PROGRESSIVE CORP/OH/
Form DEF 14A
March 03, 2006

**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES**

**EXCHANGE ACT OF 1934**

Filed by the Registrant þ
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Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
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THE PROGRESSIVE CORPORATION

(Name of Registrant as Specified in its Charter)

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1) Amount Previously Paid:

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**
**TO BE HELD APRIL 21, 2006**

Notice is hereby given that the Annual Meeting of Shareholders of The Progressive Corporation will be held at 6671 Beta Drive, Mayfield Village, Ohio, on Friday, April 21, 2006, at 10:00 a.m., Cleveland time, for the following purposes:

1. To elect four directors;

2. To approve an amendment to the Company s Amended Articles of Incorporation to increase the number of authorized Common Shares from 600,000,000 to 900,000,000;

3. To ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2006; and

4. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on February 22, 2006, will be entitled to notice of and to vote at said meeting or any adjournment thereof.

By Order of the Board of Directors.

Charles E. Jarrett, *Secretary*

March 3, 2006

**Shareholders who do not expect to attend the meeting in person are urged to date and sign the enclosed proxy and return it in the enclosed postage-paid envelope.**

**The Progressive Corporation**

**Proxy Statement**

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**THE PROGRESSIVE CORPORATION**

**PROXY STATEMENT**

This statement is furnished in connection with the solicitation of proxies for use at the Annual Meeting of Shareholders of The Progressive Corporation, an Ohio corporation ( Company ), to be held at 10:00 a.m., Cleveland time, on Friday, April 21, 2006, at 6671 Beta Drive, Mayfield Village, Ohio 44143, and at any adjournment thereof. This statement, the Company s Annual Report to Shareholders for the fiscal year ended December 31, 2005, which is attached hereto as an Appendix, and the accompanying proxy will be sent to shareholders on or about March 6, 2006.

The close of business on February 22, 2006, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting. At that date, the Company had outstanding 196,513,819 Common Shares, each of which will be entitled to one vote.

**ITEM 1: ELECTION OF DIRECTORS**

The Company s Code of Regulations provides that the number of directors shall be fixed at no fewer than five or more than twelve. The number of directors has been fixed at twelve and there are currently eleven directors on the Board. The Code of Regulations provides that the directors are to be divided into three classes as nearly equal in number as possible and that the classes are to be elected for staggered terms of three years each. Directors of one class are elected annually. At the Annual Meeting, the shares represented by the proxies obtained hereby, unless otherwise specified, will be voted for the election as directors of the four nominees named below, each to serve for a three-year term and until his or her successor is duly elected and qualified. If, by reason of death or other unexpected occurrence, any one or more of the nominees named below is not available for election, the proxies will be voted for such substitute nominee(s), if any, as the Board of Directors may propose.

Based upon a recommendation from the Nominating and Governance Committee, the Board has nominated the four nominees named below for reelection to the Board. Proxies cannot be voted at the Annual Meeting for a greater number of persons than the four nominees named in this proxy statement. No shareholder nominations for the election of directors have been received within the time period required by Section 13 of Article II of the Company s Code of Regulations or pursuant to the Company s Shareholder-Proposed Candidate Procedures discussed below.

If written notice is given by any shareholder to the President, a Vice President or the Secretary not less than 48 hours before the time fixed for holding the Annual Meeting that he or she desires that the voting for election of directors shall be cumulative, and if an announcement of the giving of such notice is made at such meeting by the Chairman or Secretary or by or on behalf of the shareholder giving such notice, each shareholder shall have the right to cumulate such voting power as he or she possesses at such election and to give one nominee a number of votes equal to the number of directors to be elected multiplied by the number of shares he or she holds, or to distribute such number of votes among two or more nominees, as he or she sees fit. If the enclosed proxy is executed and returned and voting for the election of directors is cumulative, the persons named in the enclosed proxy will have the authority to cumulate votes and to vote the shares represented by such proxy, and by other proxies held by them, so as to elect as many of the four nominees named below as possible.

Pursuant to the Company s Corporate Governance Guidelines, if a nominee for director receives less than a majority of the votes cast in an uncontested election, although the nominee is elected as a director under Ohio law, he or she is expected to tender his or her resignation to the Board. The Nominating and Governance Committee will consider the resignation offer and recommend to the Board whether to accept or reject it. The

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Board will then make the final decision whether to accept or reject the tendered resignation based on all the facts and circumstances then presented.

The Board currently has one vacancy. Under the Code of Regulations, the Board has the right to elect a new director to fill such a vacancy, but the new director so elected would serve a term that expires on the date of the next shareholders meeting at which directors are to be elected. Class assignments would be made so that the directors are distributed among the several classes as nearly equally as possible. No decision has been made to fill the vacancy, nor has the Nominating and Governance Committee recommended, or the Board selected, any candidates to fill the vacancy.

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

***Nominees for Election at the Annual Meeting***

| **Name, Age, Principal Occupation and Last Five Years Business Experience** | **Director Since** | **Term Expires** |
|---|---|---|
| Stephen R. Hardis (1), Age 70<br>Lead Director, Axcelis Technologies, Inc., Beverly, Massachusetts (semiconductor equipment manufacturing) since May 2005; Chairman of the Board, Axcelis Technologies, Inc. prior to May 2005 | 1988 | 2009 |
| Philip A. Laskawy (2), Age 64<br>Retired since September 2001; Chairman and Chief Executive Officer, Ernst & Young LLP, New York, New York (professional services) prior to September 2001 | 2001 | 2009 |
| Norman S. Matthews (3), Age 73<br>Consultant, New York, New York | 1981 | 2009 |

| Name, Age, Principal Occupation and Last Five Years Business Experience | Director Since | Term Expires |
|---|---|---|
| Bradley T. Sheares, Ph.D. (4), Age 49<br>President, U.S. Human Health Division of Merck & Co., Inc., Whitehouse Station, New Jersey (pharmaceutical products and services) since March 2001; Vice President, Hospital Marketing and Sales, U.S. Human Health Division of Merck & Co., Inc. prior to March 2001 | 2003 | 2009 |

***Directors Whose Terms Will Continue after the Annual Meeting***

| Name, Age, Principal Occupation and Last Five Years Business Experience | Director Since | Term Expires |
|---|---|---|
| Peter B. Lewis, Age 72<br>Non-Executive Chairman of the Board of the Company since March 2003; Executive Chairman of the Board prior to March 2003 | 1965 | 2007 |
| Patrick H. Nettles, Ph.D. (5), Age 62<br>Executive Chairman of the Board of Directors, Ciena Corporation, Linthicum, Maryland (telecommunications) since May 2001; Chief Executive Officer of Ciena prior to May 2001; Chairman of the Board of Ciena from October 2000 to May 2001 | 2004 | 2007 |
| Glenn M. Renwick (6), Age 50<br>President and Chief Executive Officer of the Company; President, Chairman of the Board and Chief Executive Officer of Progressive Casualty Insurance Company prior to April 2004 | 1999 | 2007 |
| Donald B. Shackelford (7), Age 73<br>Chairman of the Board, Fifth Third Bank, Central Ohio (successor to State Savings Bank), Columbus, Ohio (commercial bank) | 1976 | 2007 |

| Name, Age, Principal Occupation and Last Five Years Business Experience | Director Since | Term Expires |
|---|---|---|
| Charles A. Davis (8), Age 57<br>Chief Executive Officer, Stone Point Capital LLC, Greenwich, Connecticut (global private equity firm) since June 2005; Chairman, MMC Capital, Inc. ( MMC ), New York, New York (global private equity firm) from January 2002 through May 2005; Chief Executive Officer, MMC, prior to June 2005; President, MMC, prior to January 2003; Vice Chairman, Marsh & McLennan Companies, Inc., New York, New York (financial services) prior to December 2004 | 1996 | 2008 |
| Bernadine P. Healy, M.D. (9), Age 61<br>Medical & Science Columnist, U.S. News & World Report, Washington, D.C. (publishing) since September 2002; President and Chief Executive Officer, American Red Cross, Washington, D.C. (emergency services) prior to December 2001 | 2002 | 2008 |
| Jeffrey D. Kelly, Age 52<br>Chief Financial Officer, National City Corporation ( NCC ), Cleveland, Ohio (commercial banking); Vice Chairman of NCC since December 2004; Executive Vice President of NCC prior to December 2004 | 2000 | 2008 |

(1) Mr. Hardis is also a director of Nordson Corporation, Lexmark International, Inc., American Greetings Corporation, STERIS Corporation and Marsh & McLennan Companies, Inc., as well as Axcelis Technologies, Inc.

(2) Mr. Laskawy is also a director of General Motors Corporation, Loews Corporation, Henry Schein, Inc. and Cap Gemini S.A.

(3) Mr. Matthews is also a director of Finlay Enterprises, Inc. and Henry Schein, Inc.

(4) Dr. Sheares is also a director of Honeywell International, Inc.

(5) Dr. Nettles is also a director of Axcelis Technologies, Inc., as well as Ciena Corporation.

(6) Mr. Renwick is also an officer and director of other subsidiaries of the Company and a director of Fiserv, Inc.

(7) Mr. Shackelford is also a director of Diamond Hill Investment Group, Inc.

(8) Mr. Davis is also a director of Media General, Inc., Merchants Bancshares, Inc. and AXIS Capital Holdings Limited.

(9) Dr. Healy is also a director of Ashland Inc., National City Corporation and Invacare Corporation.

## OTHER BOARD OF DIRECTORS INFORMATION

### Board of Directors Independence Standards and Determinations

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

He or she is not currently an officer or employee of the Company or any of its subsidiaries, and has not been an officer or employee of the Company or any of its subsidiaries at any time during the past three (3) years. For purposes of this requirement, officer does not include a non-executive Chairman of the Board who is otherwise independent under these standards.

No member of his or her immediate family is an executive officer of the Company or has been an executive officer of the Company at any time during the past three (3) years.

Neither he or she, nor any member of his or her immediate family, receives, or has received during any twelve (12) month period within the past three (3) years, more than $100,000 in direct compensation from the Company or any of its subsidiaries, other than (i) retainer and meeting fees and equity grants for service as a director, and (ii) pension or other forms of deferred compensation for prior service (provided such compensation is not contingent on continued service). For purposes of this requirement, compensation received by an immediate family member for service as an employee of the Company (other than as an executive officer) will not be considered.

He or she (i) is not currently a partner or employee of a firm that is the Company s internal or external auditor, and (ii) was not at any time within the past three (3) years a partner or employee of such a firm who personally worked on the Company s audit during that time.

No member of his or her immediate family (i) is currently a partner in a firm that is the Company s internal or external auditor, (ii) is currently an employee of such firm who participates in the firm s audit, assurance or tax compliance (but not tax planning) practice, or (iii) was at any time within the past three (3) years a partner or employee of such firm and personally worked on the Company s audit during that time. For purposes of this paragraph only, an immediate family member will include only a spouse, minor child or stepchild, or an adult child or stepchild sharing a home with the director.

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

Neither he or she, nor any member of his or her immediate family, has a direct business or other relationship with the Company or any of its subsidiaries (as a lawyer, consultant or otherwise), other than as a director of the Company, or has had any such business or other relationship with the Company at any time during the past three (3) years. For purposes of this requirement, service by an immediate family member as an employee of the Company (other than as an executive officer) will not compromise the director s independence.

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

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

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

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

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

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

Charles A. Davis
Stephen R. Hardis
Bernadine P. Healy, M.D.
Jeffrey D. Kelly
Philip A. Laskawy
Norman S. Matthews
Patrick H. Nettles, Ph.D.
Donald B. Shackelford
Bradley T. Sheares, Ph.D.

Mr. Peter B. Lewis, the Company s Chairman of the Board, terminated his employment with the Company in February 2003, and the Board has not yet considered his independence under NYSE Listing Standards or the Company s categorical standards. Mr. Glenn M. Renwick is not independent by virtue of his position as the Company s current President and Chief Executive Officer.

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

Six meetings of the Board of Directors were held during 2005.

Pursuant to the Company s Corporate Governance Guidelines, directors are expected to attend the Company s Annual Meeting of Shareholders. Normally, a meeting of the Board will be scheduled to coincide with the Annual Meeting of Shareholders. The Company s 2005 Annual Meeting of Shareholders was attended by all 11 of the Company s current directors. A full copy of the Company s Corporate Governance Guidelines can be found on the Company s Web site at progressive.com/governance, or may be requested in print by writing to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143.

All 11 current directors were on the Board throughout 2005. Nine of them attended 100% of 2005 meetings of the Board and the Committees on which they served. One director missed one Board meeting and one Committee meeting; another director missed one Committee meeting and two regularly scheduled Committee conference calls. All directors attended more than seventy-five percent (75%) of their scheduled meetings.

**Meetings of the Non-Management Directors**

Pursuant to the Company s Corporate Governance Guidelines, the Company s non-management directors meet in executive session at least quarterly. The Chairman of the Board, provided that he or she is not an executive officer of the Company, presides at these meetings. In the event that a non-executive Chairman is not available to lead these meetings, the presiding director would be chosen by the non-management directors. In 2005, the non-management directors met in executive session five times. Mr. Peter B. Lewis, the non-executive Chairman of the Board, presided at each of those meetings.

In addition, if there is at least one director among the non-management directors who does not meet the criteria for independence required by the NYSE, the independent non-management directors should meet in executive session at least once annually. The independent non-management directors met in executive session in February 2006.

**Board Committees**

The Board has named an Executive Committee, an Audit Committee, an Investment and Capital Committee, a Compensation Committee, and a Nominating and Governance Committee, as described below. The complete written charters for each of the Committees can be found on the Company s Web site at progressive.com/governance, or may be requested in print by writing to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143.

*Executive Committee*

Messrs. Hardis, Kelly, Lewis (Chairman) and Renwick are the current members of the Board s Executive Committee, which exercises all powers of the Board between Board meetings, except the power to fill vacancies on the Board or its Committees. During 2005, the Executive Committee did not meet, but adopted resolutions by written action pursuant to Ohio corporation law on six occasions.

*Audit Committee*

Mr. Laskawy (Chairman) and Drs. Nettles and Sheares are the current members of the Board s Audit Committee, which assures that the organizational structure, policies, controls and systems are in place to monitor performance. The Audit Committee monitors the integrity of the Company s financial statements, the Company s financial reporting processes and internal control over financial reporting, compliance by the

Company with legal and regulatory requirements and the public release of financial information. The Committee also is responsible for confirming the independence of, and for the appointment, compensation, retention and oversight of the work of, the Company s independent accountant. The Committee provides an independent channel to receive appropriate communications from employees, shareholders, auditors, legal counsel, bankers, consultants and other interested parties. The Board of Directors has determined that each of the members of the Audit Committee has no relationship to the Company that may interfere with the exercise of his independence from management and the Company, and is independent as defined in the applicable Securities and Exchange Commission ( SEC ) rules and NYSE Listing Standards. During 2005, the Audit Committee met in person four times and participated in four conference calls to review the Company s financial and operating results.

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

The Board has determined that through appropriate education and experience, Mr. Laskawy has demonstrated that he possesses the following attributes:

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

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

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

An understanding of internal control over financial reporting; and

An understanding of audit committee functions.

*Effectiveness of Mr. Philip A. Laskawy.* The Board of Directors does not have a policy limiting the number of public company audit committees on which a director may serve. Mr. Philip A. Laskawy, the Chairman of the Audit Committee, also serves on the audit committees of four other public companies. The Board has determined, however, that Mr. Laskawy s simultaneous service on multiple audit committees does not impair Mr. Laskawy s ability to serve effectively on the Company s Audit Committee. Among other factors, the Board considered that, since he was appointed as Chairman of the Audit Committee in April 2003, Mr. Laskawy has: participated in the planning of Committee meetings; actively led the Committee s meetings in a professional and efficient manner, asking insightful questions, covering all agenda items and reporting effectively to the Board; consulted frequently with the Company s inside and outside auditors regarding accounting and financial reporting matters, including the Company s compliance with internal control review and reporting requirements under Section 404 of the Sarbanes-Oxley Act of 2002 and applicable SEC regulations; and helped lead the Company s compliance with other provisions of the Sarbanes-Oxley Act, SEC regulations and NYSE Listing Standards and the periodic review and updating of the Committee s Charter. The Board believes that Mr. Laskawy s participation on the audit committees of four other public companies enhanced, and likely will continue to enhance, his knowledge and understanding of the responsibilities and functioning of audit committees in general, the issues faced by such committees and various approaches to accounting, financial reporting, internal control, compliance and corporate governance matters. The Board determined that Mr. Laskawy s professional, energetic and thorough approach to the Chairman s duties, as well as the auditing, accounting and financial reporting experience that he possesses, are significant benefits to the Committee and to the Company.

*Investment and Capital Committee*

Messrs. Hardis, Kelly (Chairman) and Shackelford are the current members of the Board s Investment and Capital Committee, which monitors and advises the Company on its investment and capital management policies. During 2005, the Investment and Capital Committee met four times.

*Compensation Committee*

Messrs. Davis (Chairman) and Matthews and Dr. Healy are the current members of the Board s Compensation Committee, which reviews and approves the Company s equity and other compensation plans and awards made thereunder and monitors the operation of the Company s compensation programs, including the various cash and stock incentive programs in which directors, executive officers and/or employees of the Company participate. The Compensation Committee approves the compensation of the CEO and other executive officers, including the formulae and the performance criteria and objectives for determining the incentive compensation that may be earned by such executives under those plans. The Board has determined that each of the members of the Committee is independent under applicable NYSE Listing Standards. During 2005, the Compensation Committee met five times and adopted resolutions by written action pursuant to Ohio corporation law on five occasions.

*Nominating and Governance Committee*

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

The Committee continued to work with an executive search firm during 2005 to assist in identifying and evaluating potential nominees for director. The search firm was retained in 2004 to identify and narrow the pool of potential nominees, to investigate potential nominees willingness to serve and otherwise to investigate and make recommendations to the Committee on the talents, background or other factors entering into the Committee s consideration of potential nominees.

The Committee also regularly reviews the Company s Corporate Governance Guidelines and related matters to ensure that they continue to correspond to the Board s governance philosophy. The Committee considers and, where appropriate, recommends to the Board for approval, changes to the Corporate Governance Guidelines based on suggestions from Board members or management. During 2005 and early 2006, the Committee recommended, and the Board approved, the following significant changes to the Corporate Governance Guidelines: limitations on the number of outside board positions that directors may hold; minimum stock ownership guidelines for directors; and a majority withheld votes policy for directors.

During 2005, the Nominating and Governance Committee met four times. The Committee regularly reviewed the qualifications of potential candidates for the Board. In addition, the Committee recommended the four nominees named above, each of whom is currently a director, for reelection to the Board.

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

Any shareholder desiring to propose a candidate for election to the Board under these Procedures may do so by mailing to the Company s Secretary a written notice identifying the candidate. The written notice must also include the supporting information required by the Shareholder-Proposed Candidate Procedures, which can be found in the complete text of the Procedures on the Company s Web site at progressive.com/governance. The notice and supporting information should be sent to the Secretary at the following address:

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

Upon receipt, the Secretary will forward to the Committee the notice and the other information provided.

The nominating shareholder may also include any additional information that the shareholder believes is relevant to the Committee s consideration of the candidate. If a shareholder proposes a candidate without submitting all of the foregoing items, the Committee, in its discretion, may reject the proposed candidate, request more information from the nominating shareholder, or consider the proposed candidate while reserving the right to request more information. In addition, the Committee may further limit each shareholder to one (1) proposed candidate in any calendar year and may refuse to consider any additional candidate(s) proposed by such shareholder or its affiliates during the calendar year.

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

It is the policy of the Committee to review and evaluate each candidate for nomination submitted by shareholders in accordance with the Shareholder-Proposed Candidate Procedures on the same basis as candidates that are suggested by the Company s Board members, executive officers or other sources, which may include professional search firms retained by the Committee. The Committee will give strong preference to candidates that are likely to be deemed independent from the Company under SEC and NYSE rules. As to shareholder-proposed candidates, the Committee may give more weight to candidates who are unaffiliated with the shareholder proposing their nomination and to candidates who are proposed by long-standing shareholders with significant share ownership (i.e., greater than 1% of the Company s Common Shares that have been owned for more than 2 years).

In considering director nominations, the Committee will consider: the current composition of the Board and how it functions as a group; the talents, personalities, strengths and any weaknesses of current Board members; the value of contributions made by individual Board members; the need for a person with specific skills, experiences or background to be added to the Board; any available or anticipated vacancies due to retirement or other reasons; and other factors which may enter into the nomination decision. Upon the expiration of a director s term on the Board, that director will be given preference for nomination when the director indicates his or her willingness to continue serving and, in the Committee s judgment, the director has made and is likely to continue to make a significant contribution to the Board and the Company.

When considering an individual candidate s suitability for the Board, the Committee will evaluate each individual on a case-by-case basis. The Committee does not prescribe minimum qualifications or standards for directors, but instead looks for directors who have demonstrated the ability to satisfy the fundamental criteria set forth in the Committee s Charter integrity, judgment, commitment, preparation, participation and contribution. In addition, the Committee will review the extent of the candidate s demonstrated excellence and success in his or her chosen business, professional or other career and the skills and talents which the candidate

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would be expected to add to the Board. The Committee may choose, in individual cases, to conduct interviews with the candidate and/or contact references, business associates, other members of boards on which the candidate serves or other appropriate persons to obtain additional information. Such background inquiries may also be conducted, in whole or in part, on the Committee s behalf by third parties, such as professional search firms. The Committee will make its determinations on whether to nominate an individual candidate based on the Board s then-current needs, the merits of such candidate and the qualifications of other available candidates. If a candidate is not nominated, the Committee will have the discretion to reconsider his or her candidacy in connection with future vacancies on the Board.

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

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

**Communications with the Board of Directors**

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

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

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

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

In addition, interested parties may contact the non-management directors as a group by sending a written communication to any of the above-named individuals. Such communication must be clearly addressed to the non-management directors.

Communications so received will be forwarded by the recipient to the full Board of Directors or to the non-management directors, as appropriate.

**Certain Relationships and Related Transactions**

The following discussion sets forth certain relationships and transactions known by management to involve the Company or its subsidiaries and entities as to which one or more of the Company s directors or executive officers is a substantial owner, director or executive officer. In each case, these transactions have been disclosed to the Board of Directors, and the Board has approved the transaction or, in the case of ongoing relationships that are presented to the Board, permitted the continuation or renewal of the relationship.

Mr. Jeffrey D. Kelly, a director of the Company, is also the Vice Chairman and Chief Financial Officer of National City Corporation, the parent company of National City Bank ( NCB ). Dr. Bernadine P. Healy, a director of the Company, is also a director of National City Corporation. In January 2005, the Company elected not to renew the $10 million revolving credit arrangement with NCB. The Company paid no commitment fees in 2005 and had no borrowings under this line of credit prior to nonrenewal.

NCB is also the Transfer Agent and Registrar of the Company s Common Shares and received fees for 2005 of $89,018 for such services. Additionally, the Company uses NCB for commercial banking services and paid $1,182,357 in service charges during 2005. In each case, these charges represented the bank s customary rates.

During 2005, the Company entered into an uncommitted line of credit with NCB in the principal amount of $125 million, replacing a prior credit facility with NCB for $100 million. The Company incurs no commitment fees for these arrangements, and no borrowings were outstanding under either line of credit at any time during 2005. In addition, during 2005, a subsidiary of the Company deposited an additional $25 million with NCB, bringing the total amount on deposit to $125 million. These funds are invested in interest-bearing securities approved by the Company. This line of credit and the deposit are components of the Company s cash contingency arrangement to ensure the availability of those funds in the event of certain emergencies affecting capital markets and banking operations.

During 2005, the Company established a $37 million trust on behalf of the policyholders of a nonconsolidated affiliate of the Company, with NCB as trustee, in order to maintain the A.M. Best rating of the nonconsolidated affiliate. The Company incurs an annual trustee fee of $15,000 in connection with this trust, which represents the bank s customary rates.

Mr. Stephen R. Hardis, a director of the Company, is also a director of Marsh & McLennan Companies, Inc. ( Marsh ). The Company pays commissions to various subsidiaries of Marsh for brokerage services in the ordinary course of the Company s auto and non-auto insurance businesses, at customary rates for the services rendered. During 2005, the Company paid $2,236,083 for these services (including $345,000 of contingent commissions attributable to policies written in 2004). No contingent commissions will be paid to Marsh in connection with policies written in 2005.

During 2005, the Company paid $9,411 to a division of Mercer Management Consulting, Inc. ( Mercer ), a subsidiary of Marsh, for compensation and benefits surveys in 2005. The fees paid to Mercer were customary rates for the products purchased or services rendered.

Mr. Charles A. Davis, a director of the Company, along with Mr. W. Thomas Forrester, a named executive officer of the Company, serve as directors of AXIS Capital Holdings Limited ( AXIS ). During 2005, AXIS reinsured part of the Company s outstanding risks under its directors and officers liability insurance, trust errors and omissions insurance, and bond products. AXIS provides reinsurance coverage of $4.9 million on policy limits of $15 million, for losses incurred in excess of the first $1 million. AXIS is one of several companies that the Company uses to reinsure this non-auto line of business. During 2005, the Company ceded $4,077,727 in premiums to AXIS for this coverage. At

December 31, 2005, the Company had $1,662,569 of reinsurance recoverables on unpaid losses under this arrangement. The terms of this reinsurance arrangement are consistent with those between the Company and other reinsurers.

Mr. Davis is also a director of Merchants Bancshares, Inc. ( Merchants ). The Company provided various director and officer insurance products to Merchants banking affiliates on policies written in prior years. During 2005, however, Merchants cancelled the policies without any additional premiums being paid.

Mr. Philip A. Laskawy, a director of the Company, is also a director of Cap Gemini S.A., a French public company. In 2005, the Company paid $314,312 to Cap Gemini S.A., for information technology consulting fees.

Mr. Glenn M. Renwick, President, Chief Executive Officer and a director of the Company, is also a director of Fiserv, Inc. The Company paid $29,954 to Fiserv, Inc., for comparative rating software during 2005.

Mr. Forrester s son was hired by the Company in July 2005 as a product manager. During 2005, he received total cash compensation of approximately $70,000 and an equity grant of 183 restricted shares valued at $104.64 per share. The restricted shares will vest in equal installments on January 1, 2008, 2009 and 2010. Mr. Hardis s son-in-law also worked for the Company in 2005 in the information technology area and earned total cash compensation of approximately $113,000.

**Compensation Committee Interlocks and Insider Participation**

Messrs. Davis and Matthews and Dr. Healy served as members of the Company s Compensation Committee during 2005. There are no Compensation Committee interlocks.

## REPORT OF THE AUDIT COMMITTEE

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

The Audit Committee of the Board of Directors (the Committee ) oversees the Company s financial reporting process on behalf of the Board. The Company s management has the primary responsibility for the financial statements and the reporting process, including the systems of internal control. In fulfilling its oversight responsibilities, the Committee reviewed and discussed with management the Company s audited financial statements for the year ended December 31, 2005, including a discussion of the quality, not just the acceptability, of the accounting principles, reasonableness of significant judgments and clarity of disclosures in the financial statements.

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

The Committee discussed with the Company s internal auditors and independent registered public accounting firm the overall scope and plans for their respective audits. The Committee meets with the internal auditors and independent registered public accounting firm, with and without management present, to discuss the results of their examinations, evaluations of the Company s internal controls and the overall quality of the Company s financial reporting. During 2005, the Committee held four meetings, and participated in four conference calls to review the Company s financial and operating results. Also, during 2005, the Committee reassessed the adequacy of the Audit Committee s Charter and recommended that the Charter, as approved by the Board in December 2004, remain in effect through 2006. A copy of the Charter, as so approved, is included as Appendix A to the Company s Proxy Statement dated March 7, 2005 relating to the Company s 2005 Annual Meeting of Shareholders and is available on the Company s Web site at progressive.com/governance.

Based on the reviews and discussions referred to above, the Committee recommended to the Board that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Securities and Exchange Commission. The Committee has selected and retained PricewaterhouseCoopers LLP to serve as the independent registered public accounting firm for the Company and its subsidiaries for 2006. Shareholders will be given the opportunity to express their opinion on ratification of this selection at the 2006 Annual Meeting of Shareholders.

AUDIT COMMITTEE

Philip A. Laskawy, *Chairman*
Patrick H. Nettles, Ph.D.
Bradley T. Sheares, Ph.D.

## SECURITY OWNERSHIP OF CERTAIN

## BENEFICIAL OWNERS AND MANAGEMENT

*Security Ownership of Certain Beneficial Owners.* The following information is set forth with respect to persons known to management to be the beneficial owners, as of December 31, 2005, or other date indicated below, of more than 5% of the Company s Common Shares, $1.00 par value:

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership(1) | Percent of Class |
|---|---|---|
| Ruane, Cunniff & Goldfarb Inc.<br>767 Fifth Avenue, Suite 4701<br>New York, New York 10153-4798 | 25,703,858(2) | 13.0% |
| The TCW Group, Inc.<br>865 South Figueroa Street<br>Los Angeles, California 90017 | 25,013,643(3) | 12.7% |
| Davis Selected Advisers, L.P.<br>2949 East Elvira Road, Suite 101<br>Tucson, Arizona 85706 | 19,893,285(4) | 10.1% |
| Peter B. Lewis<br>6300 Wilson Mills Road<br>Mayfield Village, Ohio 44143 | 13,269,024(5) | 6.7% |

(1) Except as otherwise indicated, the persons listed as beneficial owners of the Common Shares have sole voting and investment power with respect to those shares. Certain of the information contained in this table, including related footnotes, is based on the Schedule 13G filings made by the beneficial owners identified herein.

(2) The Common Shares are held in investment accounts maintained with Ruane, Cunniff & Goldfarb, Inc. as of December 31, 2005, and it disclaims any beneficial interest in such shares. Ruane, Cunniff & Goldfarb, Inc. has advised that it has sole voting power as to 10,922,166 of these shares, no voting power as to the balance of these shares, and sole investment power as to all of these shares.

(3) The Common Shares are held in investment accounts maintained with The TCW Group, Inc. as of December 31, 2005, and it disclaims any beneficial interest in such shares. The TCW Group, Inc. has advised that it has shared voting power as to 22,623,471 of these shares, no voting power as to the balance of these shares, and shared investment power as to all of these shares.

(4) The Common Shares are held in investment accounts maintained with Davis Selected Advisers, L.P. as of December 31, 2005, and it disclaims any beneficial interest in such shares. Mr. Charles A. Davis, a director of the Company, has no affiliation with Davis Selected Advisers, L.P.

(5) Includes 49,760 Common Shares held for Mr. Lewis by a trustee under the Company s Retirement Security Program, 544,944 Common Shares subject to currently exercisable stock options and 2,283 restricted Common Shares granted to Mr. Lewis in his capacity as Chairman of the Board. Also includes 225,994 shares held by two charitable corporations which Mr. Lewis controls, but as to which he has no pecuniary interest.

*Security Ownership of Management.* The following information is set forth with respect to the Company s Common Shares beneficially owned as of December 31, 2005 (including stock options exercisable within 60 days thereafter), by all directors and nominees for election as directors of the Company, each of the named executive officers (as identified on page 19) and by all directors and all individuals who were executive officers of the Company on December 31, 2005, as a group:

| Name | Common Shares Subject to Restricted Stock Awards(1) | Common Shares Subject to Currently Exercisable Options(2) | Other Common Shares Beneficially Owned(3) | Total Common Shares Beneficially Owned | Percent of Class(4) | Units Equivalent to Common Shares(5) | Total Interest in Common Shares and Unit Equivalents |
|---|---|---|---|---|---|---|---|
| Alan R. Bauer | 24,709 | 164,631 | 45,733 | 235,073(6) | * | N/ A | 235,073 |
| Charles A. Davis | 1,142 | 28,767 | 31,450 | 61,359 | * | 4,433 | 65,792 |
| W. Thomas Forrester | 31,400 | 267,147 | 72,842 | 371,389(7) | * | N/ A | 371,389 |
| Stephen R. Hardis | 1,142 | 28,767 | 38,289 | 68,198 | * | 32,825 | 101,023 |
| Bernadine P. Healy, M.D. | 1,142 | N/ A | 8,563 | 9,705 | * | 828 | 10,533 |
| Jeffrey D. Kelly | 1,142 | 14,919 | 11,563 | 27,624 | * | 3,366 | 30,990 |
| Philip A. Laskawy | 1,142 | 2,619 | 4,450 | 8,211(8) | * | 3,517 | 11,728 |
| Peter B. Lewis | 2,283 | 544,944 | 12,721,797 | 13,269,024(9) | 6.7% | N/ A | 13,269,024 |
| Norman S. Matthews | 1,142 | 34,767 | 41,053 | 76,962 | * | 6,187 | 83,149 |
| Patrick H. Nettles, Ph.D. | 1,142 | N/ A | 0 | 1,142 | * | 160 | 1,302 |
| Brian J. Passell | 24,475 | 179,766 | 4,819 | 209,060 | * | N/ A | 209,060 |
| Glenn M. Renwick | 206,597 | 529,026 | 260,541 | 996,164(10) | * | N/ A | 996,164 |
| Donald B. Shackelford | 1,142 | 34,767 | 174,008 | 209,917(11) | * | 5,769 | 215,686 |
| Bradley T. Sheares, Ph.D. | 1,142 | N/ A | 0 | 1,142 | * | 1,397 | 2,539 |
| Robert T. Williams | 27,730 | 193,935 | 39,209 | 260,874(12) | * | N/ A | 260,874 |
| All 22 Executive Officers and Directors as a Group | 431,085 | 2,330,532 | 13,546,112 | 16,307,729(13) | 8.2% | 58,482 | 16,366,211 |

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

N/A = not applicable

(1) Includes Common Shares held for executive officers and directors pursuant to restricted stock awards issued under various incentive plans maintained by the Company. The beneficial owner has sole voting power and no investment power with respect to these shares during the restriction period.

(2) Includes stock options exercisable within 60 days of December 31, 2005, issued under various incentive plans maintained by the Company. The beneficial owner has no voting power or investment power with respect to these shares prior to exercising the options.

(3) Includes, among other shares, Common Shares held for executive officers or their spouses under The Progressive Retirement Security Program. Unless otherwise indicated below, beneficial ownership of the Common Shares reported in the table includes both sole voting power and sole investment power, or voting power and investment power that is shared with the spouse and/or minor children of the director or executive officer.

(4) Percentage based solely on Total Common Shares Beneficially Owned.

(5) Each director of the Company who is not an employee of the Company (other than Mr. Peter B. Lewis) participates in The Progressive Corporation Directors Deferral Plan, as amended ( Directors Deferral Plan ) (see page 25 for a description of the Directors Deferral Plan).

Pursuant to the Directors Deferral Plan, all retainer fees and, if so elected by the director, meeting fees are deferred pursuant to the plan and converted into units that are equivalent in value and dividend rights to the Company s Common Shares.

In addition, each non-employee director has the right to defer the receipt of restricted stock awards under The Progressive Corporation Directors Restricted Stock Deferral Plan (the Directors Equity Deferral Plan ) (see description of the Directors Equity Deferral Plan on page 26). If a director elects to defer a restricted stock award under this plan, immediately prior to vesting of the applicable award, the restricted shares are converted to units equivalent in value and dividend rights to the Company s Common Shares.

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The equivalent units disclosed are in addition to the Company s Common Shares beneficially owned, and the director has neither voting nor investment power as to these units.

(6) Includes 5,870 Common Shares held under The Progressive Corporation Executive Deferred Compensation Plan, as to which shares Mr. Bauer has sole investment power but no voting power.

(7) Includes 8,013 Common Shares held under The Progressive Corporation Executive Deferred Compensation Plan, as to which shares Mr. Forrester has sole investment power but no voting power and 27,000 Common Shares held by Mr. Forrester as trustee for three trusts established for the benefit of his children.

(8) Includes 3,000 Common Shares owned by Mr. Laskawy s wife, as to which shares he disclaims any beneficial interest.

(9) See footnote 5 on page 15.

(10) Includes 65,820 Common Shares held under The Progressive Corporation Executive Deferred Compensation Plan, as to which shares Mr. Renwick has sole investment power but no voting power.

(11) Includes 20,493 Common Shares held by Mr. Shackelford as trustee of a trust established for the benefit of his daughter.

(12) Includes 22,004 Common Shares held under The Progressive Corporation Executive Deferred Compensation Plan, as to which shares Mr. Williams has sole investment power but no voting power.

(13) Includes 9,393 Common Shares held under The Progressive Corporation Executive Deferred Compensation Plan for executive officers other than the named executive officers, as to which shares the applicable executive officers have sole investment power but no voting power.

*Securities Authorized for Issuance under Equity Compensation Plans.* The following information is set forth with respect to the equity compensation plans maintained by the Company and is reported as of December 31, 2005.

## EQUITY COMPENSATION PLAN INFORMATION

| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options | Weighted-Average Exercise Price of Outstanding Options | Cumulative Number of Securities Awarded as Restricted Stock | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|---|---|---|---|---|
| **Equity compensation plans approved by security holders:** | | | | |
| Employee Plans: | | | | |
| 2003 Incentive Plan | | | 1,183,546 | 3,816,454 |
| 1995 Incentive Plan(1) | 4,681,480 | $34.27 | 347,856 | |
| 1989 Incentive Plan(1) | 223,889 | 23.11 | | |
| Subtotal Employee Plans | 4,905,369 | 33.76 | 1,531,402 | 3,816,454 |
| Director Plans: | | | | |
| 2003 Directors Equity Incentive Plan | | | 40,905 | 309,095 |
| 1998 Directors Stock Option Plan | 170,277 | 36.12 | | 406,956 |
| 1990 Directors Stock Option Plan(1) | 48,000 | 21.06 | | |

| | | | | |
|---|---|---|---|---|
| Subtotal Director Plans | 218,277 | 32.81 | 40,905 | 716,051 |
| **Equity compensation plans not approved by security holders:** | | | | |
| None | | | | |
| Total | 5,123,646 | $33.72 | 1,572,307 | 4,532,505 |

(1) This plan is expired and no further awards may be made thereunder.

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*Section 16(a) Beneficial Ownership Reporting Compliance.* On July 6, 2005, Mr. Charles A. Davis, a director of the Company, received a distribution from the Company of the cash equivalent of 366.0016 phantom stock units (which are valued on a 1-to-1 basis with the Company s Common Shares) pursuant to The Progressive Corporation Director Deferral Plan. Also on July 6, 2005, Dr. Bernadine P. Healy, a director of the Company, received a distribution from the Company of the cash equivalent of 154.8144 such phantom stock units pursuant to the same plan. Each of these transactions was reported late on a Form 4 filed on August 1, 2005, due to an administrative error on the part of the Company.

## EXECUTIVE COMPENSATION

The following information is set forth with respect to the Company s Chief Executive Officer and the other four most highly compensated executive officers, each of whom was serving as an executive officer at December 31, 2005 (the named executive officers ). The titles set forth below reflect positions held at December 31, 2005.

## SUMMARY COMPENSATION TABLE

| | | Annual Compensation | | | Long Term Compensation Awards | |
|---|---|---|---|---|---|---|
| Name and Principal Position | Year | Salary ($) | Bonus(1) ($) | Other Annual Compensation (2) | Restricted Stock Awards(3) ($) | All Other Compensation(4) ($) |
| Glenn M. Renwick | 2005 | $750,000 | $1,731,375 | $63,431 | $7,500,150 | $ 9,900 |
| President and Chief | 2004 | 750,000 | 2,250,000 | 35,140 | 7,500,290 | 9,666 |
| Executive Officer | 2003 | 750,000 | 2,250,000 | 32,020 | 4,500,401 | 9,480 |
| W. Thomas Forrester | 2005 | $498,848 | $ 767,728 | | $1,075,213 | $10,800 |
| Vice President and | 2004 | 488,272 | 976,544 | | 904,865 | 9,958 |
| Chief Financial Officer | 2003 | 472,128 | 944,255 | | 999,506 | 9,480 |
| Robert T. Williams | 2005 | $458,271 | $ 694,739 | | $ 943,146 | $11,238(5) |
| Drive® Group | 2004 | 443,269 | 886,539 | | 901,583 | 10,545 |
| President | 2003 | 428,264 | 856,528 | | 829,929 | 8,962 |
| Brian J. Passell | 2005 | $403,271 | $ 620,633 | | $ 850,771 | $10,800 |
| Claims Group | 2004 | 388,273 | 776,546 | | 784,278 | 10,545 |
| President | 2003 | 373,288 | 746,575 | | 735,733 | 10,350 |
| Alan R. Bauer | 2005 | $414,998 | $ 604,445 | | $ 788,616 | $11,244(5) |
| Direct Group | 2004 | 413,276 | 781,505 | | 829,887 | 10,545 |
| President | 2003 | 397,218 | 794,436 | | 800,038 | 10,350 |

(1) Includes bonus amounts, if any, deferred under The Progressive Corporation Executive Deferred Compensation Plan.

(2) Amounts shown represent the incremental costs to the Company from personal use of the corporate airplane by Mr. Renwick. Mr. Forrester also used the corporate airplane for personal use, on a very limited basis, but the Company incurred no additional incremental cost for Mr. Forrester s personal use because, in each instance, he accompanied Mr. Renwick.

(3) See table on page 20 for the number, value, vesting schedule and dividends paid on restricted stock awards and the aggregate restricted stock holdings at the end of 2005.

(4) The reported amounts for 2005 represent employer contributions made during the year under the Company s Retirement Security Program.

(5) In addition to contributions made under the Company s Retirement Security Program, the reported amount includes employment anniversary awards of $438 for Mr. Williams and $444 for Mr. Bauer, each for 25 years of employment with the Company.

## RESTRICTED STOCK AWARDS GRANTED, DIVIDENDS PAID AND

## AGGREGATE NUMBER AND VALUE OF HOLDINGS AT YEAR-END

| Name | Number of Shares Awarded in 2005 (Time-Based) (#)(1) | Number of Shares Awarded in 2004 (Time-Based) (#)(1) | Number of Shares Awarded in 2003 (Time-Based) (#)(1)(3) | Number of Shares Awarded in 2005 (Performance-Based) (#)(2) | Number of Shares Awarded in 2004 (Performance-Based) (#)(2) | Number of Aggregate Restricted Stock Holdings at 12/31/05 (#) | Value of Aggregate Restricted Stock Holdings at 12/31/05 ($) | Dividends Received on Restricted Stock Awards in 2005 ($)(4) |
|---|---|---|---|---|---|---|---|---|
| Glenn M. Renwick | 41,571 | 44,565 | 34,326 | 41,570 | 44,565 | 206,597 | $24,126,398 | $22,297 |
| W. Thomas Forrester | 5,544 | 5,823 | 7,248 | 6,375 | 6,410 | 31,400 | 3,666,892 | 3,410 |
| Robert T. Williams | 5,100 | 5,289 | 6,561 | 5,355 | 5,425 | 27,730 | 3,238,309 | 3,014 |
| Brian J. Passell | 4,491 | 4,635 | 5,724 | 4,940 | 4,685 | 24,475 | 2,858,191 | 2,654 |
| Alan R. Bauer | 4,602 | 4,932 | 6,105 | 4,140 | 4,930 | 24,709 | 2,885,517 | 2,703 |

(1) For 2005, the time-based restricted stock awards will vest in one-third increments on January 1 of 2008, 2009 and 2010. For the 2004 awards, the vesting dates are January 1 of 2007, 2008 and 2009. For the 2003 awards, the vesting dates are January 1 of 2006, 2007 and 2008. In each case, as well as in the case of performance-based awards discussed in note (2) below, the awards are subject to the terms of the Company s 2003 Incentive Plan, including (i) accelerated vesting and cash out provisions upon the occurrence of a change of control of the Company or certain similar events, as further described in the plan, and (ii) the forfeiture of unvested awards upon the occurrence of certain events, such as termination of employment.

(2) The performance-based restricted stock awards vest upon achievement by the Company of certain predetermined performance objectives, as described in Long-Term Incentive Component in the Compensation Committee Report, beginning on page 30.

(3) One third of the 2003 time-based restricted stock awards vested on January 1, 2006.

(4) Dividends are paid on the restricted stock awards quarterly at the same rate as are paid on the Company s Common Shares.

## 2006 ANNUAL COMPENSATION TABLE

| Name | Salary(1) ($) | Range of Potential Bonus(2) Minimum ($) | Range of Potential Bonus(2) Maximum ($) |
|---|---|---|---|
| Glenn M. Renwick | $750,000 | $0 | $2,250,000 |
| W. Thomas Forrester | 500,000 | 0 | 1,000,000 |
| Robert T. Williams | 480,000 | 0 | 960,000 |
| Brian J. Passell | 425,000 | 0 | 850,000 |
| Alan R. Bauer | 440,000 | 0 | 880,000 |

(1) Represents the annual salary for 2006, as approved by the Compensation Committee of the Board of Directors.

(2) The bonuses to be paid will vary based on results achieved versus preestablished performance criteria. See Annual Cash Bonus Component in the Compensation Committee Report, beginning on page 28.

## AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

| Name | Shares Acquired on Exercise (#) | Value Realized ($) | Number of Securities Underlying Unexercised Options at 12/31/05 (#) Exercisable/Unexercisable | | Value of Unexercised In-the-Money Options at 12/31/05 ($) Exercisable/Unexercisable | |
|---|---|---|---|---|---|---|
| Glenn M. Renwick | 66,300 | $5,585,112 | Exercisable | 466,278 | Exercisable | $39,621,038 |
| | | | Unexercisable | 89,964 | Unexercisable | 6,583,350 |
| W. Thomas Forrester | | | Exercisable | 249,369 | Exercisable | 21,418,482 |