REPORT OF EXAMINATION
OF THE

PROGRESSIVE MARATHON
INSURANCE COMPANY

AS OF
DECEMBER 31, 2002

Participating State
and Zone:
California

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San Francisco, California
January 20, 2004

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (EX4) Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable John Morrison
Secretary, Zone IV - Western
State Auditor, Commissioner of
Insurance and Securities
Montana State Auditor's Office
Helena, Montana

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

PROGRESSIVE MARATHON INSURANCE COMPANY

(hereinafter also referred to as the Company) at the home office of its parent, The Progressive Corporation, located at 6300 Wilson Mills Road, Mayfield Village, Ohio 44143. As of December 31, 2002, the Company's statutory home office was located at 10940 White Rock Road, Rancho Cordova, California 95670.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 2002. The examination was conducted by the California Department of Insurance pursuant to the National Association of Insurance Commissioners' Plan of Examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2002, as deemed necessary under the circumstances. In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

The examination was conducted concurrently with the Company's California affiliate, Progressive West Insurance Company, and the Ohio Department of Insurance's coordinated examination of the Progressive Group of companies.

SUBSEQUENT EVENTS

On August 26, 2003, the Company received its amended Certificate of Authority to change its statutory home office address from Rancho Cordova, California to Mayfield Village, Ohio and re-domesticate to the State of Ohio.

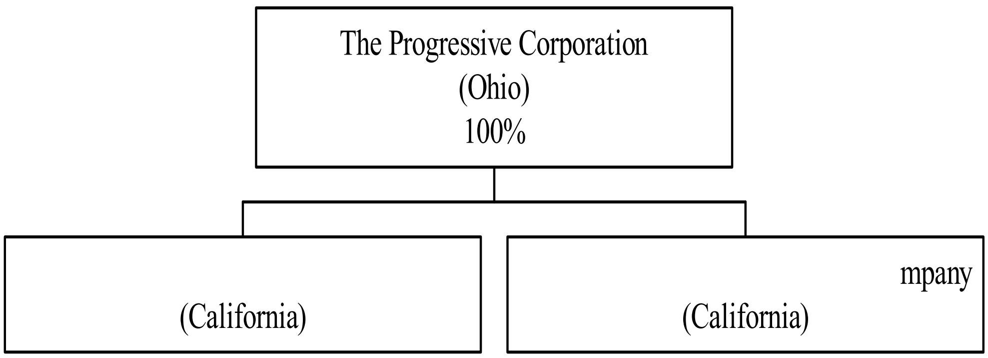
COMPANY HISTORY

The Company was incorporated as a property and casualty insurer under the laws of California on December 11, 1985, and commenced business on September 1, 1998 as Marathon Insurance Company. On June 3, 1998, the Secretary of State of California approved the Company's request to change its name to Progressive Marathon Insurance Company.

The Company received a surplus contribution in the amount of $4 million from The Progressive Corporation in December of 2000.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which The Progressive Corporation (TPC) is the ultimate controlling entity. The following abridged organizational chart depicts the interrelationships between TPC and the California insurance companies within the holding company system as of December 31, 2002 (all ownership is 100%):



Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2002 follows:

Directors

Name and Residence	Principal Business Affiliation
W. Thomas Forrester, II Moreland Hills, Ohio	Chief Financial Officer The Progressive Corporation
Charles E. Jarrett Pepper Pike, Ohio	Chief Legal Officer The Progressive Corporation
Thomas A. King South Russell, Ohio	Investment Strategist The Progressive Corporation
Mark D. Niehaus Granite Bay, California	President Progressive West Insurance Company
Glenn M. Renwick Chagrin Falls, Ohio	Chief Executive Officer The Progressive Corporation

In May of 2003, all the directors listed above resigned and were replaced by Toby K. Alfred, Alan R. Bauer, Michael J. Hanerty, Robin A. Harbage, and David M. Krew.

Principal Officers

Name	Title
Mark Niehaus	President
Stephen D. Peterson	Treasurer
Dane A. Shrallow	Secretary

All of the officers listed above resigned in May 2003 and were replaced by Alan Bauer as President, David Krew as Treasurer, and Michael Uth as Secretary.

Intercompany Agreements

The following intercompany agreements were in effect at December 31, 2002:

Interest Agreement: This agreement is between Progressive Casualty Insurance Company (PCIC) and The Progressive Corporation (TPC), including its affiliated companies. Under this agreement, the Company agrees to pay, or receive from, PCIC interest expense or income for any balances resulting from activity in the cashier account, a centralized cash management account managed by PCIC. The balances receivable or payable are determined based on the average unpaid balance and interest is earned or charged at the prevailing ninety-day treasury bill rate on the last day of each month.

Cash Management Agreement: This agreement is between PCIC and certain affiliated companies, including the Company. The agreement establishes a centralized cash management system resulting in efficiencies, expense savings, and other benefits to its members. Each member receives or pays interest, as governed by the above Interest Agreement. Members receive monthly statements of balances due and an ownership interest in an amount equal to such debit balance and absolute right to withdraw any amount equal to ownership interest. Separate records are kept for each member and PCIC shall not permit or cause any participant to make any loan or extension of credit.

Investment Services Agreement: This agreement is between Progressive Capital Management Corporation, a subsidiary of TPC, and certain affiliated companies, including the Company, for the sole purpose of providing investment management services. These services include development of an investment strategy, selection of investments and management of investment transactions.

Allocation of Federal Income Taxes Agreement: This agreement is between TPC and participating affiliates, including the Company. It provides for the allocation of the year-end consolidated federal tax liability among participants in the agreement. The year-end tax liability is computed on a consolidated basis; however, each participant's tax provision is calculated individually and any additional tax payable or receivable is settled within ninety days.

Management Agreement: This agreement is between the Company and PCIC. Under this agreement, PCIC makes the following services available to the Company:

1) Sales
2) Selection, underwriting and issuance
3) Premium billing and collection
4) Actuarial
5) Financial reporting
6) Data processing
7) Statistical and accounting
8) Claims processing
9) Personnel
10) Record keeping

TERRITORY AND PLAN OF OPERATION

As of December 31, 2002, the Company was licensed to transact multiple lines of property and casualty insurance in California and Tennessee. The Company wrote business only in California during the exam period.

In 2002, direct premiums written were $141,738,014. The principal lines of business written are private passenger auto liability and private passenger auto physical damage, which account for 100% of the Company's net premiums written. In 2003, the Company stopped writing new business in

California.

The Company primarily sells its products through approximately 125 independent agents and strategic alliances, which include alliances with other insurance companies, employers, affinity groups and national brokerage agencies. The Company also directly markets its products through the telephone, mail and the internet.

The Company does not have employees or facilities. The Company utilizes the services of affiliated companies. Underwriting is performed by Progressive Casualty Insurance Company in Riverview, Florida. Hard copies of underwriting files are maintained in Sacramento, California, and key data is transferred electronically to the Company's main administrative office in Ohio. Hard copies of policy files are maintained by the agents, and key policy information is transferred electronically to the Company's main administrative office in Ohio. Claim files are kept in hard copy at the Company's statutory home office in Rancho Cordova, California and key claims data is transferred electronically to the Company's main administrative office in Ohio.

REINSURANCE

Assumed

The Company did not have any assumed business as of December 31, 2002.

Ceded

The principal treaties, retentions and ceded limits in effect and in runoff as of December 31, 2002 are set forth as follows:

Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer's Limits
Property and Casualty 90% Quota Share – Intercompany	Progressive Casualty Insurance Company	10% of net retained liability, maximum $100,000	90% of net retained liability, maximum $900,000*
Property and Casualty 30% Quota Share In runoff effective 9/3/2001	Response Insurance Company	70% of net retained liability, maximum $350,000	30% of net retained liability, maximum $150,000

Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer's Limits
Property and Casualty 30% Quota Share – Agency Agreement	AMEX Assurance Co.	70% of net retained liability, maximum $350,000	30% of net retained liability, maximum $150,000

* The Company does not write policies in excess of $500,000. The largest net amount insured for any one risk is $50,000 (10% of $500,000).

ACCOUNTS AND RECORDS

Accounting Practices and Procedures

The cumulative effect of changes in accounting principles as a result of the initial implementation of Codification, effective January 1, 2001, was an increase to surplus of $971,149. The increase represented deferred tax assets.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2002

Underwriting and Investment Exhibit for the Year Ended December 31, 2002

Reconciliation of Surplus as Regards Policyholders
from December 31, 1998 through December 31, 2002

Statement Financial Condition
as of December 31, 2002

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 24,450,734	$	$ 24,450,734	
Agents' balances or uncollected premiums:				
Premiums and agents'balances in course of collection	749,501	326,285	423,216	
Premiums and agents' balances installments booked but deferred and not yet due	15,813,022		15,813,022	
Reinsurance recoverable on loss payments	6,192,225		6,192,225	
Federal and foreign income tax recoverable and interest thereon	541,238	8,522	532,716	
Interest, dividends and real estate income due and accrued	297,217		297,217	
Receivable from parent, subsidiaries and affiliates	1,980,996		1,980,996	
Aggregate write-ins for other than invested assets	49	49	0	
Total assets	$ 50,024,982	$ 334,856	$ 49,690,126	

Liabilities, Surplus and Other Funds

Losses			$ 3,291,931	(1)
Loss adjustment expenses			1,095,348	(1)
Commissions payable, contingent commissions and other similar charges			14,898	
Other expenses			55,802	
Taxes, licenses and fees			1,072,013	
Unearned premiums			3,047,931	
Advance premiums			656,184	
Ceded reinsurance premiums payable			10,707,552	
Drafts outstanding			6,819,159	
Payable to parent, subsidiaries and affiliates			397,361	
Aggregate write-ins for liabilities			591	
Total liabilities			27,158,770	
Common capital stock		$ 1,508,000		
Gross paid-in and contributed surplus		18,300,000		
Unassigned funds		2,723,356		
Surplus as regards policyholders			22,531,356	
Total liabilities, surplus and other funds			$ 49,690,126	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2002

Statement of Income

Underwriting Income		
Premiums earned		$ 13,611,696
Deductions:		
Losses incurred	$ 7,825,952	
Loss adjustment expenses incurred	2,365,890	
Other underwriting expenses incurred	3,203,557	
Total underwriting deductions		13,395,399
Net underwriting gain		216,297
Investment Income		
Net investment income earned	$ 1,183,390	
Net realized capital gains	837,211	
Net investment gain		2,020,601
Other Income		
Net loss from agents' or premium balances charged off	$ (44,719)	
Finance and service charges not included in premiums	2,538,082	
Aggregate write-ins for miscellaneous income	(2,290,779)	
Total other income		202,584
Net income before federal income taxes		2,439,482
Federal income taxes incurred		852,889
Net income		$ 1,586,593

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2001		$ 20,492,360
Net income	$ 1,586,593	
Change in net deferred income taxes	(126,974)	
Change in nonadmitted assets	580,052	
Aggregate write-ins for gains and losses in surplus	(675)	
Change in surplus as regards policyholders		2,038,996
Surplus as regards policyholders, December 31, 2002		$ 22,531,356

Reconciliation of Surplus as Regards Policyholders
from December 31, 1998 through December 31, 2002

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, December 31, 1998, per Examination			$ 3,709,615
Net income	$ 2,027,572	$	
Change in net deferred tax		516,662	
Change in nonadmitted assets and related items		259,643	
Cumulative effect of change in accounting principle	971,149		
Surplus: Paid-in	16,600,000		
Aggregate write-in for loss in surplus		675	
Total gains and losses in surplus	$ 19,598,721	$ 776,980	
Increase in surplus as regards policyholders			18,821,741
Surplus as regards policyholders, December 31, 2002, per Examination			$ 22,531,356

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the Ohio Department of Insurance reviewed the estimates of the Company's reserves for losses and loss adjustment expenses prepared by the Company. Based upon the actuary's analysis of the estimates, the loss and loss adjustment expense reserves were determined to be reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control – Management Agreements (Page 5): It was recommended that the Company revise the tax allocation agreement to include provisions for net operating losses and other similar items and submit the revised agreement to the California Department of Insurance for approval. The Company has provided a written guarantee to address this issue

Accounts and Records - Information Systems Controls (Page 8): The Company should evaluate the recommendations from the Information Systems review and make appropriate changes to strengthen its information system controls. The Company has implemented the recommendations.

Comments on Financial Statement Items – Drafts Outstanding (Page 13): It was recommended the Company continue its efforts to implement a system that will accurately identify outstanding drafts in order to comply with California unclaimed property statutes. The Company is now in compliance.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination is hereby acknowledged.

Respectfully submitted,

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Susan Bernard, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California