56.1)
Current accident year	71.0	(51.5)	3.6
Calendar year actuarial adjustments	$ 195.6	$ (47.6)	$ (52.5)
Prior Accident Years Development			
Favorable/(Unfavorable)			
Actuarial adjustments	$ 124.6	$ 3.9	$ (56.1)
All other development	195.8	132.1	22.9
Total development	$ 320.4	$ 136.0	$ (33.2)
(Increase) decrease to calendar year combined ratio	2.2 pts.	1.0 pts.	(.2) pts.

Total development consists both of actuarial adjustments and “all other development.” The actuarial adjustments represent the net changes made by our actuarial department to both current and prior accident year reserves based on regularly scheduled reviews. Through these reviews, the actuaries have the ability to identify and measure variances in frequency and severity trends and adjust the reserves to reflect the current costs. We report these actuarial adjustments separately for the current and prior accident years to show the impact of these changes on the prior accident years’ development.

"All other development" represents claims settling for more or less than reserved, emergence of unrecorded claims at rates different than our incurred but not recorded (IBNR) reserves, and changes in reserve estimates on specific claims. Although we believe that the development from both the actuarial adjustments and "all other development" generally results from the same factors, as discussed below, we are unable to quantify the portion of the reserve development that might be applicable to any one or more of those underlying factors.

Our objective is to establish case and IBNR reserves that are adequate to cover all loss costs, while sustaining minimal variation from the date that the reserves are initially established until losses are fully developed. As reflected in the table above, we experienced favorable reserve development in both 2010 and 2009, compared to unfavorable total development in 2008. Approximately 70% of the favorable development in 2010 was attributable to accident year 2009, while the balance was mostly due to claims from accident years 2007 and 2006. The favorable development in 2009 was primarily due to favorable development for accident year 2008 and accident years 2006 and prior. For 2008, the unfavorable development was heavily weighted towards claims from the 2006 accident year with favorable development for periods older than that.

In 2010, approximately 70% of the favorable reserve development was attributable to our Personal Lines business, with the balance in our Commercial Auto business. Our Agency and Direct channels contributed almost equal amounts of favorable development in our Personal Lines business. The development partially reflected favorable settlement of larger losses in both personal auto and Commercial Auto. During 2010, the reserves for our defense cost and containment expenses also developed favorably for accident year 2009, primarily reflecting fewer claims being litigated and a greater percentage of these cases being handled by our in-house counsel. Our IBNR reserves also developed favorably during the year due to lower severity and frequency of late emerging claims.

In 2009, approximately 90% of the favorable reserve development was attributable to our personal auto and Commercial Auto products, with each contributing nearly equal amounts; the balance was in our special lines products. The favorable development we experienced in our total Personal Lines business in 2009 was primarily related to lower than expected defense and cost containment costs, while the favorable development in our Commercial Auto business was primarily due to favorable settlements on larger losses.

The total prior year unfavorable reserve development in 2008 principally arose in our Commercial Auto business, while our Personal Lines business, in aggregate, experienced very little development overall, despite primarily two states experiencing unfavorable development in our PIP claims. The majority of the development in 2008 was driven by an increase in the number of late reported Commercial Auto claims, as well as an increase in the estimated severity on those claims, in both the business auto and truck markets.

We continue to focus on our loss reserve analysis, attempting to enhance accuracy and to further our understanding of our loss costs. A detailed discussion of our loss reserving practices can be found in our *Report on Loss Reserving Practices*, which was filed in a Form 8-K on June 30, 2010.

Because we are primarily an insurer of motor vehicles, our exposure as an insurer of environmental, asbestos, and general liability claims is limited. We have established reserves for these exposures in amounts that we believe to be adequate based on information currently known. These exposures do not have a material effect on our liquidity, financial condition, cash flows, or results of operations.

Underwriting Expenses

Progressive's other underwriting expenses and policy acquisition costs as a percentage of premiums earned increased 0.7 points in 2010 and were fairly consistent in 2009 and 2008, over the prior-year periods. On a year-over-year basis, our advertising expenditures increased in each of the last three years. We continued to improve customer retention in our personal auto products and a solid increase in companywide policies in force per full-time equivalent employee, which helped mitigate the higher advertising costs. In 2010, we also had an increase in our Gainsharing expense, reflecting strong underwriting performance for the year. In accordance with GAAP, policy acquisition costs are amortized over the policy period in which the related premiums are earned (See *Note 1 – Reporting and Accounting Policies*). We do not defer any advertising costs.

C. Personal Lines

	Growth Over Prior Year		
	2010	2009	2008
Net premiums written	5%	5%	0%
Net premiums earned	4%	4%	(1)%
Policies in force	7%	5%	3%

Progressive's Personal Lines business writes insurance for personal autos and recreational vehicles, and represented 90% of our total net premiums written in 2010, compared to 89% for 2009 and 87% for 2008. We currently write our Personal Lines products in all 50 states, although we only offer our personal auto product (not special lines products) in the District of Columbia. During 2009, we began offering our personal auto product on an Internet-only basis in Australia and expanded our offerings in Massachusetts to include motorcycle and RV insurance. In mid-2008, we began offering our personal auto product and boat insurance to Direct Internet customers in Massachusetts.

Personal auto represented about 90% of our total Personal Lines net premiums written in each of the past three years. These auto policies are primarily written for 6-month terms. The remaining Personal Lines business is comprised of special lines products (e.g., motorcycles, watercraft, and RVs), which are written for 12-month terms. Personal auto policies in force increased 8% for 2010, 5% for 2009, and 2% for 2008; policies in force for the special lines products increased 5% in 2010, 3% in 2009, and 7% in 2008. Net premiums written for personal auto increased 5% in both 2010 and 2009 and declined 1% in 2008; special lines net premiums written grew 1% in 2010 and 4% in both 2009 and 2008.

Our total Personal Lines business generated strong underwriting results in 2010, which were widely distributed by product and state. In 2010, 47 states were profitable, including 9 of our 10 largest states. The special lines products had a favorable effect on the total Personal Lines combined ratio of approximately 1.5 points in 2010, 1.0 points in 2009, and 0.5 points in 2008, which reflects the higher catastrophe losses affecting these products in 2008.

Even though our Agency and Direct businesses are managed under one Personal Lines organization, we will continue to report our Agency and Direct business results separately as components of our Personal Lines segment to provide further understanding of our products by channel.

The Agency Business

	Growth Over Prior Year		
	2010	2009	2008
Net premiums written	1%	1%	(3)%
Net premiums earned	0%	1%	(4)%
Auto: policies in force	4%	0%	(2)%
new applications	4%	3%	(13)%
renewal applications	1%	0%	0%
written premium per policy	0%	0%	(2)%
policy life expectancy	8%	2%	11%

The Agency business includes business written by more than 30,000 independent insurance agencies that represent Progressive, as well as brokerages in New York and California. In 2010, our Agency auto business had attractive growth in new applications and policies in force, building on momentum gained in the second half of 2009. During 2010, year-over-year Agency auto new applications grew in 33 states and the District of Columbia, compared to 29 states in 2009 and 17 states in 2008. Over the last three years, written premium per policy on total Agency auto business has remained relatively steady. Retention in our Agency auto business (measured by policy life expectancy) has improved in each of the last three years, reflecting our improved loyalty programs and our efforts to stabilize rates at renewal.

In each of the last three years, we saw an increase in the number of quotes, compared to the prior year, reflecting increased use of third-party comparative rating systems in agents' offices and our improved presentation on these systems. Year-over-year, the rate of conversion (i.e., converting a quote to a sale) was relatively flat in 2010 and decreased in both 2009 and 2008.

The underwriting expense ratio in our Agency business has remained relatively consistent over the last three years. Improved customer retention and cost saving efforts helped keep expenses in line.

The Direct Business

	Growth Over Prior Year		
	2010	2009	2008
Net premiums written	9%	11%	4%
Net premiums earned	9%	10%	3%
Auto: policies in force	13%	13%	9%
new applications	9%	20%	2%
renewal applications	13%	13%	9%
written premium per policy	(3)%	(4)%	(4)%
policy life expectancy	2%	3%	11%

The Direct business includes business written directly by Progressive online and over the phone. Compared to the prior year, the Direct business experienced an increase in new auto applications in 44 states and the District of Columbia in 2010, 48 states and the District of Columbia in 2009, and 27 states in 2008. Out of our top 10 Direct auto states, 8 states experienced an increase in new auto applications in 2010, compared to 9 states in 2009; in 2008, primarily our mid-sized states experienced an increase in Direct new auto applications. Internet sales continue to be the most significant source of new business that is initiated in the Direct channel.

Written premium per policy for total Direct auto was down in each of the last three years. The decreases in each year primarily reflect shifts in our mix of business (e.g., state mix, drivers with proof of prior insurance, and older age vehicles). In addition, policy life expectancy in our Direct auto business has lengthened in each of the last three years, as we continue to work on creating an enhanced customer experience.

On a year-over-year basis, the total number of quotes in the Direct business increased in each of the last three years, reflecting an increase in Internet quotes due to more effective advertising, an increase in online consumer shopping, and our entry into Massachusetts in 2008. The Internet, which is already the largest portion of our Direct business, continues to be the fastest growing. Phone quotes also increased in each of the last three years, but to a lesser extent than quotes generated via the Internet. Year-over-year, we experienced a solid increase in the total Direct business conversion rate in both 2010 and 2009, led by increases in the conversion rate for Internet-initiated business. In 2008, the conversion rate was down compared to the prior year.

We increased our total advertising expenditures on a year-over-year basis in each of the last three years. We continue to work toward achieving our key objective of having our efforts in marketing and other brand-building activities match our competency in other technical skills, such as pricing and claims handling. We are continuing with our advertising campaign launched in 2008, which provides a consistent identity and serves as a foundation for delivery of our many messages. Efficiency, as measured by policies in force per full-time equivalent employee, had increased for each of the last three years, which helped mitigate the higher advertising spend.

D. Commercial Auto

	Growth Over Prior Year		
	2010	2009	2008
Net premiums written	(6)%	(10)%	(7)%
Net premiums earned	(9)%	(8)%	(5)%
Policies in force	0%	(5)%	0%
New applications	(1)%	(9)%	(8)%
Renewal applications	(4)%	2%	4%
Written premium per policy	(6)%	(7)%	(4)%
Policy life expectancy	(1)%	0%	(2)%

Progressive's Commercial Auto business writes primary liability and physical damage insurance for automobiles and trucks owned by small businesses, with the majority of our customers insuring three or fewer vehicles. Our Commercial Auto business represented 10% of our total net premiums written in 2010, compared to 11% in 2009 and 13% in 2008. This business is primarily distributed through independent agents and operates in the business auto and truck markets. The business auto market, which accounts for slightly more than half of our total Commercial Auto premiums and approximately 60% of the vehicles we insure in this business, includes autos, vans, and pick-up trucks used by small businesses, such as

contractors, landscapers, and plumbers. The remainder is in the truck commercial auto market, which includes dump trucks, logging trucks, tow trucks, local cartage, and other short-haul commercial vehicles. Both of these markets have been significantly affected by the downturn in the economy, as well as increased competition in the commercial auto business.

We currently write our Commercial Auto business in 49 states; we do not write Commercial Auto in Hawaii or the District of Columbia. The majority of our policies in this business are written for 12-month terms.

The economic downturn during the last three years has had a significant effect on our Commercial Auto business growth. Although our Commercial Auto business experienced a decrease in new applications in each of the last three years, we saw meaningful signs of growth emerge in 2010. Policies in force remained relatively unchanged since the end of 2009. Although we have been increasing rates in our Commercial Auto business, written premium per policy has been decreasing due to shifts in our mix of business (e.g., greater percentage of liability-only policies, changes in geographical mix, and more policies qualifying for discounts). The change in policy life expectancy for our Commercial Auto business was slightly negative or flat over the last three years.

Commercial Auto's expense ratio increased 1.3 points in 2010. The increase is due to increased information technology costs and an increase in Gainsharing expense.

Although Commercial Auto differs from Personal Lines auto in its customer base and products written, both businesses require the same fundamental skills, including disciplined underwriting and pricing, as well as excellent claims service. Since the Commercial Auto policies have higher limits than Personal Lines auto, we analyze the large loss trends and reserving in more detail to allow us to react quickly to changes in this exposure.

E. Other Indemnity

Our other indemnity businesses, which represented less than 1% of our net premiums written in each of the last three years, consist of managing our run-off businesses, which includes the run-off of our professional liability businesses, principally directors and officers liability insurance for community banks.

The other businesses generated an underwriting profit of $6.4 million, $8.7 million, and $5.3 million in 2010, 2009, and 2008, respectively. The 2010 profit primarily reflects the sale of our professional liability businesses to an affiliate of the American Bankers Association during the first quarter. Pursuant to our agreement with the purchaser of these businesses, we will continue to write policies for an agreed upon period after the closing of the sale. From August 1, 2009 through June 30, 2010, the substantial majority of the business written for these policies was 100% reinsured. Beginning in July 2010, all new and renewal business is 100% reinsured. Prior to August 1, 2009, we reinsured the majority of the risk on these coverages with a small mutual reinsurer controlled by its bank customers and various other reinsurance entities.

F. Service Businesses

Our service businesses provide insurance-related services and represented less than 1% of our total revenues for each of the last three years and do not have a material effect on our overall operations.

Our service business provides policy issuance and claims adjusting services for the Commercial Auto Insurance Procedures/Plans (CAIP), which are state-supervised plans serving the involuntary market in 43 states. We are the sole nationwide servicing carrier for CAIP. As a service provider, we collect fee revenue that is earned on a pro rata basis over the terms of the related policies. In 2010, we reached an agreement with AIPSO (the national organization responsible for administering the involuntary insurance market) under which we will receive a supplemental fee, when necessary, to satisfy a minimum servicing fee requirement. We cede 100% of the premiums and losses to the plans. Reimbursements to us from the CAIP plans are required by state laws and regulations. Material violations of contractual service standards can result in ceding restrictions for the affected business. We have maintained, and plan to continue to maintain, compliance with these standards. Any changes in our participation as a CAIP service provider would not materially affect our financial condition, results of operations, or cash flows.

Our service businesses also include our alliance with three unaffiliated homeowner insurance companies, of which one company services our Agency customers, one services our Direct customers, and the third is available to both businesses. Through Progressive Home Advantage®, we offer, either directly or through our network of independent agents, new and existing Progressive Agency and Direct customers home, condo, and renters insurance underwritten by these homeowner's insurance companies. For the policies written in our Direct business, we receive commissions, which are used to mitigate the expenses associated with maintaining this program. This program is available to our Personal Lines customers in 48 states and the District of Columbia; it is not currently available in Alaska or Florida.

Our service businesses generated an operating profit in 2010, reflecting the recognition of the minimum servicing fee for CAIP discussed above, compared to operating losses in 2009 and 2008, reflecting the continuing downturn in the involuntary commercial auto market.

G. Litigation

The Progressive Corporation and/or its insurance subsidiaries are named as defendants in various lawsuits arising out of claims made under insurance policies in the ordinary course of our business. All legal actions relating to such insurance claims are considered by us in establishing our loss and loss adjustment expense reserves.

In addition, various Progressive entities are named as defendants in a number of class action or individual lawsuits arising out of the operations of the insurance subsidiaries. These cases include those alleging damages as a result of our practices in evaluating or paying medical or injury claims or benefits, including, but not limited to, personal injury protection, medical payments, uninsured motorist/underinsured motorist (UM/UIM), and bodily injury benefits; rating practices at policy renewal; the utilization, content, or appearance of UM/UIM rejection forms; labor rates paid to auto body repair shops; and cases challenging other aspects of our claims or marketing practices or other business operations. Other insurance companies face many of these same issues. During the last three years, we have settled several class action lawsuits. These settlements did not have a material effect on our financial condition, cash flows, or results of operations. See *Note 12 – Litigation* for a more detailed discussion.

H. Income Taxes

As reported in the balance sheets, income taxes are comprised of net current income taxes payable/recoverable and net deferred tax assets and liabilities. A deferred tax asset/liability is a tax benefit/expense that is expected to be realized in a future tax return. At both December 31, 2010 and 2009, our income taxes were in a net asset position.

Our net deferred tax asset was $178.2 million at December 31, 2010, compared to $420.0 million at December 31, 2009. The decrease in our deferred tax asset since December 31, 2009 was primarily due to the increase in net unrealized gains in our investment portfolio since that date and sales of securities for which we had previously recorded other-than-temporary impairments. At both December 31, 2010 and 2009, we determined that we did not need a valuation allowance on our deferred tax asset. Although realization of the deferred tax asset is not assured, management believes it is more likely than not that the gross deferred tax asset will be realized based on our expectation that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes.

There were no material changes in our uncertain tax positions during 2010.

See *Note 5 – Income Taxes* for further information.

IV. RESULTS OF OPERATIONS — INVESTMENTS

A. Portfolio Allocation

At year-end 2010, the fair value of our investment portfolio was $15.5 billion, 6% greater than at year-end 2009, reflecting increases in the value of our fixed-maturity and common equity holdings, partially offset by cash used for our shareholder dividends and to repurchase our shares and a portion of our outstanding 6.70% Debentures. Our investment income (interest and dividends) increased 3% in 2010, as compared to 2009, reflecting an increase in average assets, partially offset by lower yields in the portfolio. Our investment income decreased 20% in 2009, as compared to 2008, reflecting lower yields earned due to an extremely low interest rate environment and our decision to shorten our portfolio duration and to invest in U.S. Treasury Notes and short-term investments to reduce the potential for additional portfolio valuation declines.

In 2010, we recognized $96.1 million in net realized gains, primarily the result of security sales offset by changes in valuation of our derivative positions and write-downs of securities determined to have had other-than-temporary declines in fair value. In 2009, we recognized $27.1 million in net realized gains, primarily the result of security sales, partially offset by write-downs of securities determined to have had other-than-temporary declines in fair value. In 2008, we recognized $1,445.1 million in net realized losses, primarily the result of write-downs of securities determined to have had other-than-temporary declines in fair value. The composition of the investment portfolio at December 31 was:

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)[1]	Fair Value	% of Total Portfolio	Duration (years)	Rating[2]
2010								
Fixed maturities	$ 11,630.8	$ 304.1	$ (87.1)	$ 2.2	$ 11,850.0	76.3%	2.3	AA
Nonredeemable preferred stocks	601.3	560.2	0	(3.9)	1,157.6	7.5	1.2	BBB-
Short-term investments - other	1,090.8	0	0	0	1,090.8	7.0	<1	AAA-
Total fixed-income securities	13,322.9	864.3	(87.1)	(1.7)	14,098.4	90.8	2.0	AA-
Common equities				0				
	1,021.7	406.5	(3.2)	0	1,425.0	9.2	na	na
Total portfolio[3,4]	$14,344.6	$1,270.8	$ (90.3)	$ (1.7)	$ 15,523.4	100.0%	2.0	AA-
2009								
Fixed maturities	$ 11,717.0	$ 173.0	$ (326.6)	$ 0	$ 11,563.4	78.6%	2.6	AA+
Nonredeemable preferred stocks	665.4	597.6	0	(7.2)	1,255.8	8.5	1.5	BBB
Short-term investments - other	1,078.0	0	0	0	1,078.0	7.3	<1	AAA-
Total fixed-income securities	13,460.4	770.6	(326.6)	(7.2)	13,897.2	94.4	2.3	AA
Common equities	598.4	220.1	(2.3)	0	816.2	5.6	na	na
Total portfolio[3,4]	$ 14,058.8	$ 990.7	$ (328.9)	$ (7.2)	$ 14,713.4	100.0%	2.3	AA

na = not applicable

[1] Represents net holding period gains (losses) on certain hybrid securities.

[2] Represents ratings at December 31, 2010 and 2009. Credit quality ratings are assigned by nationally recognized securities rating organizations. To calculate the weighted average credit quality ratings, we weight individual securities based on fair value and assign a numeric score of 0-5, with non-investment-grade and non-rated securities assigned a score of 0-1. To the extent the weighted average of the ratings falls between AAA and AA+, we assign an internal rating of AAA-.

[3] At December 31, 2010, we had $46.3 million of net unsettled security transactions offset in other assets, compared to $7.7 million offset in other liabilities at December 31, 2009.

[4] The total fair value of the portfolio includes $2.2 billion at December 31, 2010 and 2009, respectively, of securities in the portfolio of a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

Progressive's asset allocation strategy is to maintain 0-25% of our portfolio in Group I securities (i.e., common equities, redeemable and nonredeemable preferred stocks (preferred stocks), and non-investment-grade and non-rated fixed-maturity securities), with the balance (75-100%) of our portfolio in Group II securities (i.e., all other fixed-maturity securities, including U.S. Treasury Notes, municipal bonds, asset-backed securities, and corporate debt, as well as short-term investments). This strategy is based on our need to maintain capital adequate to support our insurance operations, recognizing that our outstanding claims obligations are typically short in duration. Investments in our portfolio have varying degrees of risk. We evaluate the risk/reward trade-offs of investment opportunities, measuring their effects on stability, diversity, overall quality and liquidity, and the potential return of the investment portfolio. We also monitor the value at risk of the portfolio (see the *Quantitative Market Risk Disclosures,* a supplemental schedule provided in this Annual Report, for further information). The composition of our Group I and Group II securities at December 31 was:

($ in millions)	Fair Value	% of Total Portfolio
2010		
Group I securities:		
Non-investment-grade fixed maturities [1]	$ 631.9	4.1%
Redeemable preferred stocks	502.5	3.2
Non-redeemable preferred stocks	1,157.6	7.5
Common equities	1,425.0	9.2
Total Group I securities	3,717.0	24.0
Group II securities:		
Other fixed maturities	10,715.6	69.0
Short-term investments - other	1,090.8	7.0
Total Group II securities	11,806.4	76.0
Total portfolio	$ 15,523.4	100.0%
2009		
Group I securities:		
Non-investment-grade fixed maturities [1]	$ 328.5	2.2%
Redeemable preferred stocks	606.7	4.1
Non-redeemable preferred stocks	1,255.8	8.6
Common equities	816.2	5.6
Total Group I securities	3,007.2	20.5
Group II securities:		
Other fixed maturities	10,628.2	72.2
Short-term investments - other	1,078.0	7.3
Total Group II securities	11,706.2	79.5
Total portfolio	$ 14,713.4	100.0%

[1] Excludes non-investment-grade redeemable preferred stocks of $233.3 million in 2010 and $260.5 million in 2009.

Unrealized Gains and Losses

As of December 31, 2010, our portfolio had pretax net unrealized gains, recorded as part of accumulated other comprehensive income, of $1,180.5 million, compared to net unrealized gains of $661.8 million at December 31, 2009. During the year, our fixed-income portfolio generated net unrealized gains of $333.2 million as a result of price recovery in all security classes of the portfolio, except our state and local government obligations. The net unrealized gains in the common stock portfolio increased $185.5 million during 2010, reflecting positive returns in the equity market. See *Note 2 – Investments* for a further break-out of our gross unrealized gains and losses.

Fixed-Income Securities

The fixed-income portfolio is managed internally and includes fixed-maturity securities, short-term investments, and nonredeemable preferred stocks. The fixed-maturity securities and short-term investments, as reported on the balance sheets at December 31, were comprised of the following:

($ in millions)	2010		2009	
Investment-grade fixed maturities:[1]				
Short/intermediate term	$12,037.2	93.0%	$12,034.6	95.2%
Long term	38.4	.3	17.8	.1
Non-investment-grade fixed maturities[2]	865.2	6.7	589.0	4.7
Total	$12,940.8	100.0%	$12,641.4	100.0%

[1] Long term includes securities with expected liquidation dates of 10 years or greater. Asset-backed securities are reported at their weighted average maturity based upon their projected cash flows. All other securities that do not have a single expected maturity date are reported at average maturity.

[2] Non-investment-grade fixed-maturity securities are non-rated or have a quality rating of an equivalent BB+ or lower, classified by the lowest rating from a nationally recognized rating agency.

Approximately 65% of the increase in dollar amount of our non-investment-grade fixed maturities as compared to December 31, 2009 resulted from security purchases in our non-financial corporate debt portfolio. The remaining 35% increase resulted from credit downgrades, primarily in our residential asset-backed portfolio. The new acquisitions in our non-financial corporate debt portfolio have a duration of 3.5 years. We believe these securities offer a solid return potential with an attractive risk/return profile.

A primary exposure for the fixed-income portfolio is interest rate risk, which is managed by maintaining the portfolio's duration between 1.5 and 5 years. Interest rate risk includes the change in value resulting from movements in the underlying market rates of debt securities held. The fixed-income portfolio had a duration of 2.0 years at December 31, 2010, compared to 2.3 years at December 31, 2009. The reduction in duration from the prior year reflects our decision to reduce the overall portfolio valuation risk exposure to a rise in interest rates from their current low levels. The distribution of duration and convexity (i.e., a measure of the speed at which the duration of a security is expected to change based on a rise or fall in interest rates) are monitored on a regular basis.

As of December 31, the duration distribution of our fixed-income portfolio, represented by the interest rate sensitivity of the comparable benchmark U.S. Treasury Notes, was:

Duration Distribution	2010	2009
1 year	34.6%	18.1%
2 years	15.5	21.8
3 years	23.4	20.7
5 years	22.6	27.5
10 years	3.9	11.9
Total fixed-income portfolio	100.0%	100.0%

Another primary exposure related to the fixed-income portfolio is credit risk. This risk is managed by maintaining a minimum average portfolio credit quality rating of A+, as defined by nationally recognized rating agencies. Beginning late in the second quarter 2009, and continuing through 2010, as our capital position and the economic outlook improved, we added investment-grade, short- to intermediate-term securities primarily in the non-financial corporate, asset-backed, and municipal sectors. We also added non-investment-grade, non-financial corporate securities during 2010.

The credit quality distribution of the fixed-income portfolio at December 31 was:

Rating	2010	2009
AAA	54.8%	60.1%
AA	11.6	11.6
A	6.8	12.1
BBB	18.2	9.9
Non-rated/other	8.6	6.3
Total fixed-income portfolio	100.0%	100.0%

Approximately 78% of the increase in the BBB category since December 31, 2009 was due to security purchases in our corporate debt portfolio (as discussed above), with the balance from credit downgrades and valuation increases in our preferred stock portfolio. The non-rated/other category increase from December 31, 2009 was due to (i) purchases of non-financial corporate debt securities, (ii) credit downgrades in our asset-backed portfolio, and (iii) valuation increases in our asset-backed and preferred stock portfolios.

Our portfolio is also exposed to concentration risk. Our investment constraints, which were revised in 2009, limit investment in a single issuer, other than U.S. Treasury Notes or a state's general obligation bonds, to 2.5% of shareholders' equity, while the single issuer limitation on preferred stocks and/or non-investment-grade debt is 1.25% of shareholders' equity. Additionally, the guideline applicable to any state's general obligation bonds was reduced to 6% of shareholders' equity. As of December 31, 2010, the investment portfolio exceeded the 1.25% limitation on a few preferred stocks and/or non-investment-grade positions, the acquisition of which predated the revised guidelines. Prior to the new guidelines being adopted, all sectors of the portfolio were within the then applicable investment constraints. These positions within the portfolio will continue to be outside the 1.25% limitation for a period of time as management works to bring the portfolio within this guideline, the timing of which will be influenced by many factors, including market price and liquidity levels. Our credit risk guidelines limit single issuer exposure; however, we also consider sector concentration a risk and we frequently evaluate the portfolio's sector allocation with regard to internal requirements and external market factors. Additionally, we consider concentration risk in the context of asset classes, including but not limited to common equities, residential and commercial mortgage securities, municipal bonds, and high-yield bonds.

We also monitor prepayment and extension risk, especially in our structured product and preferred stock portfolios. Prepayment risk includes the risk of early redemption of security principal that may need to be reinvested at less attractive rates. Extension risk includes the risk that a security will not be redeemed when anticipated, and that a security we hold has a lower yield than a security we might be able to obtain by reinvesting the expected redemption principal. The different types of structured debt and preferred securities that we hold help minimize this risk. During 2010, we did not experience significant prepayment or extension of principal relative to our cash flow expectations in the portfolio.

The pricing on the majority of our preferred stocks continues to reflect expectations that many issuers will not call such securities on the first call date, and hence reflects an assumption that the securities will remain outstanding for a period of time beyond such initial call date (extension risk).

We also face the risk that our preferred stock dividend payments could be deferred for one or more periods. As of December 31, 2010, all of our preferred securities continued to pay full and timely dividends.

Liquidity risk is another risk factor we monitor. Our overall portfolio remains very liquid and sufficient to meet expected liquidity requirements. As of December 31, 2010, we held $4.3 billion of U.S. Treasury and short-term securities, compared to $5.9 billion at December 31, 2009. The short-to-intermediate duration of our portfolio provides an additional source of liquidity, as we expect approximately $1.5 billion, or 15%, of our fixed-income portfolio, excluding U.S. Treasury and short-term securities, to repay principal during 2011. Cash from interest and dividend payments provide an additional source of recurring liquidity.

Included in the fixed-income portfolio are U.S. government obligations, which include U.S. Treasury Notes and interest rate swaps. Although the interest rate swaps are not obligations of the U.S. government, they are recorded in this portfolio as the change in fair value is correlated to movements in the U.S. Treasury market. The duration of these securities was comprised of the following at December 31, 2010:

($ in millions)	Fair Value	Duration (years)
U.S. Treasury Notes		
Less than two years	$ 1,094.2	1.2
Two to five years	1,241.1	3.2
Five to nine years	907.3	6.3
Total U.S. Treasury Notes	3,242.6	3.4
Interest Rate Swaps		
Five to nine years ($713 notional value)	0	(7.0)
Total interest rate swaps ($713 notional value)	0	(7.0)
Total U.S. government obligations	$3,242.6	1.9

The interest rate swap shows a fair value of zero as it is in an overall liability position, and the fair value is reported in the "other liabilities" section of the Consolidated Balance Sheets. The negative duration of the interest rate swap is due to the position being short interest-rate exposure (i.e., receiving a variable-rate coupon). In determining duration, we add the interest rate sensitivity of our interest rate swap positions to that of our Treasury holdings, but do not add the notional value of the swaps to our Treasury holdings in order to calculate an unlevered duration for the portfolio.

ASSET-BACKED SECURITIES

Included in the fixed-income portfolio are asset-backed securities, which were comprised of the following at December 31:

($ in millions)	Fair Value	Net Unrealized Gains (Losses)	% of Asset-Backed Securities	Duration (years)	Rating (at period end)
2010					
Prime collateralized mortgage obligations	$344.7	$(3.1)	9.9%	1.7	A
Alt-A collateralized mortgage obligations	44.7	2.2	1.3	2.5	A-
Subtotal collateralized mortgage obligations	389.4	(.9)	11.2	1.8	A
Commercial mortgage-backed obligations	1,440.3	46.0	41.5	2.1	AA+
Commercial mortgage-backed obligations: interest only	391.8	14.0	11.3	1.2	AAA-
Subtotal commercial mortgage-backed obligations	1,832.1	60.0	52.8	1.9	AA+
Other asset-backed securities:					
Automobile	636.9	7.9	18.4	1.3	AAA
Credit card	185.7	2.4	5.4	1.6	AAA-
Home equity (sub-prime bonds)	174.2	(2.6)	5.0	.3	A-
Other[1]	251.4	(.1)	7.2	.9	AAA-
Subtotal other asset-backed securities	1,248.2	7.6	36.0	1.1	AA+
Total asset-backed securities	$3,469.7	$66.7	100.0%	1.6	AA+
2009					
Prime collateralized mortgage obligations	$323.3	$(20.8)	11.4%	.6	A
Alt-A collateralized mortgage obligations	28.7	(2.9)	1.0	.5	BBB
Subtotal collateralized mortgage obligations	352.0	(23.7)	12.4	.6	A
Commercial mortgage-backed obligations	1,130.5	13.2	39.9	1.8	AA
Commercial mortgage-backed obligations: interest only	459.6	4.9	16.2	1.4	AAA-
Subtotal commercial mortgage-backed obligations	1,590.1	18.1	56.1	1.7	AA+
Other asset-backed securities:					
Automobile	549.9	5.7	19.4	1.5	AAA-
Credit card	81.8	(.1)	2.9	1.3	AA
Home equity (sub-prime bonds)	164.4	(51.9)	5.8	.1	A-
Other[1]	94.5	(1.3)	3.4	1.1	AA+
Subtotal other asset-backed securities	890.6	(47.6)	31.5	1.2	AA+
Total asset-backed securities	$2,832.7	$(53.2)	100.0%	1.4	AA

[1] Includes equipment leases, manufactured housing, and other types of structured debt.

At December 31, 2010, our asset-backed securities had a net unrealized gain of $66.7 million, compared to a net unrealized loss of $53.2 million at December 31, 2009. Substantially all of the asset-backed securities have widely available market quotes. As of December 31, 2010, approximately 6% of our asset-backed securities were exposed to non-prime mortgage loans (home equity and Alt-A). Consistent with our plan to add high-quality, short-maturity fixed-income securities, we continue to purchase investment-grade structured securities, with most having an average life of one to three years. The underlying loans in these trusts are made to prime borrowers, and the securities have substantial structural credit support (i.e., the amount of underlying principal balance that is available to absorb losses before our position begins to recognize losses due to further defaults). We reviewed all of our asset-backed securities for other-than-temporary impairment and

yield or asset valuation adjustments under current accounting guidance, and we realized $13.0 million, $33.6 million, and $38.8 million in write-downs on these securities during the years ended December 31, 2010, 2009, and 2008, respectively. These write-downs occurred primarily in the residential mortgage sectors of our asset-backed portfolio as detailed below.

Collateralized Mortgage Obligations At December 31, 2010, 11.2% of our asset-backed securities were collateralized mortgage obligations (CMO), which are a component of our residential mortgage-backed securities. During the year ended December 31, 2010, we recorded $1.7 million in credit loss write-downs on our CMO portfolio, including $0.4 million of Alt-A securities, due to estimated principal losses in the security's most recent cash flow projections. During the year ended December 31, 2009, we recorded $8.3 million in write-downs on our CMO portfolio, including $4.0 million of Alt-A securities. During the year ended December 31, 2008, we recorded $7.1 million in write-downs on our CMO portfolio. We did not have any write-downs in our Alt-A securities during 2008. The following table details the credit quality rating and fair value of our collateralized mortgage obligations, along with the loan classification and a comparison of the fair value at December 31, 2010 to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Collateralized Mortgage Obligations (at December 31, 2010)

($ in millions) Category	AAA	AA	BBB	Non-Investment Grade	Total	% of Collateralized Mortgage Obligations
Non-agency prime[1]	$122.7	$44.6	$ 6.4	$ 144.9	$318.6	81.8%
Alt-A	6.4	20.9	0	17.4	44.7	11.5
Government/GSE[2]	17.1	8.7	0	.3	26.1	6.7
Total fair value	$146.2	$74.2	$ 6.4	$ 162.6	$389.4	100.0%
Increase (decrease) in value	.1%	.1%	(1.7)%	(.7)%	(.2)%	

[1] Includes $53.2 million of securities with mandatory redemption dates.

[2] The securities in this category are insured by a Government Sponsored Entity (GSE) and/or collateralized by mortgage loans insured by the Federal Housing Administration (FHA) or the U.S. Department of Veteran Affairs (VA).

Commercial Mortgage-Backed Securities At December 31, 2010, 41.5% of our asset-backed securities were commercial mortgage-backed securities (CMBS) and 11.3% were CMBS interest only securities (IO). We recorded $1.9 million, $0.9 million, and $0.6 million in write-downs on our IO portfolio during the years ended December 31, 2010, 2009, and 2008, respectively. No write-downs were recorded on our CMBS portfolio during the same periods. The following table details the credit quality rating and fair value of our CMBS and IO portfolios:

Commercial Mortgage-Backed Securities (at December 31, 2010)

($ in millions) Category	AAA	AA	A	BBB	Non-Investment Grade	Fair Value	% of Total Exposure
Commercial mortgage-backed securities	$1,113.1	$81.7	$67.8	$ 117.1	$ 60.6	$1,440.3	78.6%
CMBS: interest only	387.7	0	0	3.6	.5	391.8	21.4
Total fair value	$1,500.8	$81.7	$67.8	$120.7	$ 61.1	$1,832.1	100.0%
% of Total fair value	81.9%	4.5%	3.7%	6.6%	3.3%	100.0%	

The CMBS portfolio contained 12.3% of securities that are rated BBB or lower, with a net unrealized gain of $16.4 million at December 31, 2010, and an average duration of 2.2 years, compared to 2.1 years for the entire CMBS portfolio. Approximately 80% of our CMBS portfolio was originated in 2005 and earlier. As with many other asset-backed classes, the CMBS market saw more aggressive underwriting from 2005 to 2007. The BBB and non-investment-grade exposure includes $113.0 million of cell tower securitizations. All of these bonds have a single borrower, are backed by a cross-collateralized pool of cell towers throughout the U.S., and have significant net cash flow relative to their interest payments.

Planned amortization class IOs comprised 86.6% of our IO portfolio. This is a class that is structured to provide bondholders with greater protection against loan prepayment, default, or extension risk. The bonds are at the top of the payment order for interest distributions and benefit from increased structural support over time as they repay. Since 2004, only the 2010 vintage year deals were not made up of this more protected class. We have no 2007 to 2009 origination vintage exposure; these securities are viewed as having a higher risk profile due to underwriting criteria in place at that time.

Home-Equity Securities At December 31, 2010, 5.0% of our asset-backed securities were home-equity securities, which are a component of our residential mortgage-backed securities. We recorded $9.4 million, $23.7 million, and $31.1 million in write-downs for the years ended December 31, 2010, 2009, and 2008, respectively. The following table shows the credit quality rating of our home-equity securities, by deal origination year, along with a comparison of the fair value at December 31, 2010, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Home-Equity Securities (at December 31, 2010)

($ in millions)	Deal Origination Year					
Rating (date acquired)	2007	2006	2005	2004	Total	% of Home Equity Loans
AAA (January 2008-May 2008)	$ 0	$ 0	$ 43.9	$ 0	$ 43.9	25.2%
AA (September 2007-April 2010)	0	0	13.8	14.6	28.4	16.3
A (August 2007-March 2008)	0	15.3	0	1.3	16.6	9.5
BBB (April 2008)	0	0	3.7	0	3.7	2.1
Non-investment grade (March 2007-May 2008)	.5	34.3	46.4	.4	81.6	46.9
Total	$ .5	$49.6	$107.8	$16.3	$174.2	100.0%
Increase (decrease) in value	9.6%	9.5%	(6.9)%	7.2%	(1.4)%	

MUNICIPAL SECURITIES

Included in the fixed-income portfolio at December 31, 2010 and 2009, were $1,989.1 million and $2,024.0 million, respectively, of state and local government obligations. These securities had a duration of 2.3 years and an overall credit quality of AA+ (excluding the benefit of credit support from bond insurance) at December 31, 2010, compared to a duration of 1.9 years and an overall credit quality of AA at December 31, 2009. These securities had net unrealized gains of $33.6 million and $49.8 million at December 31, 2010 and 2009, respectively. During the years ended December 31, 2010, 2009, and 2008, we did not record any write-downs on our municipal portfolio. The following table details the credit quality rating of our municipal securities at December 31, 2010, without the benefit of credit or bond insurance:

Municipal Securities (at December 31, 2010)

(millions) Rating	General Obligations	Revenue Bonds	Total
AAA	$ 321.4	$ 578.1	$ 899.5
AA	412.9	581.6	994.5
A	35.0	31.7	66.7
BBB	1.6	15.3	16.9
Other[1]	0	11.5	11.5
Total	$ 770.9	$1,218.2	$1,989.1

[1] Includes non-investment-grade and non-rated securities.

Included in revenue bonds were $818.2 million of single family housing revenue bonds issued by state housing finance agencies, of which $425.2 million were supported by individual mortgages held by the state housing finance agencies and $393.0 million were supported by mortgage-backed securities. Of the programs supported by mortgage-backed securities, approximately 35% were collateralized by Fannie Mae and Freddie Mac mortgages; the remaining 65% were collateralized by Ginnie Mae loans, which are fully guaranteed by the U.S. Government. Of the programs supported by individual mortgages held by the state housing finance agencies, the overall credit quality rating was AA. Most of these mortgages were supported by FHA, VA, or private mortgage insurance providers.

Approximately 16%, or $315.5 million, of our total municipal securities were insured general obligation ($196.1 million) or revenue ($119.4 million) bonds with an overall credit quality rating of A+ at December 31, 2010, excluding the benefit of credit insurance provided by monoline insurers. These securities had a net unrealized gain of $10.9 million at December 31, 2010, compared to $20.5 million at December 31, 2009. We buy and hold these securities based on our evaluation of the underlying credit without reliance on the monoline insurance. Our investment policy does not require us to liquidate securities should the insurance provided by the monoline insurers cease to exist.

CORPORATE SECURITIES

Included in our fixed-income securities at December 31, 2010 and 2009, were $2,646.1 million and $1,281.4 million, respectively, of fixed-rate corporate securities. These securities had a duration of 3.3 years and an overall credit quality rating of BBB at December 31, 2010, compared to 3.1 years and BBB+ at December 31, 2009. These securities had net unrealized gains of $64.8 million and $36.5 million at December 31, 2010 and 2009, respectively. During the years ended December 31, 2010 and 2009, we did not record any write-downs on our corporate debt portfolio. During the year ended December 31, 2008, we recorded $69.0 million of write-downs on our corporate debt portfolio. The table below shows the exposure break-down by sector and rating, reflecting any changes in ratings since acquisition:

Corporate Securities (at December 31, 2010)

Sector	AAA	AA	A	BBB	Non-Investment Grade	% of Portfolio
Consumer	0%	1.2%	2.2%	25.8%	6.3%	35.5%
Industrial	0	1.8	0	20.1	1.1	23.0
Communications	0	0	3.4	14.5	.3	18.2
Financial Services[1]	.4	2.9	4.3	1.8	2.6	12.0
Technology	0	0	3.9	0	0	3.9
Basic Materials	0	0	0	2.9	.7	3.6
Energy	1.5	0	.8	0	0	2.3
Other	0	0	0	.3	1.2	1.5
Total	1.9%	5.9%	14.6%	65.4%	12.2%	100.0%

[1] Includes 3.7% of automotive financial companies.

PREFERRED STOCKS – REDEEMABLE AND NONREDEEMABLE

We hold both redeemable (i.e., mandatory redemption dates) and nonredeemable (i.e., perpetual with call dates) preferred stocks. At December 31, 2010, we held $502.5 million in redeemable preferred stocks and $1,157.6 million in nonredeemable preferred stocks, compared to $606.7 million and $1,255.8 million, respectively, at December 31, 2009. We made no additional investments in preferred stocks during the year ended December 31, 2010.

Our preferred stock portfolio had net unrealized gains of $572.7 million and $533.0 million at December 31, 2010 and 2009, respectively. We did not record any write-downs on our preferred stock portfolio during the year ended December 31, 2010, compared to $213.2 million and $1,676.7 million in write-downs during the years ended December 31, 2009 and 2008, respectively.

Our preferred stock portfolio had a duration of 1.8 years, which reflects the portfolio's exposure to changes in interest rates, and an overall credit quality rating of BBB- at December 31, 2010, compared to 2.3 years and BBB at December 31, 2009. Approximately 60% of our preferred stock securities are fixed-rate securities, and 40% are floating-rate securities. All of our preferred securities have call or mandatory redemption features. Most of the securities are structured to provide some protection against extension risk in the event the issuer elects not to call such securities at their initial call date, by either paying a higher dividend amount or by paying floating-rate coupons. Of our fixed-rate securities, approximately 90% will convert to floating-rate dividend payments if not called at their initial call date. The interest rate duration of our preferred securities is calculated to reflect both the call and floating rate features. Although a preferred security may remain outstanding if not called, its interest rate duration will reflect the floating rate dividend structure of the security. The table below shows the exposure break-down by sector and rating, reflecting any changes in ratings since acquisition:

Preferred Stocks (at December 31, 2010)

Sector	A	BBB	Non-Investment Grade	% of Preferred Stock Portfolio
Financial Services				
U.S. banks	22.8%	16.8%	16.1%	55.7%
Foreign banks	1.8	0	1.1	2.9
Insurance	0	7.1	6.8	13.9
Other	0	1.3	1.6	2.9
Total financial services	24.6	25.2	25.6	75.4
Industrials	0	6.9	9.3	16.2
Utilities	0	8.4	0	8.4
Total	24.6%	40.5%	34.9%	100.0%

Approximately 50% of our preferred stock securities pay dividends that have tax preferential characteristics, while the balance pay dividends that are fully taxable. In addition, all of our non-investment-grade preferred stocks were with issuers that maintain investment-grade senior debt ratings.

Common Equities

Common equities, as reported on the balance sheets at December 31, were comprised of the following:

($ in millions)	2010		2009	
Common stocks	$1,413.2	99.2%	$803.3	98.4%
Other risk investments	11.8	.8	12.9	1.6
Total common equities	$1,425.0	100.0%	$816.2	100.0%

At December 31, 2010, 9.2% of the portfolio was in common equities, compared to 5.6% at the same time last year. The change reflects our decision to continue to increase our exposure to equity securities, which we began during the fourth quarter 2009 and continued during 2010. In addition, market recovery over the last 12 months has contributed to the increase in fair value. We recorded $0.9 million in write-downs on our common equities for the year ended December 31, 2010, compared to $17.4 million and $74.3 million for the years ended December 31, 2009 and 2008, respectively.

Common stocks are managed externally to track the Russell 1000 Index with an anticipated annual tracking error of +/- 50 basis points. Our individual holdings are selected based on their contribution to the correlation with the index. For 2010 and 2009, the GAAP basis total return was within the desired tracking error when compared to the Russell 1000 Index. We held 758 out of 978, or 78%, of the common stocks comprising the Russell 1000 Index at December 31, 2010, which made up 94% of the total market capitalization of the index.

The following is a summary of our common equity holdings by sector compared to the Russell 1000 Index:

Sector	Equity Portfolio Allocation at December 31, 2010	Russell 1000 Allocation at December 31, 2010	Russell 1000 Sector Return in 2010
Consumer discretionary	13.1%	13.4%	27.3%
Consumer staple	8.3	8.3	15.2
Financial service	16.2	17.5	11.8
Health care	11.0	10.8	4.8
Materials and processing	4.8	4.8	24.9
Other energy	11.6	11.3	21.1
Producer durable	11.0	11.5	26.8
Technology	16.8	16.5	11.9
Utility	5.9	5.9	11.5
Other equity	1.3	NA	NA
Total common stocks	100.0%	100.0%	16.1%

NA = Not Applicable, since the Russell 1000 Index redefined the sector allocation in 2009.

Trading Securities At December 31, 2010 and 2009, we did not hold any trading securities and we did not have any net realized gains (losses) on trading securities for the years ended December 31, 2010, 2009, and 2008.

Derivative Instruments

We have invested in the following derivative exposures at various times: interest rate swaps, asset-backed credit default swaps, U.S. corporate debt credit default swaps, cash flow hedges, and equity options. See *Note 2 – Investments* for further discussion of our derivative positions.

For all derivative positions discussed below, realized holding period gains and losses are netted with any upfront cash that may be exchanged under the contract to determine if the net position should be classified either as an asset or liability. To be reported as a component of the available-for-sale portfolio, the inception-to-date realized gain on the derivative position at period end would have to exceed any upfront cash received (net derivative asset). On the other hand, a net derivative liability would include any inception-to-date realized loss plus the amount of upfront cash received (or netted, if upfront cash was paid) and would be reported as a component of other liabilities. These net derivative assets/liabilities are not separately disclosed on the balance sheet due to their immaterial effect on our financial condition, cash flows, and results of operations.

INTEREST RATE SWAPS

We invest in interest rate swaps primarily to manage the fixed-income portfolio duration. The following table summarizes our interest rate swap activity classified by the status (open vs. closed) of the swap position as of December 31, 2010:

(millions)	Date			Notional Value			Net Realized Gains (Losses) Years ended December 31,		
Term	Effective	Maturity	Coupon	2010	2009	2008	2010	2009	2008
Open:									
9-year	12/2009	01/2019	Receive variable	$713	$ 713	$ 0	$(66.6)	$ .1	$ 0
Closed:									
2-year	NA	NA	Receive fixed	$ 0	$2,300	$1,250	$ 0	$ 3.8	$ 44.6
3-year	NA	NA	Receive fixed	0	880	0	0	8.3	0
5-year	NA	NA	Receive fixed	0	1,006	1,725	0	(1.7)	106.2
5-year	NA	NA	Receive variable	0	0	225	0	0	6.9
10-year	NA	NA	Receive fixed	0	0	150	0	0	3.7
Total closed positions				$ 0	$4,186	$3,350	$ 0	$10.4	$161.4
Total interest rate swaps							$(66.6)	$10.5	$161.4

NA = Not Applicable

We entered into our open interest rate swap position during the fourth quarter 2009. Since that time, interest rates have fallen as reflected in the losses incurred during 2010.

CORPORATE CREDIT DEFAULT SWAPS

We invest in corporate credit default swaps primarily to manage the fixed-income portfolio credit risk. The following table summarizes our corporate credit default swap activity classified by the status of the swap position as of December 31, 2010:

(millions)	Date		Bought or Sold	Notional Value			Net Realized Gains (Losses) Years ended December 31,		
Term	Effective	Maturity	Protection	2010	2009	2008	2010	2009	2008
Open:									
5-year	09/2008	09/2013	Bought	$25	$25	$ 25	$ .9	$ (.6)	$ (.7)
Corporate swap	NA	NA	Sold	10	0	0	1.2	0	0
Treasury Note[1]	NA	NA	Sold	10	0	0	.4	0	0
Total open positions							$2.5	$ (.6)	$ (.7)
Closed:									
2-year	NA	NA	Bought	$10	$ 7	$ 0	$ 0	$ (.4)	$ 0
3-year	NA	NA	Bought	0	0	260	0	0	(1.4)
4-year	NA	NA	Bought	15	0	0	(.2)	0	0
5-year	NA	NA	Bought	0	0	285	0	0	22.2
Total closed positions							$ (.2)	$ (.4)	$20.8
Total corporate swaps							$2.3	$(1.0)	$ 20.1

[1] Used to replicate a long corporate bond position.

NA = Not Applicable

CASH FLOW HEDGES

We had no cash flow hedges open during 2010. During the third quarter 2010, we finalized our tender offer for, and purchased $222.9 million principal amount of, our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 that were issued during the second quarter 2007 (see *Note 4 – Debt* for further discussion). We reclassified $5.8 million (pretax) from accumulated other comprehensive income on the balance sheet to net realized gains (losses) on securities on the income statement, reflecting the portion of the unrealized gain on forecasted transactions that was related to the Debentures that were extinguished pursuant to our tender offer. In anticipation of issuing the Debentures in 2007, we entered into a forecasted debt issuance hedge against a possible rise in interest rates and upon issuance, the hedge was closed, and we recognized a pretax gain of $34.4 million, which was recorded as part of accumulated other comprehensive income. The $34.4 million gain, less the $5.8 million reclassification mentioned above, was deferred and is being recognized as an adjustment to interest expense over the 10-year fixed interest rate term of the Debentures. During 2010, 2009, and 2008, we recognized $2.7 million, $2.8 million, and $2.6 million, respectively, as an adjustment to interest expense.

In the fourth quarter 2009, we realized a foreign currency trade gain of $0.9 million reflecting the previously deferred gain on our foreign currency cash flow hedge, which was opened during 2008 and closed in the second quarter 2009.

B. Investment Results

Investment income (interest and dividends, before investment and interest expenses) increased 3% for 2010, compared to decreases of 20% and 6% for 2009 and 2008, respectively. The increase in 2010 was the result of an increase in average invested assets, partially offset by a reduction in the portfolio yield. The reductions in 2009 and 2008 were primarily the result of investing new cash and proceeds from security sales, redemptions, and maturities into lower-yielding U.S. Treasury Notes and short-term investments as a means to protect the portfolio from additional valuation declines and the current historically low rate environment.

We report total return to reflect more accurately the management philosophy governing the portfolio and our evaluation of investment results. The fully taxable equivalent (FTE) total return includes investment income, net realized gains (losses) on securities, and changes in unrealized gains (losses) on investments.

The following summarizes investment results for the years ended December 31:

	2010	2009	2008
Pretax investment book yield	3.5%	3.7%	4.7%
Weighted average FTE book yield	3.9%	4.2%	5.5%
FTE total return:			
Fixed-income securities	6.9%	12.2%	(7.1)%
Common stocks	17.0%	29.5%	(36.5)%
Total portfolio	7.8%	12.5%	(10.4)%

A further break-down of our total returns for our fixed-income securities, including the net gains (losses) on our derivative positions, for the years ended December 31 follows:

	2010	2009	2008
Fixed-income securities:			
U.S. Treasury Notes	4.7%	(1.7)%	30.5%
Municipal bonds	5.4%	10.7%	4.1%
Corporate bonds	8.4%	23.6%	(7.1)%
Commercial mortgage-backed securities	8.2%	26.0%	(9.5)%
Collateralized mortgage obligations	10.7%	26.2%	(14.0)%
Asset-backed securities	7.0%	.7%	(15.1)%
Preferred stocks	15.2%	60.1%	(40.5)%

Investment expenses were $11.9 million in 2010, compared to $11.1 million in 2009 and $8.8 million in 2008. Our 2008 expenses reflect no Gainsharing (cash incentive) accrual for our investment managers and a reversal of the prior year's bonus accrual.

Interest expense in 2010 was $133.5 million, compared to $139.0 million in 2009 and $136.7 million in 2008. The decrease in 2010 reflected the repurchase of $222.9 million of our 6.70% Debentures (see *Note 4 – Debt* for further discussion), while 2008 reflects more capitalized interest on internally developed software.

Other-Than-Temporary Impairment (OTTI)

Realized losses may include write-downs of securities determined to have had an other-than-temporary decline in fair value. We routinely monitor our portfolio for pricing changes that might indicate potential impairments and perform detailed reviews of securities with unrealized losses based on predetermined guidelines. In such cases, changes in fair value are evaluated to determine the extent to which such changes are attributable to (i) fundamental factors specific to the issuer, such as financial conditions, business prospects, or other factors, (ii) market-related factors, such as interest rates or equity market declines (e.g., negative return at either a sector index level or at the broader market level), or (iii) credit-related losses where the present value of cash flows expected to be collected are lower than the amortized cost basis of the security.

Fixed-income securities and common equities with declines attributable to issuer-specific fundamentals are reviewed to identify all available evidence, circumstances, and influences to estimate the potential for, and timing of, recovery of the investment's impairment. An other-than-temporary impairment loss is deemed to have occurred when the potential for recovery does not satisfy the criteria set forth in the current accounting guidance.

For fixed-income investments with unrealized losses due to market- or sector-related declines, the losses are not deemed to qualify as other-than-temporary if we do not have the intent to sell an investment, and it is more likely than not that we will not be required to sell the investment, prior to the period of time that we anticipate to be necessary for the investment to recover its cost basis. In general, our policy for common equity securities with market- or sector-related declines is to recognize impairment losses on individual securities with losses we cannot reasonably conclude will recover in the near term under historical conditions by the earlier of (i) when we are able to objectively determine that the loss is other-than-temporary, or (ii) when the security has been in such a loss position for three consecutive quarters.

When a security in our fixed-maturity portfolio has an unrealized loss and we intend to sell the security, or it is more likely than not that we will be required to sell the security, then we write-down the security to its current fair value and recognize the entire unrealized loss through the income statement as a realized loss. If a fixed-maturity security has an unrealized loss and it is more likely than not that we will hold the debt security until recovery (which could be maturity), then we determine if

any of the decline in value is due to a credit loss (i.e., where the present value of cash flows expected to be collected is lower than the amortized cost basis of the security) and, if so, we will recognize that portion of the impairment in the income statement as a realized loss; any remaining unrealized loss on the security is considered to be due to other factors (e.g., interest rate and credit spread movements) and is reflected in shareholders' equity, along with unrealized gains or losses on securities that are not deemed to be other-than-temporarily impaired. The write-down activity recorded in the income statements for the years ended December 31 was as follows:

(millions)	Total Write-downs	Write-downs on Securities Sold	Write-downs on Securities Held at Period End
2010			
Residential mortgage-backed securities	$ 11.1	$ 0	$ 11.1
Commercial mortgage-backed securities	1.9	0	1.9
Total fixed income	13.0	0	13.0
Common equities	.9	(.4)	.5
Total portfolio	$ 13.9	$ (.4)	$ 13.5
2009			
Residential mortgage-backed securities	$ 32.0	$ 0	$ 32.0
Commercial mortgage-backed securities	.9	0	.9
Other asset-backed securities	.7	(.7)	0
Preferred stocks	213.2	(48.3)	164.9
Total fixed income	246.8	(49.0)	197.8
Common equities	17.4	(7.1)	10.3
Total portfolio	$ 264.2	$ (56.1)	$ 208.1
2008			
Corporate debt securities	$ 69.0	$ 0	$ 69.0
Residential mortgage-backed securities	38.2	0	38.2
Commercial mortgage-backed securities	.6	0	.6
Preferred stocks	1,676.7	(434.4)	1,242.3
Total fixed income	1,784.5	(434.4)	1,350.1
Common equities	74.3	(31.3)	43.0
Total portfolio	$ 1,858.8	$ (465.7)	$ 1,393.1

See *Critical Accounting Policies, Other-Than-Temporary Impairment* for further discussion.

C. Repurchase Transactions

From time to time we enter into reverse repurchase commitment transactions. In these transactions, we loan cash to accredited banks and receive U.S. Treasury Notes pledged as collateral against the cash borrowed. We choose to enter into these transactions as interest rates and credit quality are more attractive than other short-term securities available in the market. Our exposure to credit risk is limited due to the characteristics of the general collateral (i.e., U.S. Treasury Notes) received. The income generated on these transactions is calculated at the then applicable general collateral rates on the value of U.S. Treasury Notes received. We have counterparty exposure on reverse repurchase agreements in the event of a counterparty default to the extent the general collateral security's value at the time of default is below the cash we delivered. The short-term duration of the transactions (primarily overnight investing) reduces that default exposure.

For the year ended December 31, 2010, our largest single outstanding balance of reverse repurchase commitments was $1,131.3 million, which was open for one day; the average daily balance of reverse repurchase commitments was $744.9 million. During 2009, our largest single outstanding balance of reverse repurchase commitments was $1,845.8 million, which was open for one day; the average daily balance of reverse repurchase commitments was $657.3 million. We earned income of $1.2 million, $0.9 million, and $1.6 million on reverse repurchase agreements for the years ended December 31, 2010, 2009, and 2008, respectively. We had $705.8 million (held with two counterparties) and $775.0 million (held with two counterparties) of open reverse repurchase commitments at December 31, 2010 and 2009, respectively, reported as part of other short-term investments.

Additionally, prior to 2009, we invested in repurchase commitment transactions. We suspended our repurchase activity during the third quarter 2008 due to increased counterparty risk and high market volatility. We did not invest in any repurchase transactions during the years ended December 31, 2010 and 2009, as overnight rates did not provide the desired return we would require. For the period in 2008 during which we invested in these transactions, we earned income of $1.7 million.

V. CRITICAL ACCOUNTING POLICIES

Progressive is required to make certain estimates and assumptions when preparing its financial statements and accompanying notes in conformity with GAAP. Actual results could differ from those estimates in a variety of areas. The two areas that we view as most critical with respect to the application of estimates and assumptions are the establishment of our loss reserves and the method of determining impairments in our investment portfolio.

A. Loss and LAE Reserves

Loss and loss adjustment expense (LAE) reserves represent our best estimate of our ultimate liability for losses and LAE relating to events that occurred prior to the end of any given accounting period but have not yet been paid. At December 31, 2010, we had $6.4 billion of net loss and LAE reserves, which included $5.0 billion of case reserves and $1.4 billion of incurred but not recorded (IBNR) reserves.

Progressive's actuarial staff reviews over 400 subsets of business data, which are at a combined state, product, and line coverage level (the "products"), to calculate the needed loss and LAE reserves. We begin our review of a set of data by producing multiple estimates of needed reserves, using both paid and incurred data, to determine if a reserve change is required. In the event of a wide variation among results generated by the different projections, our actuarial group will further analyze the data using additional techniques. Each review develops a point estimate for a relatively small subset of the business, which allows us to establish meaningful reserve levels for that subset. In addition, the actuarial staff completes separate projections of needed case and IBNR reserves.

We review a large majority of our reserves by product/state combination on a quarterly time frame, with the remaining reserves generally reviewed on a semiannual basis. A change in our scheduled reviews of a particular subset of the business depends on the size of the subset or emerging issues relating to the product or state. By reviewing the reserves at such a detailed level, we have the ability to identify and measure variances in the trends by state, product, and line coverage that otherwise would not be seen on a consolidated basis. Our intricate process of reviewing the aforementioned subsets makes compiling a companywide roll up to generate a range of needed loss reserves not meaningful. We do not review loss reserves on a macro level and, therefore, do not derive a companywide range of reserves to compare to a standard deviation.

In analyzing the ultimate accident year loss experience, our actuarial staff reviews in detail, at the subset level, frequency (number of losses per earned car year), severity (dollars of loss per each claim), and average premium (dollars of premium per earned car year). The loss ratio, a primary measure of loss experience, is equal to the product of frequency times severity divided by the average premium. The average premium for personal and commercial auto businesses is not estimated. The actual frequency experienced will vary depending on the change in mix of class of drivers insured by Progressive, but the frequency projections for these lines of business is generally stable in the short term, because a large majority of the parties involved in an accident report their claims within a short time period after the occurrence. The severity experienced by Progressive is much more difficult to estimate, especially for injury claims, since severity is affected by changes in underlying costs, such as medical costs, jury verdicts, and regulatory changes. In addition, severity will vary relative to the change in our mix of business by limit.

Assumptions regarding needed reserve levels made by the actuarial staff take into consideration influences on available historical data that reduce the predictiveness of our projected future loss costs. Internal considerations that are process-related, which generally result from changes in our claims organization's activities, include claim closure rates, the number of claims that are closed without payment, and the level of the claims representatives' estimates of the needed case reserve for each claim. These changes and their effect on the historical data are studied at the state level versus on a larger, less indicative, countrywide basis.

External items considered include the litigation atmosphere, state-by-state changes in medical costs, and the availability of services to resolve claims. These also are better understood at the state level versus at a more macro countrywide level.

The manner in which we consider and analyze the multitude of influences on the historical data, as well as how loss reserves affect our financial results, is discussed in more detail in our *Report on Loss Reserving Practices*, which was filed on June 30, 2010 via Form 8-K.

At December 31, 2010, Progressive's carried net reserve balance of $6.4 billion implicitly assumes that the loss and LAE severity for accident year 2010 over accident year 2009 will increase by 1.5% for personal auto liability and 5.0% for commercial auto liability. Personal auto liability and commercial auto liability reserves represent approximately 98% of our total carried reserves. As discussed above, the severity estimates are influenced by many variables that are difficult to quantify and which influence the final amount of claims settlement. That, coupled with changes in internal claims practices, the legal environment, and state regulatory requirements, requires significant judgment in the estimate of the needed reserves to be carried.

The following table highlights what the effect would be to our carried loss and LAE reserves, on a net basis, as of December 31, 2010, if during 2011 we were to experience the indicated change in our estimate of severity for the 2010 accident year (i.e., claims that occurred in 2010):

	Estimated Changes in Severity for Accident Year 2010				
(millions)	-4%	-2%	As Reported	+2%	+4%
Personal auto liability	$4,743.1	$4,862.7	$4,982.3	$5,101.9	$5,221.5
Commercial auto liability	1,202.9	1,219.1	1,235.3	1,251.5	1,267.7
Other[1]	149.3	149.3	149.3	149.3	149.3
Total	$6,095.3	$6,231.1	$6,366.9	$6,502.7	$6,638.5

[1] Includes reserves for personal and commercial auto physical damage claims and our non-auto lines of business; no change in estimates is presented due to the immaterial level of these reserves.

Note: Every percentage point change in our estimate of severity for the 2010 accident year would affect our personal auto liability reserves by $59.8 million and our commercial auto reserves by $8.1 million.

Our 2010 year-end loss and LAE reserve balance also includes claims from prior years. Claims that occurred in 2010, 2009, and 2008, in the aggregate, accounted for approximately 90% of our reserve balance. If during 2010 we were to experience the indicated change in our estimate of severity for the total of the prior three accident years (i.e., 2010, 2009, and 2008), the effect to our year-end 2010 reserve balances would be as follows:

	Estimated Changes in Severity for Accident Year 2010, 2009, and 2008				
(millions)	-4%	-2%	As Reported	+2%	+4%
Personal auto liability	$4,314.7	$4,648.5	$4,982.3	$5,316.1	$5,649.9
Commercial auto liability	1,135.3	1,185.3	1,235.3	1,285.3	1,335.3
Other[1]	149.3	149.3	149.3	149.3	149.3
Total	$5,599.3	$5,983.1	$6,366.9	$6,750.7	$7,134.5

[1] Includes reserves for personal and commercial auto physical damage claims and our non-auto lines of business; no change in estimates is presented due to the immaterial level of these reserves.

Note: Every percentage point change in our estimate of severity for the 2010, 2009, and 2008 accident year would affect our personal auto liability reserves by $166.9 million and our commercial auto reserves by $25.0 million.

Our best estimate of the appropriate amount for our reserves as of year-end 2010 is included in our financial statements for the year. Our goal is to ensure that total reserves are adequate to cover all loss costs, while sustaining minimal variation from the time reserves are initially established until losses are fully developed. At the point in time when reserves are set, we have no way of knowing whether our reserve estimates will prove to be high or low (and, thus, whether future reserve development will be favorable or unfavorable), or whether one of the alternative scenarios discussed above is “reasonably likely” to occur. During 2010, our estimate of the needed reserves at the end of 2009 decreased 5.2%. The following table shows how we have performed against this goal over the last ten years:

($ in millions) For the years ended December 31,	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Loss and LAE Reserves[1]	$2,785.3	$3,069.7	$3,632.1	$4,346.4	$4,948.5	$5,313.1	$5,363.6	$5,655.2	$5,932.9	$6,123.6	$6,366.9
Re-estimated reserves as of:											
One year later	2,686.3	3,073.2	3,576.0	4,237.3	4,592.6	5,066.2	5,443.9	5,688.4	5,796.9	5,803.2	
Two years later	2,708.3	3,024.2	3,520.7	4,103.3	4,485.2	5,130.5	5,469.8	5,593.8	5,702.1	—	
Three years later	2,671.2	2,988.7	3,459.2	4,048.0	4,501.6	5,093.6	5,381.9	5,508.0	—	—	
Four years later	2,666.9	2,982.7	3,457.8	4,070.0	4,471.0	5,046.7	5,336.5	—	—	—	
Five years later	2,678.5	2,993.7	3,475.4	4,073.7	4,475.5	5,054.6	—	—	—	—	
Six years later	2,683.7	3,002.5	3,472.5	4,072.4	4,486.4	—	—	—	—	—	
Seven years later	2,688.4	3,000.6	3,470.1	4,080.5	—	—	—	—	—	—	
Eight years later	2,688.6	2,995.8	3,477.3	—	—	—	—	—	—	—	
Nine years later	2,683.5	3,000.9	—	—	—	—	—	—	—	—	
Ten years later	2,687.2	—	—	—	—	—	—	—	—	—	
Cumulative Development:											
Favorable (Unfavorable)	$ 98.1	$ 68.8	$ 154.8	$ 265.9	$ 462.1	$ 258.5	$ 27.1	$ 147.2	$ 230.8	$ 320.4	
Percentage[2]	3.5	2.2	4.3	6.1	9.3	4.9	0.5	2.6	3.9	5.2	

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

[2] Cumulative development ÷ loss and LAE reserves.

Note: The chart above represents the development of the property casualty loss and LAE reserves for 2000 through 2009. The last line in the triangle for each year represents the following:

Re-estimated reserves = Total amount paid to-date + Total remaining case reserves on unsettled claims.

Changes in the estimated severity and the actual number of late reported claims are the cause of the change in our re-estimated reserves from year to year. The cumulative development represents the aggregate change in our estimates over all years.

For 2000 and 2001, while we experienced an increase in bodily injury severity, our developed reserves were within 2% to 4% of our original estimates. The bodily injury severity change was much lower than we expected between 2002 and 2005; thus, the reserve run-off for these years was very favorable following the end of each year, or about 4% to 9% of our original carried amounts. The reserve development for each of 2006 through 2008 was less than 4% of our original carried reserves, while 2009 reserves developed favorably by about 5% due to lower than expected defense and cost containment expenses and favorable settlements on larger losses in both our personal auto and Commercial Auto businesses.

Because Progressive is primarily an insurer of motor vehicles, we have minimal exposure as an insurer of environmental, asbestos, and general liability claims.

B. Other-Than-Temporary Impairment (OTTI)

Realized losses may include write-downs of securities determined to have had an other-than-temporary decline in fair value. We routinely monitor our portfolio for pricing changes that might indicate potential impairments and perform detailed reviews of securities with unrealized losses based on predetermined guidelines. In such cases, changes in fair value are evaluated to determine the extent to which such changes are attributable to (i) fundamental factors specific to the issuer, such as financial conditions, business prospects, or other factors, (ii) market-related factors, such as interest rates or equity market declines (e.g., negative return at either a sector index level or at the broader market level), or (iii) credit-related losses, where the present value of cash flows expected to be collected is lower than the amortized cost basis of the security.

Fixed-income securities and common equities with declines attributable to issuer-specific fundamentals are reviewed to identify all available evidence, circumstances, and influences to estimate the potential for, and timing of, recovery of the investment's impairment. An other-than-temporary impairment loss is deemed to have occurred when the potential for recovery does not satisfy the criteria set forth in the current accounting guidance.

For fixed-income investments with unrealized losses due to market- or sector-related declines, the losses are not deemed to qualify as other-than-temporary if we do not have the intent to sell the investments, and it is more likely than not that we will not be required to sell the investments, prior to the period of time that we anticipate to be necessary for the investments to recover their cost bases. In general, our policy for common equity securities with market- or sector-related declines is to recognize impairment losses on individual securities with losses we cannot reasonably conclude will recover in the near term under historical conditions by the earlier of (i) when we are able to objectively determine that the loss is other-than-temporary, or (ii) when the security has been in such a loss position for three consecutive quarters.

When a security in our fixed-maturity portfolio has an unrealized loss and we intend to sell the security, or it is more likely than not that we will be required to sell the security, we write-down the security to its current fair value and recognize the entire unrealized loss through the income statement as a realized loss. If a fixed-maturity security has an unrealized loss and it is more likely than not that we will hold the debt security until recovery (which could be maturity), then we determine if any of the decline in value is due to a credit loss (i.e., where the present value of cash flows expected to be collected is lower than the amortized cost basis of the security) and, if so, we will recognize that portion of the impairment in the income statement as a realized loss; any remaining unrealized loss on the security is considered to be due to other factors (e.g., interest rate and credit spread movements) and is reflected in shareholders' equity, along with unrealized gains or losses on securities that are not deemed to be other-than-temporarily impaired.

The following table stratifies the gross unrealized losses in our fixed-income and common equity portfolios at December 31, 2010, by the duration in a loss position and magnitude of the loss as a percentage of the cost of the security:

(millions)	Fair Value	Total Gross Unrealized Losses	Decline of Investment Value >15%	>25%	>35%	>45%
Fixed Income:						
Unrealized loss for less than 12 months	$2,044.1	$ 42.4	$ .5	$ .5	$ .5	$ .2
Unrealized loss for 12 months or greater	580.0	44.7	18.8	10.3	3.2	.2
Total	$2,624.1	$ 87.1	$19.3	$10.8	$3.7	$ .4
Common Equity:						
Unrealized loss for less than 12 months	$ 57.3	$ 3.1	$ 0	$ 0	$ 0	$ 0
Unrealized loss for 12 months or greater	3.2	.1	0	0	0	0
Total	$ 60.5	$ 3.2	$ 0	$ 0	$ 0	$ 0

We completed a thorough review of the existing securities in these loss categories and determined that, applying the procedures and criteria discussed above, these securities were not other-than-temporarily impaired. We do not intend to sell these securities. We also determined that it is more likely than not that we will not be required to sell these securities, for the periods of time necessary to recover the cost bases of these securities, and that there is no additional credit-related impairment on our debt securities.

Since total unrealized losses are already a component of our shareholders' equity, any recognition of these losses as additional OTTI losses would have no effect on our comprehensive income, book value, or reported investment total return.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: *Statements in this report that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions, and projections generally; inflation and changes in economic conditions (including changes in interest rates and financial markets); the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolios and other companies with which we have ongoing business relationships, including counterparties to certain financial transactions; the accuracy and adequacy of our pricing and loss reserving methodologies; the competitiveness of our pricing and the effectiveness of our initiatives to retain more customers; initiatives by competitors and the effectiveness of our response; our ability to obtain regulatory approval for requested rate changes and the timing thereof; the effectiveness of our brand strategy and advertising campaigns relative to those of competitors; legislative and regulatory developments, including, but not limited to, health care reform and tax law changes; disputes relating to intellectual property rights; the outcome of litigation pending or that may be filed against us; weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail, and winter conditions); changes in driving patterns and loss trends; acts of war and terrorist activities; our ability to maintain the uninterrupted operation of our facilities, systems (including information technology systems), and business functions; court decisions and trends in litigation and health care and auto repair costs; and other matters described from time to time in our releases and publications, and in our periodic reports and other documents filed with the United States Securities and Exchange Commission. In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for one or more contingencies. Also, our regular reserve reviews may result in adjustments of varying magnitude as additional information regarding claims activity becomes known. Reported results, therefore, may be volatile in certain accounting periods.*

The Progressive Corporation and Subsidiaries

Ten Year Summary – Selected Financial Information

(unaudited)

(millions – except ratios, policies in force, per share amounts, and number of people employed)	2010	2009	2008	2007	2006
Net premiums written	$14,476.8	$14,002.9	$13,604.3	$13,772.5	$ 14,132.0
Growth	3%	3%	(1)%	(3)%	1%
Net premiums earned	$14,314.8	$14,012.8	$13,631.4	$13,877.4	$ 14,117.9
Growth	2%	3%	(2)%	(2)%	3%
Policies in force (thousands):					
Personal Lines	11,702.7	10,940.6	10,464.9	10,115.6	9,741.1
Growth	7%	5%	3%	4%	3%
Commercial Auto	510.4	512.8	539.4	539.2	503.2
Growth	0%	(5)%	0%	7%	7%
Total revenues	$14,963.3	$14,563.6	$12,840.1	$14,686.8	$14,786.4
Underwriting margins:[1]					
Personal Lines	7.0%	7.6%	5.4%	7.0%	12.3%
Commercial Auto	12.5%	14.2%	5.3%	10.1%	19.8%
Total underwriting operations	7.6%	8.4%	5.4%	7.4%	13.3%
Net income (loss)	$ 1,068.3	$ 1,057.5	$ (70.0)	$ 1,182.5	$ 1,647.5
Per share[2]	1.61	1.57	(.10)	1.65	2.10
Average equivalent shares[2]	663.3	672.2	668.0	718.5	783.8
Comprehensive income (loss)	$ 1,398.8	$ 1,752.2	$ (614.7)	$ 1,071.0	$ 1,853.1
Total assets	$ 21,150.3	$20,049.3	$ 18,250.5	$18,843.1	$19,482.1
Debt outstanding	1,958.2	2,177.2	2,175.5	2,173.9	1,185.5
Total shareholders' equity	6,048.9	5,748.6	4,215.3	4,935.5	6,846.6
Statutory policyholders' surplus	5,073.0	4,953.6	4,470.6	4,587.3	4,963.7
Common shares outstanding	662.4	672.6	676.5	680.2	748.0
Common share price:					
High	$ 22.13	$ 18.10	$ 21.31	$ 25.16	$ 30.09
Low	16.18	9.76	10.29	17.26	22.18
Close (at December 31)	19.87	17.99	14.81	19.16	24.22
Market capitalization	$ 13,161.9	$ 12,100.1	$ 10,019.0	$13,032.6	$ 18,116.6
Book value per common share	9.13	8.55	6.23	7.26	9.15
Ratios:					
Return on average common shareholders' equity	17.1%	21.4%	(1.5)%	19.5%	25.3%
Debt to total capital	24.5%	27.5%	34.0%	30.6%	14.8%
Price to earnings[3]	12.3	11.5	NA	11.6	11.5
Price to book	2.2	2.1	2.4	2.6	2.6
Earnings to fixed charges[3]	11.9x	11.3x	NA	13.5x	24.7x
Net premiums written to statutory surplus	2.9	2.8	3.0	3.0	2.8
Statutory combined ratio	92.5	91.6	94.6	92.7	86.5
Dividends declared per share[4]	$ 1.3987	$ .1613	$ 0	$ 2.1450	$ .0325
Number of people employed	24,638	24,661	25,929	26,851	27,778

All share and per share amounts were adjusted for the May 18, 2006, 4-for-1 stock split and the April 22, 2002, 3-for-1 stock split.

[1] Underwriting margins are calculated as pretax underwriting profit (loss), as defined in *Note 10 – Segment Information*, as a percentage of net premiums earned.

[2] Amounts reflect basic earnings per share and basic average equivalent shares for 2008 since we reported a net loss; all other periods are presented on a diluted basis.

(millions – except ratios, policies in force, per share amounts, and number of people employed)	2005	2004	2003	2002	2001
Net premiums written	$ 14,007.6	$13,378.1	$ 11,913.4	$ 9,452.0	$ 7,260.1
Growth	5%	12%	26%	30%	17%
Net premiums earned	$13,764.4	$13,169.9	$ 11,341.0	$ 8,883.5	$ 7,161.8
Growth	5%	16%	28%	24%	13%
Policies in force (thousands):					
Personal Lines	9,494.0	8,680.3	7,807.9	6,569.1	5,371.4
Growth	9%	11%	19%	22%	6%
Commercial Auto	468.2	420.2	365.1	288.9	208.9
Growth	11%	15%	26%	38%	23%
Total revenues	$14,303.4	$13,782.1	$ 11,892.0	$ 9,294.4	$ 7,488.2
Underwriting margins:[1]					
Personal Lines	11.0%	14.1%	12.1%	7.5%	4.5%
Commercial Auto	17.9%	21.1%	17.5%	9.1%	8.3%
Total underwriting operations	11.9%	14.9%	12.7%	7.6%	4.8%
Net income (loss)	$ 1,393.9	$ 1,648.7	$ 1,255.4	$ 667.3	$ 411.4
Per share[2]	1.74	1.91	1.42	.75	.46
Average equivalent shares[2]	799.3	864.8	882.1	892.8	900.7
Comprehensive income (loss)	$ 1,347.8	$ 1,668.5	$ 1,511.1	$ 710.7	$ 472.6
Total assets	$18,898.6	$17,184.3	$16,281.5	$13,564.4	$11,122.4
Debt outstanding	1,284.9	1,284.3	1,489.8	1,489.0	1,095.7
Total shareholders' equity	6,107.5	5,155.4	5,030.6	3,768.0	3,250.7
Statutory policyholders' surplus	4,674.1	4,671.0	4,538.3	3,370.2	2,647.7
Common shares outstanding	789.3	801.6	865.8	871.8	881.2
Common share price:					
High	$ 31.23	$ 24.32	$ 21.17	$ 15.12	$ 12.65
Low	20.35	18.28	11.56	11.19	6.84
Close (at December 31)	29.20	21.21	20.90	12.41	12.44
Market capitalization	$23,040.7	$ 17,001.9	$18,088.9	$10,819.3	$10,958.6
Book value per common share	7.74	6.43	5.81	4.32	3.69
Ratios:					
Return on average common shareholders' equity	25.0%	30.0%	29.1%	19.3%	13.5%
Debt to total capital	17.4%	19.9%	22.8%	28.3%	25.2%
Price to earnings[3]	16.7	11.1	14.7	16.6	27.2
Price to book	3.8	3.3	3.6	2.9	3.4
Earnings to fixed charges[3]	21.3x	27.1x	18.8x	13.2x	10.7x
Net premiums written to statutory surplus	3.0	2.9	2.6	2.8	2.7
Statutory combined ratio	87.4	84.6	86.2	91.3	94.7
Dividends declared per share[4]	$ .0300	$ .0275	$ .0250	$ .0240	$ .0233
Number of people employed	28,336	27,085	25,834	22,974	20,442

[3]Ratiosare not applicable (NA) for 2008 since we reported a net loss for the year.

[4]Progressivetransitioned to an annual variable dividend policy beginning in 2007. In accordance with this policy, no dividend was declared in 2008 since our comprehensive income was less than after-tax underwriting income. In addition to the annual variable dividend, Progressive's Board declared extraordinary cash dividends of $1.00 per common share in 2010 and $2.00 per common share in 2007. Progressive paid quarterly dividends prior to 2007.

The Progressive Corporation and Subsidiaries
Quantitative Market Risk Disclosures
(unaudited)

Quantitative market risk disclosures are only presented for market risk categories when risk is considered material. Materiality is determined based on the fair value of the financial instruments at December 31, 2010, and the potential for near-term losses from reasonably possible near-term changes in market rates or prices. We had no trading financial instruments at December 31, 2010. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* for our discussion of the qualitative information about market risk.

OTHER-THAN-TRADING FINANCIAL INSTRUMENTS

Financial instruments subject to interest rate risk were:

	Fair Value				
(millions)	-200 bps Change[1]	-100 bps Change[1]	Actual	+100 bps Change	+200 bps Change
U.S. government obligations	$ 3,305.4	$ 3,291.7	$ 3,242.6	$ 3,185.0	$ 3,129.0
State and local government obligations	2,075.7	2,038.8	1,989.1	1,931.4	1,875.4
Asset-backed securities	3,529.0	3,513.1	3,469.7	3,414.5	3,361.0
Corporate securities	2,805.6	2,786.2	2,646.1	2,556.6	2,472.0
Nonredeemable preferred stocks	1,208.5	1,182.6	1,157.6	1,130.3	1,107.4
Redeemable preferred stocks	524.6	513.4	502.5	490.7	480.7
Short-term investments	1,090.8	1,090.8	1,090.8	1,090.8	1,090.8
Balance as of December 31, 2010	$14,539.6	$14,416.6	$14,098.4	$13,799.3	$13,516.3
Balance as of December 31, 2009	$14,592.6	$14,278.5	$13,897.2	$13,525.8	$13,173.9

[1] Due to low absolute interest rates, where the yields would have been negative, we used an interest rate of 1 basis point.

Exposure to risk is represented in terms of changes in fair value due to selected hypothetical movements in market rates. Bonds and preferred stocks are individually priced to yield to the worst case scenario, which includes any issuer-specific features, such as a call option. Asset-backed securities, including state and local government housing securities, are priced assuming deal specific prepayment scenarios, considering the deal structure, prepayment penalties, yield maintenance agreements, and the underlying collateral.

Financial instruments subject to equity market risk were:

	Fair Value		
(millions)	-10%	Actual	+10%
Common equities as of December 31, 2010	$1,271.1	$1,425.0	$1,578.9
Common equities as of December 31, 2009	$ 729.7	$ 816.2	$ 902.7

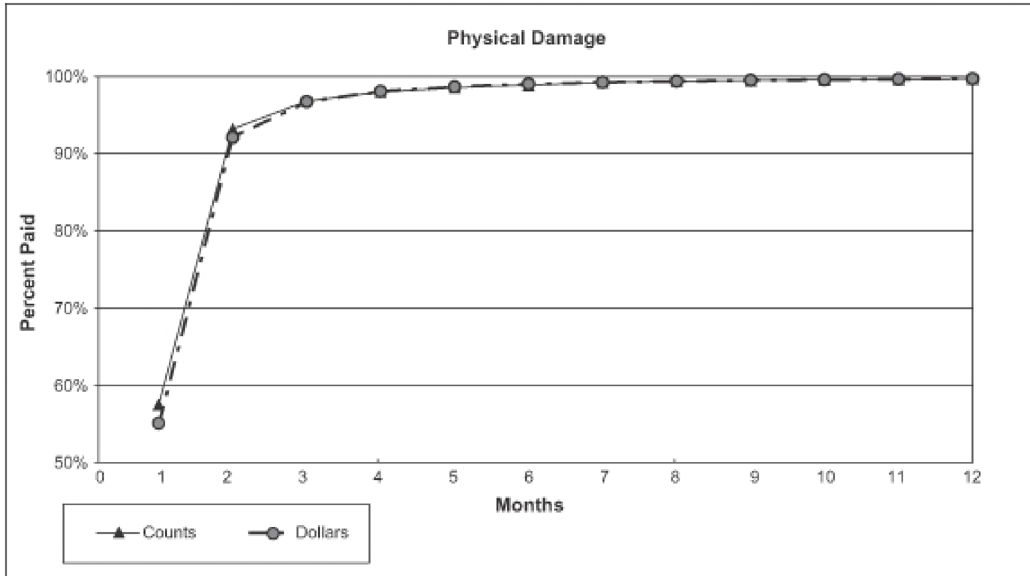
The model represents the estimated value of our common equity portfolio given a +/-10% change in the market, based on the common stock portfolio's weighted average beta of 1.08 for 2010 and 1.06 for 2009. The beta is derived from recent historical experience, using the S&P 500 as the market surrogate. The historical relationship of the common stock portfolio's beta to the S&P 500 is not necessarily indicative of future correlation, as individual company or industry factors may affect price movement. Betas are not available for all securities. In such cases, the change in fair value reflects a direct +/-10% change; the number of securities without betas is approximately 1%, and the remaining 99% of the equity portfolio is indexed to the Russell 1000.

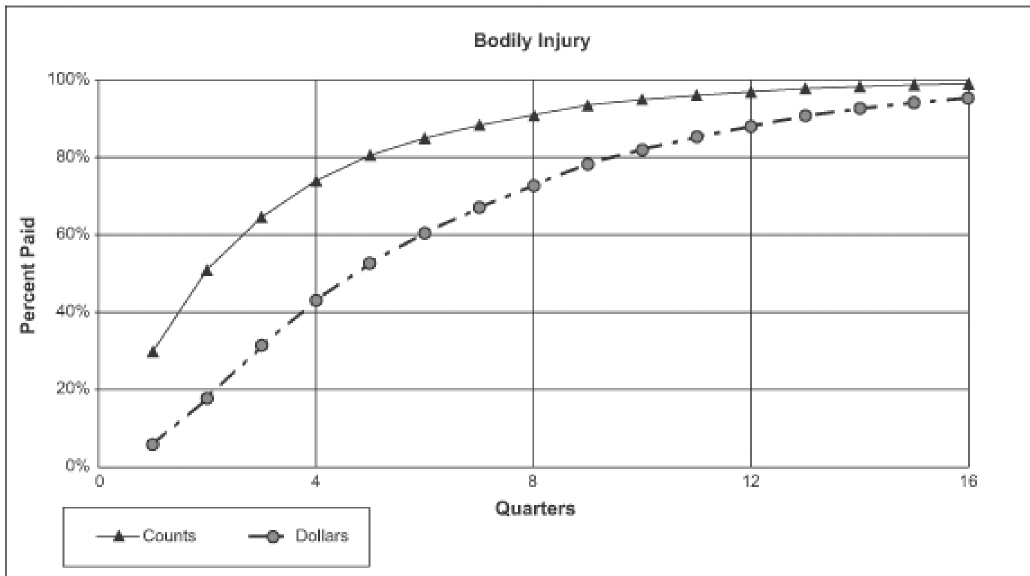
As an additional supplement to the sensitivity analysis, we present results from a value-at-risk (VaR) analysis to estimate and quantify the investment portfolio's exposure to annual volatility and as a component of contingency capital planning. VaR quantifies the potential reductions in total investment returns on a GAAP basis, which includes recurring investment income, realized gains (losses), and changes in unrealized gains (losses) on investments. The VaR estimates below represent the expected loss at 99.5 percentile confidence level within a 12-month trading period based on recent market volatility. We changed this reporting from the 99 th percentile confidence level to the 99.5 percentile confidence level to align with developing industry standards and lengthened the return period from quarterly to annual to match our contingency capital planning horizon. Total portfolio VaR is less than the sum of the two components (fixed income and equity) due to the benefit of diversification.

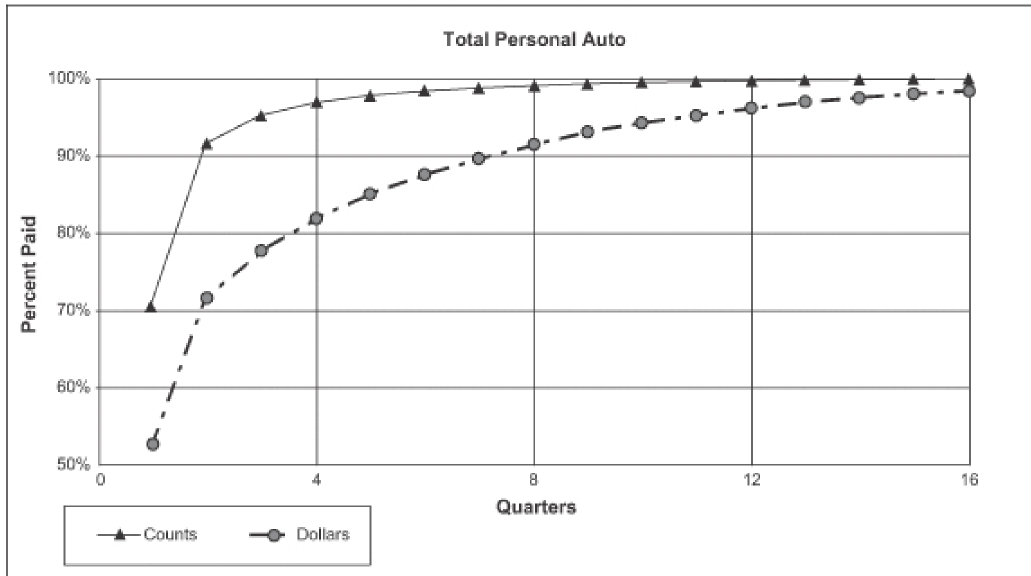
($ in millions) Annual VaR	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
Fixed-income portfolio	$ (707.4)	$ (478.0)	$(431.9)	$(460.5)	$ (592.6)
% of portfolio	(5.0)%	(3.2)%	(2.9)%	(3.2)%	(4.3)%
% of shareholders' equity	(11.7)%	(7.1)%	(6.9)%	(7.4)%	(10.3)%
Common equity portfolio	$ (400.0)	$ (519.7)	$(604.7)	$(350.1)	$ (266.1)
% of portfolio	(28.1)%	(40.4)%	(52.6)%	(29.4)%	(32.6)%
% of shareholders' equity	(6.6)%	(7.7)%	(9.6)%	(5.6)%	(4.6)%
Total portfolio	$ (744.4)	$ (578.6)	$(655.3)	$(598.5)	$ (584.0)
% of portfolio	(4.8)%	(3.5)%	(4.1)%	(3.8)%	(4.0)%
% of shareholders' equity	(12.3)%	(8.6)%	(10.4)%	(9.6)%	(10.2)%

The Progressive Corporation and Subsidiaries
Claims Payment Patterns
(unaudited)

The Progressive Group of Insurance Companies is primarily an insurer of automobiles and recreational vehicles owned by individuals, and trucks owned by small businesses. As such, our claims liabilities are generally short in duration. Since our incurred losses consist of both payments and changes in the reserve estimates, it is important to understand our paid development patterns. The charts below show our claims payment patterns, reflecting both dollars and claims counts paid, for personal auto physical damage and bodily injury claims, as well as on a total personal auto basis, in each case calculated from the date of loss. Since physical damage claims pay out so quickly, the chart is calibrated on a monthly basis, as compared to a quarterly basis for the bodily injury and total auto payments.







Note: The above graphs are presented for our personal auto products on an accident period basis and are based on three years of actual experience for physical damage and nine years for bodily injury and total personal auto.

The Progressive Corporation and Subsidiaries

Quarterly Financial and Common Share Data

(unaudited)

(millions — except per share amounts)

Quarter	Total Revenues	Net Income (Loss) Total	Net Income (Loss) Per Share[2]	Stock Price[1] High	Stock Price[1] Low	Stock Price[1] Close	Rate of Return[3]	Dividends Declared Per Share[4]
2010								
1	$ 3,665.9	$ 295.6	$ .44	$19.69	$16.18	$19.09		$ 0
2	3,686.3	211.9	.32	20.94	18.67	18.72		0
3	3,769.5	261.6	.40	21.59	18.41	20.87		0
4	3,841.6	299.2	.45	22.13	19.54	19.87		1.3987
	$14,963.3	$1,068.3	$ 1.61	$22.13	$16.18	$19.87	16.9%	$ 1.3987
2009								
1	$ 3,468.2	$ 232.5	$ .35	$15.24	$ 9.76	$13.44		$ 0
2	3,583.5	250.1	.37	17.00	13.00	15.11		0
3	3,611.3	269.9	.40	17.50	14.12	16.58		0
4	3,900.6	305.0	.46	18.10	15.90	17.99		.1613
	$14,563.6	$1,057.5	$ 1.57	$18.10	$ 9.76	$17.99	21.5%	$ .1613
2008								
1	$ 3,585.9	$ 239.4	$ .35	$19.84	$15.00	$16.07		$ 0
2	3,536.6	215.5	.32	21.31	16.11	18.72		0
3	2,210.1	(684.2)	(1.03)	20.71	15.70	17.40		0
4	3,507.5	159.3	.24	17.59	10.29	14.81		0
	$12,840.1	$ (70.0)	$ (.10)	$21.31	$10.29	$14.81	(21.9)%	$ 0

[1] Prices are as reported on the consolidated transaction reporting system. Progressive's common shares are listed on the New York Stock Exchange under the symbol PGR.

[2] The sum may not equal the total because the average equivalent shares differ in the quarterly and annual periods, and because of the net loss in 2008. Since we reported a net loss for both the third quarter and full year 2008, the calculated diluted earnings per share was antidilutive; therefore, basic earnings per share is disclosed. For all other periods, diluted earnings per share is disclosed.

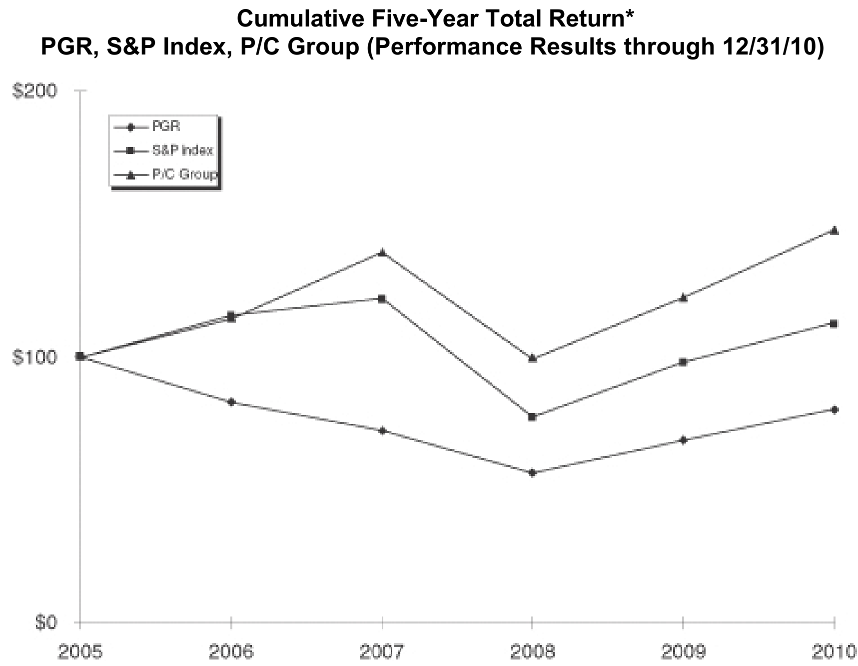
[3] Represents annual rate of return, assuming dividend reinvestment.

[4] Progressive maintains an annual variable dividend policy which is typically declared each December and paid early the following year. No dividend was declared in 2008, in accordance with our dividend policy, since our comprehensive income was less than after-tax underwriting income. In addition to the annual variable dividend, in October 2010, Progressive's Board declared an extraordinary cash dividend of $1.00 per common share that was paid in December 2010.

The Progressive Corporation and Subsidiaries
Performance Graph
(unaudited)

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

Cumulative Five-Year Total Return*
PGR, S&P Index, P/C Group (Performance Results through 12/31/10)



Cumulative Total Return as of December 31 of each year*
(assumes $100 was invested at the close of trading on December 31, 2005)

	2006	2007	2008	2009	2010
PGR	$ 83.07	$ 72.58	$56.69	$ 68.86	$ 80.50
S&P Index	115.79	122.15	77.60	98.13	112.91
P/C Group	114.47	139.39	99.35	122.34	147.70

* Assumes reinvestment of dividends

Source: Value Line, Inc.

The Progressive Corporation and Subsidiaries
Net Premiums Written by State
(unaudited)

($ in millions)	2010		2009		2008		2007		2006	
Florida	$ 1,603.2	11.1%	$ 1,667.0	11.9%	$ 1,631.0	12.0%	$ 1,656.9	12.0%	$ 1,811.5	12.8%
Texas	1,321.4	9.1	1,228.9	8.8	1,151.3	8.5	1,072.0	7.8	1,096.0	7.8
California	914.1	6.3	951.9	6.8	1,016.3	7.5	1,106.4	8.0	1,085.1	7.7
Georgia	714.6	4.9	682.9	4.9	699.7	5.1	748.9	5.4	751.0	5.3
New York	685.3	4.7	704.1	5.0	738.8	5.4	847.9	6.2	930.6	6.6
Ohio	652.5	4.5	623.9	4.5	632.4	4.7	655.9	4.8	693.7	4.9
Pennsylvania	608.5	4.2	580.7	4.1	563.7	4.1	610.5	4.4	642.1	4.5
Louisiana	465.9	3.2	414.5	3.0	373.7	2.7	359.4	2.6	367.1	2.6
Michigan	448.4	3.1	455.3	3.2	461.8	3.4	443.5	3.2	432.2	3.1
All other	7,062.9	48.9	6,693.7	47.8	6,335.6	46.6	6,271.1	45.6	6,322.7	44.7
Total	$14,476.8	100.0%	$14,002.9	100.0%	$13,604.3	100.0%	$13,772.5	100.0%	$14,132.0	100.0%

Directors

Stuart B. Burgdoerfer[1,6]
Executive Vice President and
Chief Financial Officer,
Limited Brands, Inc.
(retailing)

Charles A. Davis[4,5,6]
Chief Executive Officer,
Stone Point Capital LLC
(private equity investing)

Roger N. Farah[3,6]
President and Chief Operating Officer,
Polo Ralph Lauren Corporation
(lifestyle products)

Lawton W. Fitt[4,6]
Corporate Director, various companies
Retired Partner,
Goldman Sachs Group
(financial services)

Stephen R. Hardis[2,4,5,6]
Non-Executive Chairman of the Board,
Marsh & McLennan Companies, Inc.
(financial services)

Bernadine P. Healy, M.D.[1,6]
Retired Health Editor and Medical Columnist,
U.S. News & World Report
(publishing)

Abby F. Kohnstamm[1,6]
President and Chief Executive Officer,
Abby F. Kohnstamm & Associates, Inc.
(marketing consulting)

Peter B. Lewis[2,4,6]
Chairman of the Board
(non-executive)

Norman S. Matthews[3,5,6]
Consultant, former President,
Federated Department Stores, Inc.
(retailing)

Patrick H. Nettles, Ph.D.[1,6]
Executive Chairman,
Ciena Corporation
(telecommunications)

Glenn M. Renwick[2]
President and Chief Executive Officer

Bradley T. Sheares, Ph.D.[3,6]
Former Chief Executive Officer,
Reliant Pharmaceuticals, Inc.
(pharmaceuticals)

[1] Audit Committee Member
[2] Executive Committee Member
[3] Compensation Committee Member
[4] Investment and Capital Committee Member
[5] Nominating and Governance Committee Member
[6] Independent Director

Corporate Officers

Glenn M. Renwick
President and Chief Executive Officer

Brian C. Domeck
Vice President and Chief Financial Officer

Charles E. Jarrett
Vice President, Secretary,
and Chief Legal Officer

Thomas A. King
Vice President and Treasurer

Jeffrey W. Basch
Vice President and Chief Accounting Officer

Mariann Wojtkun Marshall
Assistant Secretary

Peter B. Lewis
Chairman of the Board
(non-executive)

Other Executive Officers

John A. Barbagallo
Commercial Lines Group President

M. Jeffrey Charney
Chief Marketing Officer

William M. Cody
Chief Investment Officer

Susan Patricia Griffith
Claims Group President

Valerie Krasowski
Chief Human Resource Officer

John P. Sauerland
Personal Lines Group President

Raymond M. Voelker
Chief Information Officer

Principal Office
The Progressive Corporation
6300 Wilson Mills Road
Mayfield Village, Ohio 44143
440-461-5000
progressive.com

24-Hour Insurance Quotes, Claims Reporting, and Customer Service

	Personal autos, motorcycles, and recreational vehicles	Commercial autos/trucks
To receive a quote	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-888-806-9598 progressivecommercial.com
To report a claim	1-800-274-4499 progressive.com[1]	1-800-274-4499
For customer service:		
If you bought your policy through an independent agent or broker	1-800-925-2886 (1-800-300-3693 in California) progressiveagent.com	1-800-444-4487 progressivecommercial.com
If you bought your policy directly through Progressive online or by phone	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-444-4487 progressivecommercial.com
If you have a complaint or concern regarding any claim handling or other claims-related issue[2]	1-800-274-4641 e-mail: claims@email.progressive.com	1-800-274-4641 e-mail: claims@email.progressive.com

[1]Claimsreporting via the Web site is currently only available for personal auto policies.

[2]Anypolicyholder, claimant, or other interested party who has any complaint or concern regarding any claim handling or other claims-related issue may report such claim using the contact information above. The complaint or concern will be promptly forwarded to the appropriate management personnel in our claims organization for review and response.

Annual Meeting The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, 6671 Beta Drive, Mayfield Village, Ohio 44143 on April 29, 2011, at 10 a.m. eastern time. There were 3,703 shareholders of record on December 31, 2010.

Common Shares and Dividends The Progressive Corporation's common shares (symbol PGR) are traded on the New York Stock Exchange. Progressive currently has an annual variable dividend policy. We expect the Board to declare the next annual variable dividend, subject to policy limitations, in December 2011, with a record date in January 2012 and payment shortly thereafter. A complete description of our annual variable dividend policy can be found at: progressive.com/dividend.

Shareholder/Investor Relations Progressive does not maintain a mailing list for distribution of shareholders' reports. To view Progressive's publicly filed documents, shareholders can access our Web site: progressive.com/sec. To view our earnings and other releases, access progressive.com/investors.

For financial-related information or to request copies of Progressive's publicly filed documents free of charge, write to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143, e-mail: investor_relations@progressive.com or call: 440-395-2222.

For all other Company information, call: 440-461-5000 or access our Web site at progressive.com/contactus.

Transfer Agent and Registrar
Registered Shareholders: If you have questions or changes to your account and your Progressive shares are registered in your name, write to: American Stock Transfer & Trust Company, Attn: Operations Center, 6201 15th Avenue, Brooklyn, NY 11219; phone: 1-866-709-7695; e-mail: info@amstock.com; or visit their Web site at: www.amstock.com.

Beneficial Shareholders: If your Progressive shares are held in a brokerage or other financial institution account, contact your broker or financial institution directly regarding questions or changes to your account.

Contact Non-Management Directors Interested parties have the ability to contact the non-management directors as a group by sending a written communication clearly addressed to the non-management directors and sent to any of the following:

Peter B. Lewis, Chairman of the Board, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or e-mail: peter_lewis@progressive.com.

Charles E. Jarrett, Secretary, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or e-mail: chuck_jarrett@progressive.com.

The recipient will forward communications so received to the non-management directors.

Accounting Complaint Procedure Any employee or other interested party with a complaint or concern regarding accounting, internal accounting controls, or auditing matters relating to Progressive may report such complaint or concern directly to the Chairman of the Audit Committee, as follows: Patrick H. Nettles, Ph.D., Chairman of the Audit Committee, patrick_nettles@progressive.com.

Any such complaint or concern also may be reported anonymously over the following toll-free Alert Line: 1-800-683-3604 or online at www.progressivealertline.com. Progressive will not retaliate against any individual by reason of his or her having made such a complaint or reported such a concern in good faith. View the complete procedures at progressive.com/governance.

Whistleblower Protections Progressive will not retaliate against any officer or employee of Progressive because of any lawful act done by the employee to provide information or otherwise assist in investigations regarding conduct that the employee reasonably believes to be a violation of Federal securities laws or of any rule or regulation of the Securities and Exchange Commission or Federal securities laws relating to fraud against shareholders. View the complete Whistleblower Protections at progressive.com/governance.

Corporate Governance Progressive's Corporate Governance Guidelines and Board Committee Charters are available at: progressive.com/governance.

Counsel Baker & Hostetler LLP, Cleveland, Ohio

Charitable Contributions Progressive contributes annually to The Progressive Insurance Foundation, which provides: (i) financial support to the Insurance Institute for Highway Safety to further its work in reducing the human trauma and economic costs of auto accidents; and (ii) matching funds to eligible 501(c)(3) charitable organizations to which Progressive employees contribute.

Social Responsibility Progressive uses an interactive online format to communicate our social responsibility efforts. This report can be found at: progressive.com/socialresponsibility.

Online Annual Report and Proxy Statement Our 2010 Annual Report to Shareholders can be found at: progressive.com/annualreport.

We have also posted copies of our 2011 Proxy Statement and 2010 Annual Report to Shareholders, in a "PDF" format, at: progressiveproxy.com.

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Exhibit 21

SUBSIDIARIES OF THE PROGRESSIVE CORPORATION

Name of Subsidiary	Jurisdiction of Incorporation
Drive Insurance Holdings, Inc.	Delaware
Drive New Jersey Insurance Company	New Jersey
Progressive American Insurance Company	Ohio
Progressive Bayside Insurance Company	Ohio
Progressive Casualty Insurance Company	Ohio
PC Investment Company	Delaware
Progressive Gulf Insurance Company	Ohio
Progressive Specialty Insurance Company	Ohio
Trussville/Cahaba, AL, LLC	Ohio
Progressive Classic Insurance Company	Wisconsin
Progressive Commercial Advantage Agency, Inc.	Ohio
Progressive DLP Corp.	Ohio
Progressive Hawaii Insurance Corp.	Ohio
Progressive Michigan Insurance Company	Michigan
Progressive Mountain Insurance Company	Ohio
Progressive Northern Insurance Company	Wisconsin
Progressive Northwestern Insurance Company	Ohio
Progressive Preferred Insurance Company	Ohio
Progressive Security Insurance Company	Louisiana
Progressive Southeastern Insurance Company	Indiana
Progressive West Insurance Company	Ohio
Garden Sun Insurance Services, Inc.	Hawaii
Pacific Motor Club	California
Progny Agency, Inc.	New York
Progressive Adjusting Company, Inc.	Ohio
Progressive Capital Management Corp.	New York
Progressive Commercial Holdings, Inc.	Delaware
Artisan and Truckers Casualty Company	Wisconsin
National Continental Insurance Company	New York
Progressive Commercial Casualty Company	Ohio
Progressive Express Insurance Company	Ohio
United Financial Casualty Company	Ohio

Name of Subsidiary (con't)	Jurisdiction of Incorporation
Progressive Direct Holdings, Inc.	Delaware
Mountain Laurel Assurance Company	Ohio
Progressive Advanced Insurance Company	Ohio
Progressive Auto Pro Insurance Agency, Inc.	Florida
Progressive Choice Insurance Company	Ohio
Progressive Direct Insurance Company	Ohio
Gadsden, AL, LLC	Ohio
Progressive Freedom Insurance Company	New Jersey
Progressive Garden State Insurance Company	New Jersey
Progressive Marathon Insurance Company	Michigan
Progressive Max Insurance Company	Ohio
Progressive Paloverde Insurance Company	Indiana
Progressive Premier Insurance Company of Illinois	Ohio
Progressive Select Insurance Company	Ohio
Progressive Specialty Insurance Agency, Inc.	Ohio
Progressive Universal Insurance Company	Wisconsin
Progressive Investment Company, Inc.	Delaware
Progressive Premium Budget, Inc.	Ohio
Progressive RSC, Inc.	Ohio
Progressive Vehicle Service Company	Ohio
Village Transport Corp.	Delaware
Wilson Mills Land Co.	Ohio

Each subsidiary is wholly owned by its parent.

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 12th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Peter B. Lewis Peter B. Lewis	Director and Chairman of the Board

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 14th day of February, 2011.

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

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 11th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Brian C. Domeck Brian C. Domeck	Vice President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 14th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Jeffrey W. Basch Jeffrey W. Basch	Vice President and Chief Accounting Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 13th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Stuart B. Burgdoerfer Stuart B. Burgdoerfer	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Charles A. Davis Charles A. Davis	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 11th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Roger N. Farah Roger N. Farah	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Lawton W. Fitt Lawton W. Fitt	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 16th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Stephen R. Hardis Stephen R. Hardis	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 11th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Abby F. Kohnstamm Abby F. Kohnstamm	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 28th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Norman S. Matthews Norman S. Matthews	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Patrick H. Nettles, Ph.D. Patrick H. Nettles, Ph.D.	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Charles E. Jarrett, Dane A. Shrallow and David M. Coffey, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 2010, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2011.

Signature	Position(s) with The Progressive Corporation
/s/ Bradley T. Sheares, Ph.D. Bradley T. Sheares, Ph.D.	Director

Exhibit 31.1

CERTIFICATION

I, Glenn M. Renwick, certify that:

1. I have reviewed this annual report on Form 10-K of The Progressive Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2011

/s/ Glenn M. Renwick

Glenn M. Renwick
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Brian C. Domeck, certify that:

1. I have reviewed this annual report on Form 10-K of The Progressive Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2011

/s/ Brian C. Domeck

Brian C. Domeck

Vice President and Chief Financial Officer

Exhibit 32.1

SECTION 1350 CERTIFICATION

I, Glenn M. Renwick, President and Chief Executive Officer of The Progressive Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the period ended December 31, 2010 (the "Report"), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Glenn M. Renwick

Glenn M. Renwick
President and Chief Executive Officer
March 1, 2011

Exhibit 32.2

SECTION 1350 CERTIFICATION

I, Brian C. Domeck, Vice President and Chief Financial Officer of The Progressive Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the period ended December 31, 2010 (the "Report"), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian C. Domeck

Brian C. Domeck
Vice President and Chief Financial Officer
March 1, 2011

Exhibit 99

Letter to Shareholders

In naming Progressive, “Progressive,” those who went before this writer left an indelible message of expectations and the role to which we aspire in the industry. Surveys being what they are inform, if not calibrate, but we were delighted by one such survey in 2010 that indexed Progressive higher than all others as - the company most positively changing how auto insurance is done.

Surveys don’t pay the bills, but often serve as a valuable qualitative read on the company’s brand and future potential. Our performance in 2010 will, however, pay the bills and more.

We ended the year with net premiums written of around $14.5 billion, up some 3.4% from 2009, and net income of $1 billion, comparable to 2009 performance. What distinguishes 2010 performance for me is the addition of over 750,000 new policyholders and by implication well over a million new customers. Our 92.4 combined ratio from underwriting operations, in tandem with a 7.8% total return on investments, contributed to a very strong capital position. We were delighted to share this performance with shareholders in multiple ways not the least of which was a $1 extraordinary dividend late in the year and a further $0.40 variable dividend reflecting our internal measure of annual performance - Gainshare.

If the decade ending 2010 were a football game, it would be a story of two distinct halves. The first characterized by several years of the industry regaining profitability through rate increases, leading to significant industrywide growth in written premium. Progressive posted growth rates more often than not in the strong double digits zone for this half. As well documented frequency declines emerged and industry rate levels proved to be more than adequate, a six-year period of industry profitability followed. Best efforts interpreting history would suggest that two consecutive profitable years was the previous high water mark. Growth in written premium inevitably slowed, producing a slightly lagged, but matching, period of industrywide written premium declines. Progressive frustratingly posted low single digit growth numbers above and below zero for the same period. While gas prices, driving behavior, Internet adoption, media spending, and the economic crisis at a minimum would be required to fully chronicle the decade, there is little doubt the classic nature of the insurance cycle, with unique wavelength and amplitude to extend the analogy, has played a significant role. The closing years of the decade appear to be the approximate time frame during which industrywide profitability will once again be moderated and sustained industry premium declines will turn positive.

With that as a back drop, it is helpful to review Progressive’s evolution as a company during the same period and, more importantly, our positioning for whatever emerges over the next decade.

Underwriting Results

Our commitment to a profitability target of a 96 combined ratio served well during the decade and at no time did we fail to meet or exceed our targets - a result we view with some pride. The period has seen an emergence of our Direct business as an industry leader and a significant contributor to our growth and profitability, joining our important and now growing Agency operations. With that emergence has come greater recognition for the margin contribution effects in any given calendar year from the timing dynamics unique to Direct distribution, prompting me last year at this time to write, " *However, under certain high growth new business scenarios, we would be happy to see the reported monthly and calendar-year combined ratios go above 96 for our Direct business, as long as our new and renewal business consistently meets predefined targets that ensure a lifetime result at or below 96* ," and, by implication, without compromise to the attainment of an aggregate companywide 96 in any calendar year. In fact, we were happy to experience high growth scenarios in our Direct business in 2010, notably in the first two quarters, driven by strong double digit new application growth. On three occasions during the year, our monthly combined ratio for the Direct business exceeded 96 but, as designed, our new and renewal cohorts met the necessary targets to ensure both lifetime profitability and aggregate calendar-year performance goals. The Direct business finished the year with a 94.6 calendar combined ratio, about two points higher on an accident-year basis — a strong performance given significant new business.

The momentum building in the second half of 2009 in our Agency auto production carried into 2010 and we saw attractive growth in new applications and policies in force for the entire year. Similar to Direct, demand was stronger on a year-over-year basis earlier in the year, but Agency, more so than Direct, maintained a reasonably consistent pattern throughout the year. Our policies in force for Agency had fallen from our all-time highs and, while not happy for that experience, we are now back to levels closely approximating our best, with reason to believe in continued momentum and new highs in 2011.

We ended the year with both channels and all Personal Lines products meeting targets both on the GAAP presentation of numbers and our more preferred accident year presentation. We started the year with significant problems in several large states and personal injury protection (PIP) coverage was one common denominator. Efforts throughout the year to manage these states, involving actions and rate level changes to position us for future profitable growth, were generally effective, with profitability first among priorities. We now have reason to be more optimistic for the growth outlook in these states for 2011.

In Personal Lines, 4 out of 51 regulatory jurisdictions in which we operate failed to make a profit. One, a recent market entry that in retrospect was mispriced and the recovery while slow is very much on track; one in which extreme and unusual weather is an identifiable condition; one where our management of the PIP coverage is still a work in progress; and a fourth just missed. Several others, while profitable, did not meet their planned targets. I offer this perspective to reinforce the point that we manage the business at the local level with talented product managers focused on the issues and conditions of their state, a view which is not always visible from the aggregate reporting offered in our financial presentations.

Our Commercial Auto business, largely distributed by our agents, had about as good of a year as we could expect. Our year-over-year reduction in active policies was a very small negative by year-end, down somewhat more on a multi-year basis, reflecting general economic and employment conditions. Profitability was strong at an 87.5 combined ratio and meaningful signs of growth were emerging during the year. We will need large and important states to reflect greater growth going forward to regain lost ground in this segment. Similar to our work in all products, our Commercial Auto group has been actively redesigning its product offering to reflect our best knowledge and experience and has done a great deal of work, in a period of less robust growth, to position for the future.

A Destination Company

One way I have described Progressive today is having evolved from a "Transaction" company to a "Destination" company. As a transaction company, we were and remain very focused on the essential transactions of insurance — presenting rates to our agents with the best possible technology; settling claims in a fast, fair, and efficient manner; providing 24/7 service on all manner of issues; changing rates to reflect current market conditions quickly; and the many other critical functions of our business.

What has evolved now is the distinct overlay of a customer-care culture, making our actions even more consistent with a company our customers can expect to be their long-term auto insurance destination. While few service companies would have differing objectives, we feel very good about our intensity and progress. Industry surveys would support our feelings, but most importantly customer policy life expectancy continues to lengthen and our 2010 actions, including our improved loyalty programs and commitment to rate stability at renewal, continued our push, with both channels increasing policy life expectancies during the year to all-time highs. Our effective use of Net Promoter® Scores as an internal barometer of our progress leaves open considerable room for improvement and will remain a top priority.

Increased rigor around customer segments in recent years highlighted the need to provide our customers with other products they need over time and may have had to leave Progressive to acquire. Offering a homeowners product underwritten by others, but packaged with our auto product, has met a consumer need and resulted in very attractive retention characteristics. We ended the year closing in on a million customers with multiple products purchased from Progressive, with a significant and growing percentage of those bundling homeowners' or renters' with their auto coverage.

Creating the environment where customers want to stay involves some bolder strategic moves, such as offering homeowners and concierge claims service, but more so a relentless focus on the thousands of details in product design, customer service, claims delivery, and every other aspect of our business. Progressive today is a different company and, in the broadest of terms, the asset value of the company, represented by numbers of customers and future months and years of life expectancy, is a different product by far than at the start of the decade.

Brand Strategy

Our success and ability to communicate our brand has built consistently during the decade and 2010 was perhaps one of our best years. With the same caveat regarding survey results as in my opening, we are encouraged that consumer awareness of our brand continues to grow and the substance of their awareness is consistent with our intentions.

In addition to greater recognition of the company that changes how insurance is done, we are perceived as a company that "Has unique and distinctive features" and "Makes the entire auto insurance process easier." These are more than acceptable consumer characterizations. Our now quite recognizable employee spokesperson "Flo" continued to be the central figure in our advertising for 2010, and while no one taste satisfies all, "Flo's" appeal is very real. With nearly 2.5 million facebook fans, she has no comparables in the insurance industry and one needs to look to the Boston Celtics or *The Daily Show* for a closer match.

The insurance advertising space was very active in 2010, as we expect it will be going forward, and making our brand truly distinctive requires continuous product innovation and compelling messaging. Last year I covered in greater detail the effectiveness of "Flo" not just in creating demand, but as the model of brand ambassadorship she exhibits and the stylized, but accurate, portrayal of our more than 24,000 employees. Expect to see much more of "Flo" in 2011.

Complementing the point of view expressed through "Flo" and the superstore will be the point of view of a satisfied customer as an advocate or promoter. This character feels licensed to comment on other people's shopping experiences based on his knowledge and experience with Progressive. The character, we call the "Messenger," will help tell the Progressive story from a different point of view while incorporating meaningful points of branding with our established campaign. Developed and tested in late 2010, we have high hopes this identifiable character will provide added weight to our "Flo" of customers (I know).

The rate of change in the diversity of media available to all of us as consumers has been, and will continue to be, game changing in creative development and media placement disciplines. While our skills and talents have been building to match the environment and importance, we did not yet have the leadership in this area that would ensure performance standards comparable to our other essential disciplines. I'm happy to report that I think this has changed with Jeff Charney accepting my invitation to join Progressive as our Chief Marketing Officer late in 2010.

Product Development

Product development is at the core of Progressive, whether continuously refining our product at the macro level or for state-specific adaptation. 2010 saw the culmination of multi-year efforts to take the best features of our product designs independently derived for the Agency and Direct channels and integrate them into one design with maximum flexibility to serve both channels. Consistency of product, not necessarily price, regardless of whether presented by an agent or directly by Progressive, is a meaningful advantage along with the attendant reduction in maintenance costs and talent dilution associated with multiple systems.

More dramatic product features and packaging, like Name Your Price® (NYP), provides consumers wishing to shop online a very real opportunity to leverage technology and explore the options available to them. Agents have always helped customers reach smart decisions on price and coverage. We believe NYP contributed very nicely to our growth in 2010, but equally as important is consumer realization and appreciation that Progressive is a company willing to challenge and change how things are done.

These types of product presentations are only possible with great consumer facing technology. Progressive has been recognized as the industry leading Web site and received 16 out of 17 Keynote awards. However, consumer facing technology now is a much expanded category with smart phones and tablets providing form factors we intend to exploit to extend our product presentation and drive profitable growth. As NYP leveraged technology in one way, the potential for devices that are on your person, often with a camera and location software, is a whole new and really exciting dimension for all aspects of our business. Expect more next year.

Ironically, usage-based insurance, a concept correctly associated with Progressive, has been around for most of the last decade, but the technology to track in-vehicle data and the insurance product development were for the most part experimental. The later years of the decade saw rapid improvement in the technology and the cumulative knowledge we had acquired was leading to a better product and increasingly improved commercialization of the idea. 2010, however, was a breakthrough year. We dramatically repackaged the concept, making the consumer experience easier, incorporated usage as a product feature within our mainstream product offering, simplified the marketing message, and reduced the costs, all, we believe, while maintaining the rating effectiveness we know and understand. Early rollout and transitions from prior versions suggest that we are very much on-track with the redesign objectives. Our repackaged product known as Snapshot℠, reflecting the “snapshot” of driving behavior we seek in the monitoring period, is available through participating agents and for online consumers. It’s hard not to be excited by the potential for this concept and our redesign. Our 2011 plans call for increasing the number of states in which we offer the product, further improving the customer experience, and active marketing.

Operational Skills

Marketing, product design, and distribution, perhaps for some are the more visible elements of Progressive, but our success is directly dependent on our operational skills and the talented individuals who execute, lead, and design the processes we follow. It is here the customer care culture really has been operationalized. Claims resolution, our call centers operations, and our technology operations all had very good years in 2010.

Claims resolution continues to produce quality results and operating costs that in no small way reflect in our aggregate performance. Our numerous call center operations continue to seek ways to increase their focus on customer retention and agent satisfaction through superior, yet efficient, service. This commitment is now leading us to begin using technology that will help provide insightful diagnostics of a phone call, not just statistics, including consumer interaction styles and points of consumer stress during the call and by so doing

provide for greater feedback on the emotional adaption required of us to provide the best possible future service. And while there are moments we can't live with it, we know we can't live without it. Technology makes all that has been featured in this letter possible and getting it right and getting it fast and getting it cost effective is a never-ending challenge.

Continuously innovating and changing things that work because there is a better way is difficult and demanding and requires a special mindset and motivation. Relentlessly improving our products and services, providing reasons for customers to stay and others to join is never ending. That is what we do. The decade has seen a lot of changes and 2010 was as big a year as any. I like the changes and the options we've created. I like the greater breadth of customers that we have been able to attract as a destination insurer. I like the customer culture that our leaders have created.

Investments and Capital

Investment and capital management, happily, had a year further removed from the hot seat imposed by prior years. The challenge became the return of underleveraged capital and effective asset management in a low interest rate world. We positioned our portfolio near the low end of our duration guidelines, with preference for credit and reinvestment risk over interest rate risk. Implicit in this positioning was an asymmetric view on the future directions of interest rates – more likely up than down from such low levels. While we cannot be sure of the timing on this positioning, we are sure that we will continue to invest in a manner that recognizes that our ability to underwrite all the insurance available to us is the "protected asset."

Signs late in the year suggest this positioning had merit. We were comfortable with the composition of our portfolio during 2010, but, as with everything we do, there is always room for review and improvement. Our decision to increase our corporate bond, asset-backed, and commercial mortgage-backed portfolios helped us earn a strong return. Portfolio results contributed $765.7 million to comprehensive income in 2010. Municipal budget woes, and by extension municipal bonds, became front page news during the second half of 2010. We began selling some of our municipal bond exposure during 2009 and continued into the first quarter 2010 when valuations were high. Later in the year, when valuations were lower and, to us, at more attractive levels, we increased our holdings. We continue to diligently manage our credit exposure to all of our investments, including municipal bond positions. Adding to our common equity position during the year produced good results and, with hindsight, could have been larger. We finished the year with 24% of our invested assets in what we call Group I, which includes common stocks.

Our capital position was very strong throughout the year and by mid-year we were actively considering a range of actions, consistent with our long-standing philosophy of returning underleveraged capital to shareholders when appropriate to do so, in addition to the 13.3 million shares we repurchased during the year. Our first notable capital action, which took place last summer, was the retirement of $223 million of our outstanding hybrid debt issue,

which we were able to do paying 95 cents on the dollar. Prior to that transaction, we were required to gain consent from the holders of our 2032 senior debt issue to terminate a replacement capital covenant. We were successful in our solicitation to eliminate that requirement. This combined transaction was a very effective use of underleveraged capital and creates a significant increase in the freedom we will have in future years regarding the remaining hybrid debt. Our debt-to-total capital ratio closed the year at 24.5%, well below our 30% guideline, preserving significant debt capacity should we need or choose to use it.

We spend significant time and effort modeling our capital requirements and sizing what we call layers of capital to satisfy regulatory requirements and the contingencies for all manner of risks we can envision in our business. Based on this modeling, we formulate our minimum capital requirement and, by definition, a sizing of any underleveraged capital. Based on this work, and after considering all options, the Board of Directors approved a $1 extraordinary dividend, which was paid in December.

While the timing was similar, our declaration of an annual variable dividend is quite distinct from the extraordinary dividend. Our performance as a company is reflected in our Gainshare score, a measure of some complexity that reduces to a score between 0 and 2. Our final score for 2010 was 1.50, a welcome rebound from prior years and I believe a very fair reflection of the year. Companywide performance compensation has the Gainshare score as a base as does our shareholder variable dividend. The 1.50 score, after-tax underwriting income of $704.3 million, and the 25% target factor established by the Board, combined for a variable dividend of $0.3987 per share paid in February 2011 for 2010 performance.

We remain very confident that the variable dividend is an appropriate part of our capital management arsenal, and now have several years that have tested its formulation. With minor changes to reflect a constraint that comprehensive income exceed underwriting income and an increase last year in the percentage of underwriting income, the design has achieved exactly what we had hoped. For 2011, the Board of Directors has changed the target factor, which is the percentage of underwriting income available to be distributed by the formula, to 33-1/3%. It is more likely than not that this target factor will remain at this level for some time.

Our People and Culture

Addressing groups within Progressive, I often simplify our business to two critical components to make a point — " *We don't have many characteristics of other businesses – the tangible product features of consumer electronics, the intellectual property of the pharmaceutical business, the production lines of the manufacturing segment, …* " we have "People" and "Reputation." Much of this letter and report, as is appropriate and the custom, focuses on this year's economic and tactical accomplishments along with an accounting-based presentation. It doesn't fit well in that format, but it is simply not a complete report without due recognition to all the people who make it possible and upon whom our reputation rests. Our people and our culture are what make us special.

My close each year thus is appropriately the most constant part of this letter for it is the most public forum I have to thank the people of Progressive, our agents and brokers, customers and shareholders for their support.

To all the people who make Progressive, “Progressive” – Thank you.

Glenn M. Renwick
President and Chief Executive Officer