

REPORT ON EXAMINATION
OF
PROGRESSIVE EXPRESS INSURANCE
COMPANY

RIVERVIEW, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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April 17, 2009

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Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2007, of the financial condition and corporate affairs of:

**PROGRESSIVE EXPRESS INSURANCE COMPANY
4030 CRESCENT PARK DRIVE, BLDG. B
RIVERVIEW, FLORIDA 33569**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004, through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced with planning at the Ohio Department of Insurance. The fieldwork commenced on July 28, 2008, and was concluded on April 17, 2009.

This financial examination was a coordinated zone exam in conjunction with the Ohio Department of Insurance (Department) conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company in connection therewith.

Corporate Records

The Company was unable to produce a signed copy of the minutes of the 2001 Annual Shareholders meeting. **Resolution: The minutes to the 2007 Annual Shareholders meeting was appropriately signed by the Directors and in compliance with Section 607.1601, Florida Statute.**

Information Technology (IT)

The Ohio Department of Insurance performed an evaluation of the information technology and computer systems of the Company. **Resolution:** Results of the evaluation were provided in a report to the Company.

HISTORY

General

The Company was incorporated on August 12, 1994, under the laws of the State of Florida, as a stock property and casualty insurer, a wholly-owned subsidiary of PC Investment Company (the Parent). The parent was a wholly-owned subsidiary of Progressive Casualty Insurance Company, an Ohio domiciled insurance company. Effective March 21, 1997, ownership of the Company was transferred to The Progressive Corporation. Effective January 1, 2005, ownership of the Company was transferred to Progressive Commercial Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of The Progressive Corporation.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

- Inland Marine
- Other Liability
- Private Passenger Auto Liability
- Commercial Automobile Liability
- Private Passenger Auto Physical Damage
- Commercial Auto Physical Damage
- Homeowners Multi-Peril (reinsurance only)
- Medical Malpractice (reinsurance only)
- Earthquake (reinsurance only)
- Fidelity (reinsurance only)
- Surety (reinsurance only)

The Articles of Incorporation were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	50,000
Number of shares issued and outstanding	10,000
Total common capital stock	\$1,000,000
Par value per share	\$100.00

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2007	2006	2005	2004
Premiums Earned	60,647,078	66,693,501	62,422,419	65,182,735
Net Underwriting Gain/(Loss)	3,030,249	11,556,081	4,633,832	3,678,078
Net Income	5,878,436	10,202,045	6,149,280	6,670,178
Total Assets	306,327,048	344,913,405	371,635,935	354,172,172
Total Liabilities	214,636,017	249,224,668	285,465,014	272,757,673
Surplus As Regards Policyholders	91,691,031	95,688,737	86,170,921	81,414,499

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared an ordinary dividend in 2007 to its stockholders in the amount of \$9,500,000 which was paid on January 3, 2008. The Company declared and paid extraordinary dividends to its stockholder in 2005 and 2004 in the amounts of \$2,000,000 and \$7,000,000, respectively. The Company did not declare a cash dividend in 2006.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007, were:

Directors

Name and Location

Principal Occupation

Patricia O. Bemer
Highland Heights, Ohio

Progressive Insurance Group
HR Business Leader

Stephen D. Peterson
Bay Village, Ohio

Progressive Express Insurance Company
Treasurer

Karen L Palmer
North Royalton, Ohio

Progressive Express Insurance Company
Vice President

William R. Kampf
Moreland Hills, Ohio

Progressive Insurance Group
Commercial Auto Marketing General Manager

Michael J. Miller
Rocky River, Ohio

Progressive Insurance Group
Commercial Auto Marketing Regional Manager

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
William Raymond Kampf	President
Stephen David Peterson	Treasurer
Patricia Mitchell Corwin	Secretary
Michael John Miller	Vice President
Sandra Lee Rihvalsky	Vice President
Karen Lynne Palmer	Vice President
Margaret Ann Rose	Assistant Secretary
Eric J. Steiner	Assistant Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825 Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2007:

Executive Committee

William R. Kampf*
Michael J. Miller
Karen L. Palmer**
Stephen D. Peterson

Investment Committee

Stephen D. Peterson*
William R. Kampf
Michael J. Miller
Karen L. Palmer**

* Chairman

** Not employed at the Company after December 31, 2007

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The minutes of the Board adequately documented meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period under review.

Surplus Debentures

The Company did not issue any surplus debentures during the period under review nor does it have any surplus debentures outstanding.

AFFILIATED COMPANIES

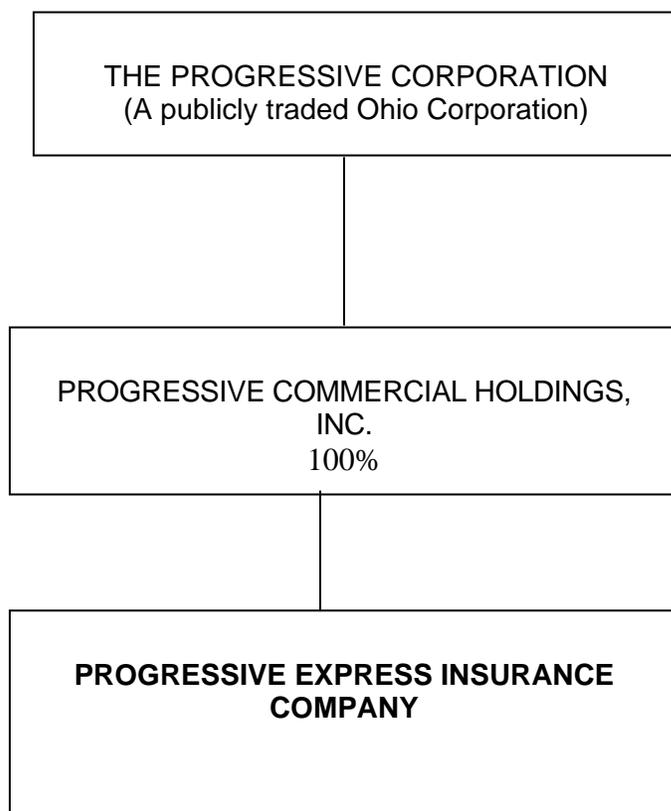
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 30, 2009, as required by Section

628.801, Florida Statute and Rule 690-143.046, Florida Administrative Code. The Company was indirectly a wholly owned subsidiary of the Corporation, an insurance holding company formed in 1965. Various inter-company agreements were in effect at December 31, 2007, which provided for the centralized cash and investment management systems.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**PROGRESSIVE AMERICAN INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



The following agreements were in effect between the Company and its affiliates:

Cash Management Agreement

This agreement, effective January 1, 1998, provided for the Company's participation in the Progressive Casualty Insurance Company's central cash management system (cashier account) in which all the cash of the Parent's system's companies were deposited. Pursuant to the agreement, Progressive Casualty Insurance Company was responsible in a fiduciary capacity for the Company's cash, and performed all the Company's duties and operations as they pertain to cash, including the payment of the Company's obligations.

Interest Agreement

The Company became a participant to the existing interest agreement effective November 25, 1985 with members of the holding company system. Pursuant to the agreement, the Company agreed to pay interest or to receive interest income from Progressive Casualty Insurance Company for any balances owed to or owed by Progressive Casualty Insurance Company as a result of the activity in the cashier account as stated in the cash management agreement.

Investment Services Agreement

Progressive Capital Management Corp. provided investment management services to the Company as well as other affiliated members. Costs of the investment services were shared among the members of the holding company system.

Joint Servicing (Cost Allocation) Agreement

This agreement provided that United Financial Casualty Company would provide certain services and facilities directly or may cause or engage another party, which may be an affiliate, to provide such services.

Allocation of Federal Income Taxes

The Company and other members of its holding company system entered into an income tax sharing agreement with the Corporation, whereby the companies filed a consolidated federal income tax return. Taxes were computed for each entity on a stand alone basis.

FIDELITY BOND AND OTHER INSURANCE

The Progressive Group of Companies maintained aggregate fidelity bond coverage of \$50,000,000, with a single loss limit of \$25,000,000 and a deductible of \$1,000,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained insurance coverage through a Commercial General Liability policy, a Garage Liability policy, an Excess Liability policy, a Commercial Property policy, a Commercial Auto policy and a Claims-Made Professional Liability insurance policy. All policies were in the name of The Progressive Corporation and all of its subsidiaries and affiliates.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company was one of the companies in the Progressive Group that retained employees. The Company participated in benefit plans offered by the Corporation but had no legal obligation or direct liability for expenses in certain benefit plans. Member companies were allocated employee benefit expense based upon product lines and employee services, through the cost allocation agreement. Health, dental and long-term disability plans, as well as pre-paid medical and child care programs, were offered to employees. The Group had a two tiered retirement program. The first tier was a defined contribution pension plan covering all employees who met age and length of service requirements. The second tier was a long term savings plan under which the Corporation matched amounts contributed to the plan by an employee up to a maximum of 3% of the employee's eligible compensation.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTNT, 5.0% 02/05/11	<u>\$ 365,768</u>	<u>\$380,167</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 365,768</u>	<u>\$380,167</u>

INSURANCE PRODUCTS

The Company was an indirect subsidiary of the Corporation, a holding company that had insurance and non-insurance subsidiaries and one mutual insurance company affiliate. The Corporation did not have revenue producing operations of its own.

The Company and the affiliated Progressive Insurance Companies (Group) wrote primarily private passenger automobile coverages, specialty coverages (motorcycles) and commercial automobile coverages.

Territory

The Company was authorized to transact insurance in the following states:

Florida

Georgia

California

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume risk through reinsurance.

Ceded

The Company ceded 90% of its direct written risk to its affiliate, United Financial Casualty Company, in a quota share contract. Other immaterial amounts were ceded to several non-affiliated reinsurers.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Mayfield Village, Ohio, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004 through 2007, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and primary non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Citibank, N.A. for the purpose of safekeeping its investment securities. The agreement met the requirements of Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company maintained a contract with PricewaterhouseCoopers (PwC) for the purpose of conducting statutory and GAAP audits and preparing certified statutory financial statements.

Information Technology (IT)

The Ohio Department of Insurance performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

PROGRESSIVE EXPRESS INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$65,522,569		\$65,522,569
Cash:	0		0
Investment income due and accrued	949,413		949,413
Premiums and considerations:			
Uncollected premiums and agents' balances	17,147,585		17,147,585
Deferred premiums, agents' balances	108,084,970		108,084,970
Reinsurance recoverable	108,669,678		108,669,678
Net deferred tax asset	3,704,586		3,704,586
Aggregate write-in for other than invested assets	2,248,247		2,248,247
Totals	\$306,327,048	\$0	\$306,327,048

PROGRESSIVE EXPRESS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$27,196,851		\$27,196,851
Loss adjustment expenses	6,581,906		6,581,906
Commissions payable	957,973		957,973
Other expenses	143,758		143,758
Taxes, licenses and fees	1,771,034		1,771,034
Current federal and foreign income taxes	136,429		136,429
Unearned premium	23,208,851		23,208,851
Advance premiums	5,029,284		5,029,284
Dividends to stockholders	9,500,000		9,500,000
Ceded reinsurance premiums payable	87,635,068		87,635,068
Drafts outstanding	40,418,445		40,418,445
Payable to parent, subsidiaries and affiliates	3,746,703		3,746,703
Aggregate write-ins for liabilities	8,309,715		8,309,715
Total Liabilities	\$214,636,017	\$0	\$214,636,017
Common capital stock	\$1,000,000		\$500,000
Gross paid in and contributed surplus	80,889,690		1,200,000
Unassigned funds (surplus)	9,801,341		4,564,923
Surplus as regards policyholders	\$91,691,031		\$91,691,031
Total liabilities, surplus and other funds	\$306,327,048	\$0	\$306,327,048

PROGRESSIVE EXPRESS INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned		\$60,647,078
	Deductions:	
Losses incurred		40,329,143
Loss expenses incurred		6,625,735
Other underwriting expenses incurred		10,661,951
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$57,616,829
Net underwriting gain or (loss)		\$3,030,249

Investment Income

Net investment income earned		\$2,703,496
Net realized capital gains or (losses)		281,263
Net investment gain or (loss)		\$2,984,759

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$432,195)
Finance and service charges not included in premiums		4,738,802
Aggregate write-ins for miscellaneous income		(3,182,119)
Total other income		\$1,124,488
Net income before dividends to policyholders and before federal & foreign income taxes		\$7,139,496
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$7,139,496
Federal & foreign income taxes		1,261,060
Net Income		\$5,878,436

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$95,688,737
Net Income		\$5,878,436
Change in net deferred income tax		(396,880)
Change in non-admitted assets		20,738
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Dividends to stockholders		(9,500,000)
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		(\$3,997,706)
Surplus as regards policyholders, December 31 current year		\$91,691,031

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds \$65,522,569

Bonds reported as \$65,522,569, were a significant decrease of \$12,603,069 and sixteen percent over the 2006 reported bond amount.

Liabilities

Losses and Loss Adjustment Expenses \$33,778,757

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Ohio Department of Insurance actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus \$91,691,031

The amount reported by the Company of \$91,691,031, exceeded the minimum requirements of ten percent of liabilities, \$21,463,602, as required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**PROGRESSIVE EXPRESS INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders
December 31, 2007, per Annual Statement \$91,691,031

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2007, Per Examination			<u><u>\$91,691,031</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

There were no material findings or corrective actions to be taken with regard to the previous examination report as of December 31, 2003.

Current examination comments and corrective action

There are no exceptions or findings in the examination as of December 31, 2007.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Progressive Express Insurance Company** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$91,691,031 and in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Frank Jones, Reinsurance/Financial Specialist and the financial examiners assigned from the Ohio Department of Insurance, participated in the examination.

Respectfully submitted,

Richard Shaffer
Financial Specialist
Florida Office of Insurance Regulation

Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation