

REPORT ON EXAMINATION
OF
PROGRESSIVE AMERICAN INSURANCE
COMPANY
RIVERVIEW, FLORIDA

AS OF
DECEMBER 31, 2004

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

August 12, 2005

Kevin M. McCarty
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Office of Insurance Regulation
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Honorable Jorge Gomez
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Madison, Wisconsin 53707-7873

Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2004, of the financial condition and corporate affairs of:

**PROGRESSIVE AMERICAN 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, 2001 through December 31, 2004. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2000. This examination commenced, with planning at the Office, on April 11, 2005, to April 13, 2005. The fieldwork commenced on April 18, 2005, and was concluded as of August 12, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was an association zone, statutory financial examination 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 (FAC), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

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 report, 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) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are 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, 2000, along with resulting action taken by the Company in connection therewith.

The Company did not record in the minutes that the Board of Directors reviewed the prior report of 1997.

Resolution: The report of examination as of December 31, 1997 was reviewed and accepted by the Board of Directors on October 15, 2001. The report of examination as of December 31, 2000 was reviewed and accepted by the Board of Directors on May 10, 2002.

HISTORY

General

The Company was formed as the result of a merger between PAIC Corporation, a Florida corporation, and Progressive American Insurance Company, a Delaware corporation, on March 23, 1979. The surviving corporation was registered as Progressive American Insurance Company, a Florida domiciled corporation.

The former Delaware Company was incorporated August 25, 1971, and commenced business on December 1, 1971. The former Florida company was incorporated February 27, 1979, under the laws of the State of Florida. Business commenced on April 2, 1979 under the new name Progressive American Insurance Company

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2004:

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

The articles of incorporation were not amended during the period covered by this examination. On October 28, 2003 the Board of Directors amended two sections of the by-laws. Section 1, of Article II was amended to reduce the number of directors to five; and a new Section 13, Article II was added to allow for telephonic meetings.

Capital Stock

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	25,000
Number of shares issued and outstanding	25,000
Total common capital stock	\$2,500,000
Par value per share	\$100.00

Effective January 1, 2004, control of the Company was transferred by its former parent, The Progressive Corporation (TPC) to Progressive Agency Holdings Inc. (PAH). PAH is an intermediate holding company owned by TPC. In 2004, the Progressive Group realigned its property and casualty operations by distribution channels, classifying them as either direct or agency groups. The Company is part of the agency group of companies.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination.

	2004	2003	2002	2001
Premiums Earned	203,649,696	210,777,632	165,078,497	133,309,281
Net Underwriting Gain/(Loss)	31,884,413	24,321,443	10,475,793	4,694,075
Net Income	28,960,228	26,070,492	13,994,628	11,977,339
Total Assets	312,072,265	299,916,087	226,298,158	179,192,065
Total Liabilities	202,745,662	198,110,215	164,515,083	132,645,378
Surplus As Regards Policyholders	109,326,603	101,805,872	61,783,075	45,546,687

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company declared and paid dividends to its stockholder in 2001 and 2004 in the amounts of \$18,000,000 and \$20,000,000, respectively.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2004, were:

Directors

Name and Location	Principal Occupation
Maria J. Cashy Mayfield Village, Ohio	Agency Process Development Manager Progressive American Ins. Co.
Terence W. Fibbi Mayfield Village, Ohio	Treasurer Progressive American Ins. Co.
Timothy M. Madden Mayfield Village, Ohio	President Progressive American Ins. Co.
David J. Skove Mayfield Village, Ohio	General Manager Progressive American Ins. Co.
Gregory J. Trapp Mayfield Village, Ohio	General Manager Progressive American Ins. Co.

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

Senior Officers

Name	Title
Timothy M. Madden	President
Terence W. Fibbi	Treasurer
Dane A. Shrallow	Secretary
Jeffrey W. Basch	Vice President
Timothy F. Cercelle	Assistant Vice President
Kathleen M. Cerny	Assistant Secretary
William T. Forrester, II	Vice President
Timothy F. Kaselonis	Assistant Vice President
James L. Kusmer	Vice President/Assistant Treasurer

The Company's Board of Directors appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2004.

Executive Committee

Gregory J. Trapp*
David J. Skove
Timothy M. Madden
Maria Cashy, Alternate
* Chairman

Audit Committee

Philip A. Laskawy*
Milton N. Allen
Bradley T. Sheares

Investment Committee

Gregory J. Trapp*
Timothy M. Madden
Terence W. Fibbi, Alternate

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and Executive and Investment Committee meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS. However the Company could not produce a signed copy of the minutes of the 2001 annual shareholders meeting.

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), FAC. The latest holding company registration statement was filed with the State of Florida on March 30, 2005 as required by Section 628.801, FS and Rule 69O-143.046, FAC. The Company was indirectly a wholly owned subsidiary of The Progressive Corporation, (TPC) an insurance holding company formed in 1965. Various inter-company agreements were in effect at December 31, 2004, which provided for the pooling of underwriting results as well as centralized cash and investment management systems.

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

Intercompany Reinsurance Treaty

The Company, Progressive Casualty Insurance Company (PCIC) and certain of its property and casualty affiliates participated in an inter-company pooling arrangement pursuant to which each company's property and casualty business, net of external reinsurance, was pooled and retroceded to participating affiliates in accordance with predetermined pool percentages. The agreement was amended effective January 1, 2005 to add Progressive Hawaii Insurance Corporation (PHIC) as a participating party at 0.5%. This adjusted the pooling percentage of PCIC from 53% to 52.5%.

Cash Management Agreement

This agreement, effective January 1, 1998, provided for the Company's participation in the PCIC central cash management system (cashier account) in which all the cash of the Progressive holding company system's companies were deposited. Pursuant to the agreement, PCIC 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, effective November 25, 1985, to the existing interest agreement with PCIC and members of the holding company system. Pursuant to the agreement, the Company agreed to pay PCIC interest or to receive interest income from PCIC for any balances owed to PCIC or owed by PCIC as a result of the activity in the cashier account as stated in the cash management agreement.

Investment Services Agreement

Progressive Capital Management Corporation 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.

Cost Allocation Agreement

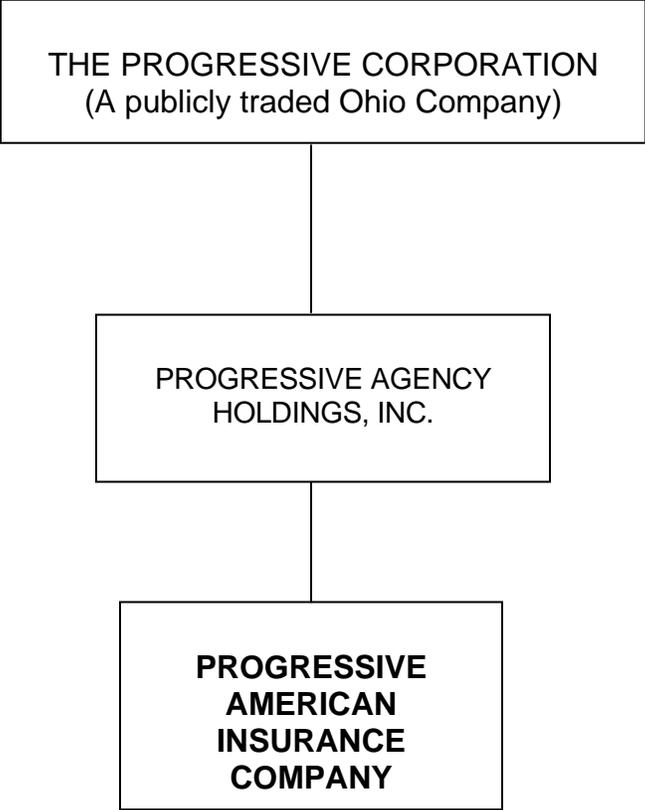
This agreement provided that PCIC would provide certain services and facilities directly or may cause or engage another party, which may be an affiliate, to provide such services.

Allocation of Federal Income Taxes

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

A simplified organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

PROGRESSIVE AMERICAN INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$10,000,000 with a deductible of \$250,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC in the NAIC's Financial Condition Examiners Handbook.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company is one of the Progressive companies that retain employees. The Company participated in benefit plans offered by TPC 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 security 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 TPC matched amounts contributed to the plan by an employee up to a maximum of 3% of the employee's eligible compensation.

There were also incentive compensation plans which provided for stock options and other stock-based awards to key employees of the Progressive Group.

STATUTORY DEPOSITS

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

<u>STATE</u>	<u>DESCRIPTION</u>	<u>PAR VALUE</u>	<u>MARKET VALUE</u>
FL	United States Treasury, 5.0%, 2/15/2011	\$4,900,000	\$5,029,965
	Total Florida Deposits	<u>\$4,900,000</u>	<u>\$ 5,029,965</u>
AR	United States Treasury, 5.0%, 2/15/2011	\$ 190,000	\$ 195,039
GA	United States Treasury, 5.0%, 2/15/2011	90,000	92,387
LA	United States Treasury, 5.0%, 2/15/2011	150,000	143,979
NM	United States Treasury, 5.0%, 2/15/2011	110,000	112,918
NC	United States Treasury, 5.0%, 2/15/2011	335,000	343,885
VA	United States Treasury, 5.0%, 2/15/2011	100,000	102,652
	Total Other Deposits	<u>\$ 975,000</u>	<u>\$ 990,860</u>
	TOTAL SPECIAL DEPOSITS	<u>\$5,875,000</u>	<u>\$6,020,825</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company is an indirect subsidiary of TPC, a holding company that had insurance and non-insurance subsidiaries and one mutual insurance company affiliate. TPC did not have any 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 auto. Previously, the Progressive Group was primarily an insurer of non-standard automobile substandard risks automobile business.

Territory

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

Colorado	Indiana	North Carolina
Florida	Kentucky*	Ohio*
Georgia	Maryland*	Oklahoma*
Hawaii*	Michigan*	Virginia
Illinois*	Mississippi*	Washington

* Licensed during the examination period

In 2004, the Company did not write in Colorado, Hawaii, Kentucky, Michigan, Mississippi, Ohio and Oklahoma.

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

Pooling

The Company participated in an underwriting pool consisting of eleven members of the Progressive Group. The manager of the underwriting pool was PCIC, an Ohio domestic Company. All direct premiums written, losses incurred, and related underwriting expenses generated by the Company were ceded into the pool, along with the corresponding direct underwriting results of other pool members. Similar amounts from several non-pooled affiliates were also ceded to PCIC

under separate agreements and were included in the total agency pool underwriting results. The total pooled underwriting results, less outside reinsurance placements, were retro ceded back to each pool member according to its predetermined percentage.

Pool percentages for the period under review were as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<u>Pool %</u>	<u>Pool %</u>	<u>Pool %</u>	<u>Pool %</u>
Progressive Casualty Ins. Co.	53.0	53.0	53.0	53.0
Progressive Northern Ins. Co.	12.0	12.0	12.0	12.0
Progressive Northwestern Ins. Co.	12.0	12.0	12.0	12.0
Progressive Specialty Ins. Co.	7.0	7.0	7.0	7.0
Progressive Preferred Ins. Co.	6.0	6.0	6.0	6.0
Progressive Classic Ins. Co.	3.0	3.0	3.0	3.0
Progressive American Ins. Co.	2.0	2.0	2.0	2.0
Progressive Gulf Ins. Co.	2.0	2.0	2.0	2.0
Progressive Bayside Ins. Co.	1.0	1.0	1.0	1.0
Progressive Mountain Ins. Co.	1.0	1.0	1.0	1.0
Progressive Southeastern Ins. Co.	1.0	1.0	1.0	1.0
TOTAL	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Effective January 1, 2005, PHIC was admitted to the pool. Its percentage of participation was 0.5%. PCIC's percentage of participation was reduced to 52.5%. There were no other changes to pool percentages.

Assumed

The only risk assumed by the Company was from the pooling retrocession.

Ceded

The Company also ceded risk under two Strategic Alliance contracts that were in run-off.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion. The Company's actuary expected no material effects on reserve development from reinsurance.

The reinsurance agreements reviewed were found to comply with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines. However, the Company recorded its net recoverables from pooling transactions and did not include amounts in Amounts recoverable from reinsurers or Ceded reinsurance premiums payable.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2001, 2002, 2003 and 2004, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Citibank, NA. The agreement had been filed with the Office.

Independent Auditor Agreement

The Company maintained a contract with PriceWaterhouseCoopers, LLP for the purpose of conducting statutory and GAAP audits and preparing certified statutory financial statements. The GAAP audit was conducted for the entire Progressive Group.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

Information Technology (IT)

INS Regulatory Services (INSRIS) performed a computer systems evaluation on the Company. This evaluation was performed as part of the examination of three Florida domiciled Progressive subsidiaries that ceded business on a quota share basis. The examinations were conducted immediately preceding this examination. There were several recommendations contained in the report. Listed below is the most significant finding.

The Company did not require that all requests for changes and system maintenance be subject to user and information systems written authorization, and accompanied with a cost monitoring process. Additionally, the possible benefits derived from IT activities were not determined and reported. Finally, the requests for changes and system maintenance were not reviewed

and approved by management.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2004, 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 AMERICAN INSURANCE COMPANY
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$175,310,590	\$0	\$175,310,590
Stocks:			
Common	(10,179)		(10,179)
Real Estate:			
Properties			
occupied by Company	4,522,233		4,522,233
Other properties	1,443,717		1,443,717
Cash:			
On deposit	6,945		6,945
Short-term investments	20,125		20,125
Interest and dividend			
income due & accrued	1,965,891		1,965,891
Agents' Balances:			
Uncollected premium	9,670,529		9,670,529
Deferred premium	98,798,743		98,798,743
Reinsurance recoverable	2,963,471		2,963,471
Net deferred tax asset	8,698,434		8,698,434
EDP Equipment	12,492		12,492
Receivable from PSA	8,492,051		8,492,051
Aggregate write-in for other than invested assets	177,223		177,223
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Totals	\$312,072,265	\$0	\$312,072,265
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PROGRESSIVE AMERICAN INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$62,012,215		\$62,012,215
Loss adjustment expenses	16,027,048		16,027,048
Commissions payable	473,628		473,628
Other expenses	5,769,195		5,769,195
Taxes, licenses and fees	1,676,853		1,676,853
Unearned premium	62,947,009		62,947,009
Advance premiums	4,049,869		4,049,869
Ceded reinsurance balances payable	2,154,350		2,154,350
Amounts withheld	20,075		20,075
Drafts outstanding	42,907,080		42,907,080
Payable to parent, subsidiaries and affiliates	3,686,112		3,686,112
Aggregate write-ins for liabilities	<u>1,022,228</u>		<u>1,022,228</u>
Total Liabilities	\$202,745,662		\$202,745,662
Common capital stock	\$2,500,000		\$2,500,000
Gross paid in and contributed surplus	39,351,044		39,351,044
Unassigned funds (surplus)	<u>67,475,559</u>		<u>67,475,559</u>
Surplus as regards policyholders	<u>\$109,326,603</u>		<u>\$109,326,603</u>
Total liabilities, capital and surplus	<u>\$312,072,265</u>	<u>\$0</u>	<u>\$312,072,265</u>

PROGRESSIVE AMERICAN INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$203,649,696
DEDUCTIONS:	
Losses incurred	104,977,027
Loss expenses incurred	26,077,174
Other underwriting expenses incurred	40,729,860
Aggregate write-ins for underwriting deductions	(18,778)
Total underwriting deductions	<u>\$171,765,283</u>
Net underwriting gain or (loss)	\$31,884,413

Investment Income

Net investment income earned	\$7,451,516
Net realized capital gains or (losses)	1,994,838
Net investment gain or (loss)	<u>\$9,446,354</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$7,509,094)
Finance and service charges not included in premiums	8,753,801
Aggregate write-ins for miscellaneous income	335,632
Total other income	<u>\$1,580,339</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$42,911,106
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$42,911,106
Federal & foreign income taxes	<u>13,950,878</u>
Net Income	\$28,960,228

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$101,805,872
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Gains and (Losses) in Surplus

Net Income	\$28,960,228
Net unrealized capital gains or losses	(14,040)
Change in net deferred income tax	404,337
Change in nonadmitted assets	(1,851,969)
Surplus adjustments: Paid in	22,175
Dividends to stockholders	(20,000,000)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$7,520,731</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$109,326,603</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$78,039,263

An in-house actuary rendered an opinion that the amounts carried in the balance sheet as of December 31, 2004, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

As part of the examination, the Company reserves were reviewed by an actuary with INSRIS. The conclusion was that the actuarial methods were appropriate and that the various factors selected were reasonable.

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

DECEMBER 31, 2004

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 per December 31, 2004, Annual Statement	\$109,326,603
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment needed			
LIABILITIES:			
No adjustments needed			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2004, Per Examination			\$109,326,603

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2000 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2004.

Corporate Records

The Company was unable to produce a signed copy of the minutes of the 2001 Annual Shareholders meeting. **We recommend the Company exercise greater care in the maintenance of corporate records and comply with Section 607.1601, FS.**

Reinsurance

The Company settled its net pooling balances through the intercompany receivable/payable. It did not report any balances for pooling transactions in Reinsurance recoverable on paid losses and LAE or Ceded balances payable. In the March 31, 2005, quarterly statement, the Company began to segregate these items into the appropriate annual statement lines. **We recommend that the Company comply with SSAP 63, in all future reporting.**

IT

The IT evaluation revealed the lack of written authorization for system requests for changes and system maintenance. **We recommend the Company ensure that all requests for system changes and system maintenance are documented. Moreover, the costs and benefits**

derived from the IT activities should be determined, monitored and reported. Additionally, all requests for changes and system maintenance should be reviewed and approved by management.

SUBSEQUENT EVENTS

Effective January 1, 2005 PHIC was added to the agency pool. This addition did not change the Company's pooling percentage.

In July of 2005, the Company entered into agreements to sell two real estate properties.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Progressive American Insurance Company** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$109,326,603, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Dennis J. McGovern, CFE and Paul E. Ellis, CPA, INSRIS participated in this examination. James R. Neidermyer, FCAS, MAAA a consulting Actuary with INSRIS also participated in the examination. We also recognize the INSRIS review of the ISQ performed as part of the examination of three Florida quota share Progressive companies that were conducted immediately preceding this examination.

Respectfully submitted,

Mary M. James, CPA, CPM
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