

REPORT ON EXAMINATION
OF
PROGRESSIVE EXPRESS INSURANCE
COMPANY

RIVERVIEW, FLORIDA

AS OF

DECEMBER 31, 2003

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
Status of Adverse Findings from Prior Examination.....	2
HISTORY	3
General	3
Capital Stock.....	4
Profitability.....	4
Dividends to Stockholders.....	4
Management	5
Conflict of Interest Procedure.....	6
Corporate Records.....	6
Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance	7
Surplus Debentures	7
AFFILIATED COMPANIES	7
Tax Allocation Agreement	7
Joint Servicing Agreement	8
Investment Services Agreement	8
Interest Agreement.....	8
Cash Management Agreement	9
Licensing Agreement	9
Producers Agreement	9
ORGANIZATIONAL CHART	10
FIDELITY BOND AND OTHER INSURANCE	11
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS.....	11
STATUTORY DEPOSITS	11
INSURANCE PRODUCTS AND RELATED PRACTICES.....	11
Territory.....	11
Treatment of Policyholders	12
REINSURANCE	12
Assumed	12

Ceded	12
ACCOUNTS AND RECORDS	13
Custodial Agreement.....	13
MGA Agreement	13
CPA Agreement	13
Risk-Based Capital.....	14
FINANCIAL STATEMENTS PER EXAMINATION.....	14
Assets	15
Liabilities, Surplus and Other Funds	16
Statement of Income	17
COMMENTS ON FINANCIAL STATEMENTS.....	18
Liabilities	18
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	19
SUMMARY OF FINDINGS	20
SUBSEQUENT EVENTS.....	20
CONCLUSION	21

Tallahassee, Florida

March 25, 2005

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

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, 2003, 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, 2001 through December 31, 2003. 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 and fieldwork starting on October 20, 2004. Fieldwork was concluded as of March 25, 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 a statutory financial examination conducted in accordance with the Financial 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 of 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, 2003. Transactions subsequent to year-end 2003 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following area:

Contingent Liabilities - Attorney's Legal Representation Letters

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.

General

The Company did not record in the minutes that the Board of Directors reviewed the prior Office examination report as of December 31, 1997. **Resolution:** The Company's corporate minutes adequately documented the board's review of the Office's examination report as of December 31, 2000.

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, which was wholly-owned by Progressive Casualty Insurance Company (PCIC), an Ohio domiciled insurer licensed to transact insurance business in Florida. PCIC was a wholly-owned subsidiary of The Progressive Corporation (TPC), an Ohio insurance holding company.

On March 21, 1997, all of the Company's issued and outstanding common stock was sold by PC Investment Company to TPC, the sale price being the amount of the Company's total Surplus as regards policyholders at December 31, 1996.

As of December 31, 2003, in accordance with Section 624.401(1), FS, the Company was authorized to transact Inland marine, Other liability, Private passenger automobile liability, Commercial automobile liability, Private passenger automobile physical damage and Commercial auto physical damage business in the State of Florida.

The Company's Articles of Incorporation and Bylaws were not amended during the period examined.

Capital Stock

As of December 31, 2003, 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

Control of the Company was maintained by its parent, TPC, an Ohio corporation.

Profitability of Company

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

	2001	2002	2003
Premiums Earned	71,302,196	74,155,248	69,405,969
Net Underwriting Gain/(Loss)	1,538,610	1,227,380	7,436,659
Net Income	5,440,151	7,370,319	9,654,496
Total Assets	331,974,419	351,699,987	341,533,698
Total Liabilities	243,510,783	260,140,735	250,004,271
Surplus As Regards Policyholders	88,463,636	91,559,252	91,529,427

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company declared and paid dividends to its stockholder in 2002 and 2003 in the amounts of \$2,500,000 and \$11,000,000, 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, 2003, were:

Directors

Name and Location	Principal Occupation
Jeffrey W. Basch Mayfield Village, Ohio	Director, Chief Accounting Office The Progressive Corp.
W. Thomas Forrester, II Mayfield Village, Ohio	Chief Financial Officer The Progressive Corp.
Thomas A. King Mayfield Village, Ohio	Treasurer Progressive Express Ins. Co.
Glenn M. Renwick Mayfield Village, Ohio	Chief Executive Officer The Progressive Corp.
Charles E. Jarrett Mayfield Village, Ohio	Chief Legal Officer The Progressive Corp.
Robert T. Williams, Jr. Mayfield Village, Ohio	President Progressive Express Ins. Co.

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

Senior Officers

Name	Title
Robert T. Williams, Jr.	President
Thomas A. King	Treasurer
Dane A. Shrallow	Secretary

The Company's board 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, 2003:

Executive Committee	Audit Committee	Investment Committee
Glenn M. Renwick ¹ W. Thomas Forrester, II Thomas A. King Charles E. Jarrett ¹ Chairman	Philip A. Laskawy ¹ B. Charles Ames Milton N. Allen	Glenn M. Renwick ¹ W. Thomas Forrester, II Thomas A. King

The Company utilized the audit committee of its parent, TPC as provided by Section 624.424(8)(c), FS.

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, Executive, Investment and Audit Committee meetings were reviewed for the period under examination and for the year 2004. 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.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance during the period of this examination.

Surplus Debentures

The Company had no outstanding surplus debentures during the period of this examination.

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 29, 2004, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

Tax Allocation Agreement

The Company, along with its parent, TPC and its affiliates filed a consolidated federal income tax return, pursuant to a tax allocation agreement dated January 3, 1983. On December 31, 2003, the method of allocation between the Company, its parent and affiliates was as if each filed on a non-consolidated basis. Federal income tax recoverables or payables are construed as due to or from TPC.

Joint Servicing Agreement

The Company entered into an agreement with PCIC, effective February 2, 1995, whereby the Company received at cost certain services and facilities that assisted the Company in transacting insurance business. The Company also provided certain services and facilities to PCIC to assist transacting its insurance business.

Investment Services Agreement

An investment services agreement was entered into, effective July 16, 1992, between the Company and other affiliates, and with Progressive Capital Management Corp., (formerly Progressive Partners, Inc.), a wholly-owned subsidiary of TPC. The agreement had been amended various times to include additional companies, including this Company. The agreement authorized Progressive Capital Management Corp. to provide investment management services to each of the participating companies. The agreement required each of the served companies to reimburse Progressive Capital Management Corp. for an equitable portion of the actual costs and expenses incurred. No additional separate management fee was charged.

Interest Agreement

An interest agreement entered into on October 31, 1977, and effective January 1, 1997, had been amended various times to include other related companies, including this Company. PCIC received interest or gave credit to the participating companies, called the served companies, on balances owed to or owed by PCIC as a result of activity in the Cashier Account of the central cash management system. Interest was charged at the prevailing 90-day Treasury Bill rate on the last day of each month, computed to the nearest quarter of a percent.

Cash Management Agreement

A cash management agreement was entered into between PCIC and various members of The Progressive Group including the Company. The Ohio Department of Insurance approved the agreement effective January 1, 1998, for Ohio domiciled companies. Effective June 1, 1998, companies domiciled in other states, including Florida, would be included in this agreement. The agreement reduced to written form the cash management system that had been in place for many years between the various companies and PCIC, as manager.

Licensing Agreement

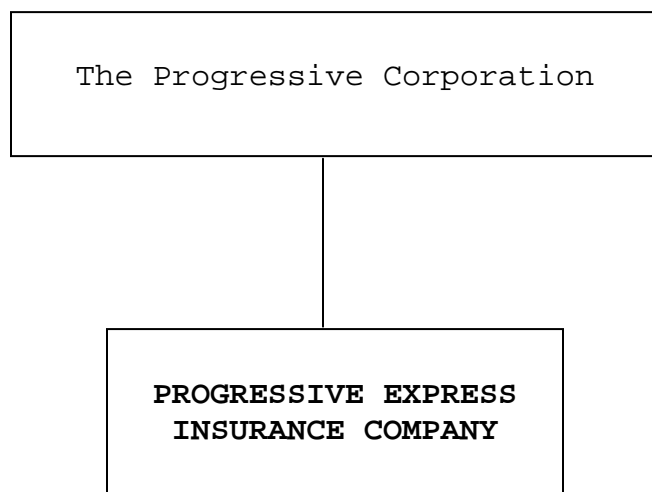
The Company entered into a licensing agreement effective May 1, 2002 with its affiliate PCIC and various other affiliates, memorializing existing practices wherein PCIC granted the Company and others the right to use various propriety marks.

Producers Agreement

The Company and its affiliates, Progressive Southeastern Insurance Co., Progressive Consumers Insurance Company, Progressive Auto Pro Insurance Company and Progressive Auto Pro Insurance Agency, Inc. (Agency), were party to a producers agreement effective December 1, 1998 which authorized Agency to solicit business on behalf of the participating insurers. Commissions were paid to Agency for producing the business.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 annual statement provided a list of all related companies of the holding company group.

**PROGRESSIVE EXPRESS INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company, through its parent, maintained fidelity bond coverage up to \$25,000,000 with a deductible of \$1,000,000 and aggregate limits of \$50,000,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company did not maintain employees of its own but utilized the services of affiliates through various inter-company agreements.

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:

State	Description	Par Value	Market Value
FL	USTNT, 5.0% 02/05/11	<u>\$ 350,000</u>	<u>\$375,921</u>
	TOTAL SPECIAL DEPOSITS	<u>\$ 350,000</u>	<u>\$375,921</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance only in the state of Florida, in accordance with Section 624.401(2), FS:

Treatment of Policyholders

The Company had 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

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.

Assumed

The Company did not assume risk through reinsurance.

Ceded

The Company ceded 90% of its direct written risk to its affiliate, PCIC, 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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2001, 2002 and 2003, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-143.042, 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, N.A. for the purpose of safekeeping its investment securities. The agreement met the requirements of Rule 69O-143.042, FAC.

MGA Agreement

The Company did not have any MGA agreements.

Independent Auditor Agreement

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

Risk-Based Capital

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

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, 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, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$111,429,015		\$111,429,015
Agents' Balances:			
Uncollected premium	8,645,224		8,645,224
Deferred premium	105,227,579		105,227,579
Reinsurance recoverable	109,828,947		109,828,947
Net deferred tax asset	3,887,519		3,887,519
Interest and dividend income due & accrued	1,273,970		1,273,970
Equities and deposits in pools and associations	1,241,444		1,241,444
Totals	\$341,533,698	\$0	\$341,533,698

PROGRESSIVE EXPRESS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$30,063,709		\$30,063,709
Loss adjustment expenses	8,681,897		8,681,897
Commissions payable	845,150		845,150
Other expenses	6,627,782		6,627,782
Taxes, licenses and fees	1,013,744		1,013,744
Unearned premium	23,294,777		23,294,777
Advance premiums	5,436,580		5,436,580
Ceded reinsurance premiums payable	120,408,410		120,408,410
Amounts withheld	296,280		296,280
Drafts outstanding	43,298,368		43,298,368
Payable to parent, subsidiaries and affiliates	9,570,701		9,570,701
Aggregate write-ins for liabilities	466,873		466,873
Total Liabilities	\$250,004,271		\$250,004,271
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	89,709,186		89,709,186
Unassigned funds (surplus)	820,241		820,241
Surplus as regards policyholders	\$91,529,427		\$91,529,427
Total liabilities, capital and surplus	\$341,533,698	\$0	\$341,533,698

PROGRESSIVE EXPRESS INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2003

Underwriting Income

Premiums earned	\$69,405,969
DEDUCTIONS:	
Losses incurred	38,627,057
Loss expenses incurred	10,568,300
Other underwriting expenses incurred	12,773,953
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$61,969,310</u>
Net underwriting gain or (loss)	\$7,436,659

Investment Income

Net investment income earned	\$4,762,742
Net realized capital gains or (losses)	2,070,899
Net investment gain or (loss)	<u>\$6,833,641</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$319,590)
Finance and service charges not included in premiums	6,933,660
Aggregate write-ins for miscellaneous income	(6,142,810)
Total other income	<u>\$471,260</u>
Net income before dividends to policyholders and before federal & foreign income taxes	<u>\$14,741,560</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$14,741,560
Federal & foreign income taxes	<u>5,087,064</u>
Net Income	\$9,654,496

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$91,559,252
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Gains and (Losses) in Surplus

Net Income	\$9,654,496
Net unrealized capital gains or losses	135,495
Change in net deferred assets	(401,613)
Change in non-admitted assets	1,072,611
Surplus adjustments: Paid in	509,186
Dividends to stockholders	(11,000,000)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$29,825)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$91,529,427</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$38,745,606

A Company actuary rendered an opinion that the amounts carried in the balance sheet as of December 31, 2003, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The INS Regulatory Insurance Services, Inc. actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

PROGRESSIVE EXPRESS INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2003

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, 2003, Annual Statement	\$91,529,427
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No adjustment needed.			
LIABILITIES:			
No adjustment needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$91,529,427

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

There are no material report comments requiring follow up relative to the current examination.

SUBSEQUENT EVENTS

Ownership of all outstanding shares of the Company was transferred from TPC to Progressive Commercial Holdings, Inc., a subsidiary of TPC effective January 1, 2005. The transfer was approved by the Office.

CONCLUSION

The customary 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, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$91,529,427, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Frank W. Brooks, CFE, Michael A. Davis, CFE, Paul E. Ellis, CPA, Vince Dyal, CFE, Robert C. Murphy, CFE, John Dunn, Lawrence R. Lentini, CPA, Brian Dunn, ACL Specialist and Michael W. Morro, ACAS, MAAA, Actuary, all from INS Regulatory Insurance Services, Inc., participated in the examination.

Respectfully submitted,

Mary M. James, CFE, CPM
Financial Examiner/Analyst Supervisor
Florida Department of Financial Services
Office of Insurance Regulation