REPORT ON EXAMINATION

OF

PROGRESSIVE SOUTHEASTERN INSURANCE COMPANY

RIVERVIEW, FLORIDA

AS OF

DECEMBER 31, 2004

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

August 12, 2005

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Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326201

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Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
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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 SOUTHEASTERN 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 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, 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, 2001, 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 incorporated on March 11, 1980 and commenced business on December 1, 1980.

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

In 2004, the Company wrote on a direct basis Inland Marine, Other Liability, Private Passenger Auto Liability and Auto Physical Damage. The Company assumed the following from affiliates (Pool) homeowners multi peril, commercial auto liability, fidelity, surety and motorcycle liability.

The articles of incorporation were not amended during the period under review. 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, of 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	40,000
Number of shares issued and outstanding	30,000
Total common capital stock	$3,000,000
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	101,824,848	105,388,816	82,539,249	66,654,641
Net Underwriting Gain/(Loss)	15,942,207	12,160,721	5,237,896	2,347,039
Net Income	14,520,666	12,950,925	5,943,275	4,782,104
Total Assets	128,348,771	136,947,791	110,268,147	88,159,072
Total Liabilities	92,544,949	97,196,171	80,208,458	65,082,886
Surplus As Regards Policyholders	35,803,822	39,751,620	30,059,689	23,076,186

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company declared and paid dividends to its stockholder in 2001, 2003 and 2004 in the amounts of $4,500,000, $3,000,000 and $18,000,000, 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 Southeastern Ins. Co.
Terence W. Fibbi Mayfield Village, Ohio	Treasurer . Progressive Southeastern Ins. Co.
Timothy M. Madden Mayfield Village, Ohio	President Progressive Southeastern Ins. Co.
David J. Skove Mayfield Village, Ohio	General Manager Progressive Southeastern Ins. Co.
Gregory J. Trapp Mayfield Village, Ohio	General Manager Progressive Southeastern 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	Assistant Treasurer

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, 2004:

Executive Committee	**Audit Committee**	**Investment Committee**
Gregory J. Trapp *	Philip A. Laskaway *	Gregory J. Trapp *
David J. Skove	Milton N. Allen	Timothy M. Madden
Timothy M. Madden	Bradley T. Sheares	Terrence W. Fibbi, Alternate
Maria J. Cashy, Alternate		

* Chairman

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.

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

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

Surplus Debentures

The Company had not issued any surplus debentures.

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 TPC, an insurance company holding company formed in 1965. Holding company registration statements and amendments have been filed in accordance with Section 628,801, FS, and Rule 690-143.046, FAC. 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 January 1, 1980, to the existing interest agreement with PCIC and members of the holding company system. Pursuant to the agreement, the Company agreed to pay PCIC or to receive credit 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.

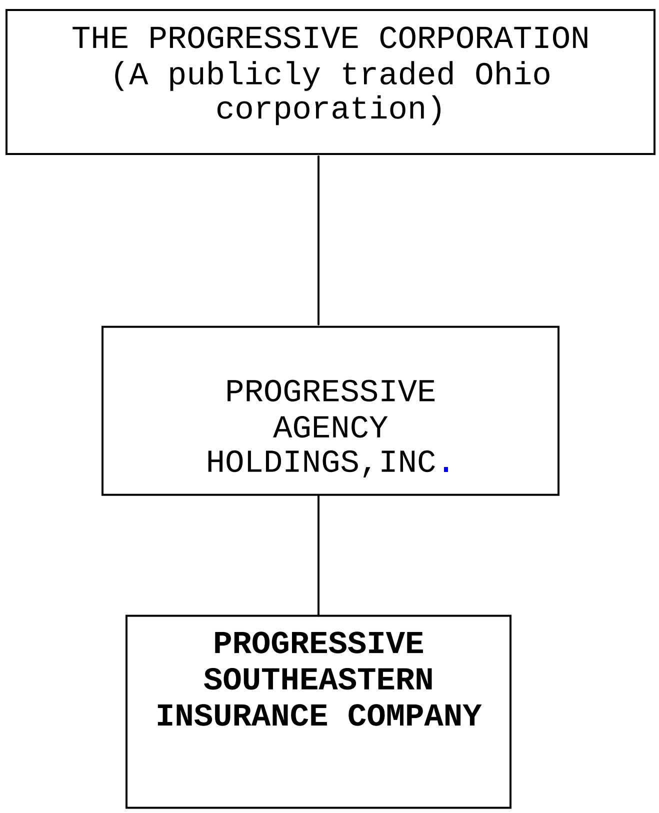
Allocation of Federal Income Taxes

The Company and other members of its holding company system entered into an income tax sharing agreement with TPC, whereby the company 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 SOUTHEASTERN 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

As of December 31, 2004, the Company was 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.

Effective January 1, 2005, the Company and three other affiliates transferred all of their employees to various insurance and non-insurance affiliates.

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	United States Treasury DTD, 5%, 2/15/2011	$2,500,000	$2,527,708
	Total Florida Deposits	$2,500,000	$2,527,708
GA	United States Treasury, 5%, 2/15/2011	$35,000	$35,388
NC	United States Treasury, 5%, 2/15/2011	325,000	328,602
	Total Other Deposits	$ 360,000	$ 363,990
	TOTAL SPECIAL DEPOSITS	$2,860,000	$2,891,698

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 Group was primarily an insurer of non-standard automobile risks.

Territory

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

Florida	North Carolina
Georgia	Ohio
Mississippi	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 reinsurance agreements and were included in the total agency pool underwriting results. The total pooled underwriting results, less outside reinsurance placements were then ceded back to each pool member according to its predetermined percentage.

Pool percentages for the period under review were as follows:

	2004 Pool %	2003 Pool %	2002 Pool %	2001 Pool %
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	100.0%	100.0%	100.0%	100.0%

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's only other ceded business was to a mandatory pool.

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 recoverable from pooling transactions in intercompany balances and did not include amounts in Amounts recoverable from reinsurers, reinsurance payable on paid loss and LAE 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, N.A. 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. These examinations were conducted immediately preceding this examination. The were several recommendations contained in the report. Listed below is the most significant finding along with management's response.

> 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 SOUTHEASTERN INSURANCE COMPANY
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$87,083,531	$0	$87,083,531
Agents' Balances:			
Uncollected premium	1,906,723		1,906,723
Deferred premium	23,607,726		23,607,726
Reinsurance recoverable	7,864,546		7,864,546
Net deferred tax asset	3,618,611		3,618,611
income due & accrued	837,812		837,812
Receivable from PSA	3,381,276		3,381,276
other than invested assets	48,546		48,546
Totals	$128,348,771	$0	$128,348,771

PROGRESSIVE SOUTHEASTERN INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	$31,006,108		$31,006,108
Loss adjustment expenses	8,013,524		8,013,524
Commissions payable	236,814		236,814
Other expenses	2,884,597		2,884,597
Taxes, licenses and fees	838,427		838,427
Unearned premium	31,473,504		31,473,504
Advance premiums	413,735		413,735
Ceded reinsurance balances payable	6,059,799		6,059,799
Amounts withheld	4,502		4,502
Drafts outstanding	7,543,070		7,543,070
Payable to parent, subsidiaries and affiliates	1,882,069		1,882,069
Aggregate write-ins for liabilities	2,188,800		2,188,800
Total Liabilities	$92,544,949		$92,544,949
Common capital stock	$3,000,000		$3,000,000
Gross paid in and contributed surplus	10,923,877		10,923,877
Unassigned funds (surplus)	21,879,945		21,879,945
Surplus as regards policyholders	$35,803,822		35,803,822
Total liabilities, capital and surplus	$128,348,771	$0	$128,348,771

PROGRESSIVE SOUTHEASTERN INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2004

Underwriting Income	
Premiums earned	$101,824,848
DEDUCTIONS:	
Losses incurred	52,488,514
Loss expenses incurred	13,038,587
Other underwriting expenses incurred	20,364,930
Aggregate write-ins for underwriting deductions	(9,390)
Total underwriting deductions	$85,882,641
Net underwriting gain or (loss)	$15,942,207
Investment Income	
Net investment income earned	$3,944,644
Net realized capital gains or (losses)	505,549
Net investment gain or (loss)	$4,450,193
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($2,096,141)
Finance and service charges not included in premiums	2,527,142
Aggregate write-ins for miscellaneous income	215,881
Total other income	$646,882
Net income before dividends to policyholders and before federal & foreign income taxes	$21,039,282
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$21,039,282
Federal & foreign income taxes	6,518,616
Net Income	$14,520,666
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$39,751,620
Gains and (Losses) in Surplus	
Net Income	$14,520,666
Change in net deferred income tax	(870,382)
Change in nonadmitted assets	365,765
Surplus adjustments: Paid in	36,153
Dividends to stockholders	(18,000,000)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	($3,947,798)
Surplus as regards policyholders, December 31 current year	$35,803,822

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $39,019,632

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 SOUTHEASTERN 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				$35,803,822
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No adjustment needed				
LIABILITIES:				
No adjustment needed				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2004, Per Examination				$35,803,822

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.

Reinsurance

The Company settled its net polling balances through the intercompany receivable/payable. It did not report any balances for pooling transaction 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 the Company comply with SSAP 63 in all future reporting.**

Information Technology

The IT evaluation revealed the lack of written authorization for requests for system changes and system maintenance. **We recommend the Company ensure that all requests for system changes and system maintenance be 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.

Effective January 1, 2005, the Company and three other affiliates transferred all of their employees to various insurance and non-insurance affiliates.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Progressive Southeastern 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 $35,803,822, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Dennis J. McGovern, CFE, 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,

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