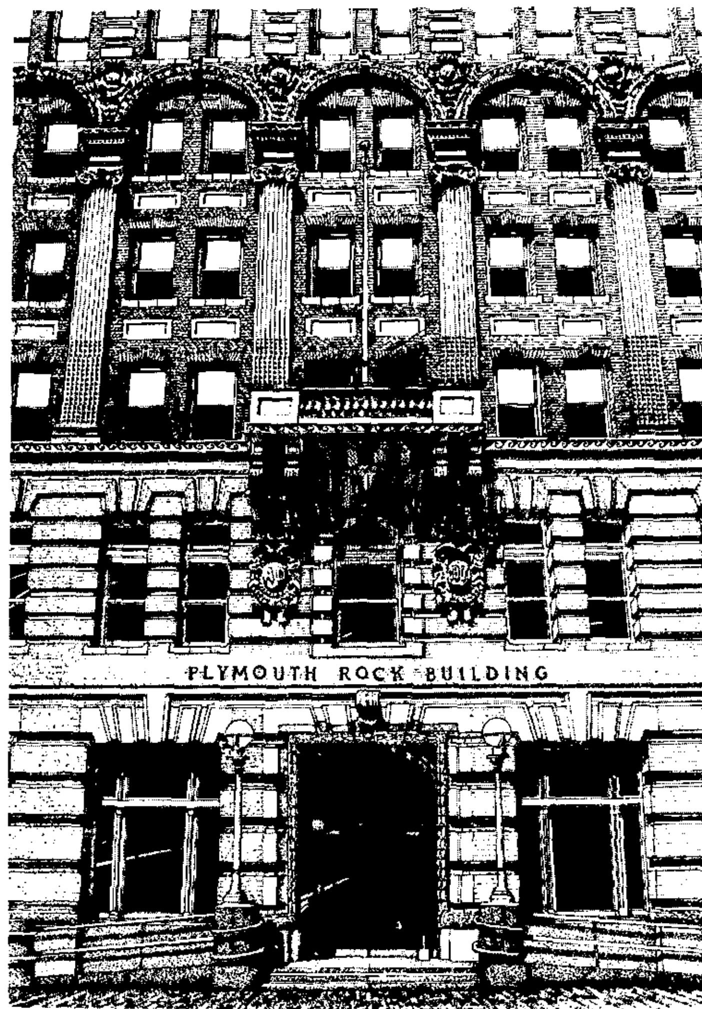
The Plymouth Rock Company



1993 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 24, 1994

To Our Shareholders:

This was the first year in which senior management devoted more than half its time to businesses other than Massachusetts personal lines, although Plymouth Rock Assurance Corporation, where those lines are written, produced more than 98 percent of the group's net income. The future may prove this a misallocation of effort, but it is not inadvertent. If, as I suspect, we are near the peak of a regulatory and economic cycle for Massachusetts auto insurance, it is the nurturing of our newer businesses that can permit a continuation of the Company's high rates of return in the second half of this decade. The year's fine results should not obscure the dangers ahead for Plymouth Rock Assurance Corporation, but, by the same token, the modest 1993 returns in our other operations should not mask their potential.

Net income in 1993 for The Plymouth Rock Company as a whole was $11.9 million, up from $9.8 million in the prior year. This represents a rate of return on prior yearend equity of 27 percent. Over the five year period since 1989, net income has grown at a compound annual rate of 31 percent, and return on equity has averaged 24 percent. We are proud of this record, since some of the gains came from good planning and hard work on the part of our management, staff and agents, but we thank good fortune as well. Plymouth Rock's consolidated equity, which was barely a million dollars ten years ago, is now $55 million. Wherever permissible, moreover, we tend to be conservative in the statement of our results. This conservatism, along with a debt-free balance sheet, allows us a measure of comfort as we continue to incur a quite considerable measure of business risk.

The Plymouth Rock family now includes personal lines insurers in Massachusetts and New Hampshire, a reciprocal writing similar lines in New Jersey, a risk management and brokerage firm in Boston, and two service companies. Together these enterprises have created over 300 jobs. In addition, since last October, we have owned a minority interest in a Bermuda-based catastrophe reinsurer.

The New Jersey operation is the largest of the new enterprises. Palisades Safety and Insurance Association, a reciprocal insurer, was formed in 1992 as the replacement carrier

for a company exiting New Jersey automobile lines. The reciprocal, a membership organization owned by its policyholders, is managed by what is called in the statute an "attorney-in-fact", a curiosity of phrasing whose origins are lost to the living. The attorney-in-fact for Palisades is a stock company owned and controlled by our group. Reciprocals are an arcane form of organization, unique to insurance and unfamiliar to most people, so I am often asked why we did not go into business in New Jersey as a stockholder owned company or as a mutual.

A reciprocal is similar in some respects to a mutual company, but there is one critically important distinction. A mutual is operated by its own employees, whereas a reciprocal has no staff and is managed by the attorney-in-fact. The founders and managers of a mutual have no ownership stake in their company's success, while the creators of a reciprocal can at least have an ownership interest in the attorney-in-fact. We think the mutual form in general is a questionable arrangement for linking the interests of owners and managers or promoting efficiency. At the very least, it is unattractive to us. We have every desire to profit if we do a good job for the people of New Jersey, and the ownership of the attorney-in-fact should allow us to do just that.

The stock company format, while not lacking in incentives, was imperfect for other reasons. It might have been tougher to get approval for transferring capital to our own coffers than to the policyholders. It would certainly have been more difficult, in a stock company environment, to obtain the written assurance of the Insurance Department that the Plymouth Rock group in no way guaranteed the results of the new venture. And the reciprocal structure was beautifully congruent with our basic goal in New Jersey, having the policyholders feel a sense of belonging to a membership organization or club in which drivers who did all they could to make driving safer would enjoy the benefits of their choices.

New Jersey premium volume was minimal in 1992. By the close of 1993, it was about $15 million. Most of the growth came from taking over the New Jersey auto business of American Reliance, a fine old company that was impaired by Hurricane Andrew and needed to divest itself of that line as part of its rescue plan. The growth allowed us to meet New Jersey's residual market depopulation quota, and launched us in the direction of sustainable scale. We still have a way to go, however, before we enjoy scale economies. I recall that, in our first discussion with the New Jersey Department, the Commissioner and I both picked $40 million in volume as an estimate of what it would take to operate at full efficiency. So goal number one in New Jersey is to keep growing. Hal Belodoff has assembled a remarkable Agents Advisory Committee to help him expand his force of independent agents. If that works half as well in New Jersey as it did in Massachusetts, and if the competitors in New Jersey continue to demonstrate less and less appreciation for their agents, additional growth should be on its way.

With growth will come a reduction in the expense ratio. Measured to include both investment expenses and loss adjustment costs, Palisades' gross ratio of expenses to premiums was an unsatisfactory 65 percent in 1993. As in Massachusetts, the New Jersey goal is to move the expense ratio all the way down to 35 percent of premiums someday. This target, incidentally, is two points more ambitious than the one I set in the 1986 Annual Report and have frequently cited since that time. The whole industry is now on an expense reduction drive, and we will need to be even more frugal to stay ahead of the pack. Palisades has set 46 percent as an expense ratio objective for 1994. I hope good sales and careful cost management allow them to better this mark.

Excellent loss ratios, of course, do not come automatically with growth. Our target for the loss ratio in New Jersey is to be under 60 percent. Progress on this score is encouraging. The book of business acquired from American Reliance seems to have a loss ratio just a little higher than this, but the new business coming in from agents Palisades has recruited is better than the target. In addition, the 1993 loss ratio of 68 percent includes the impact of temporary state assessments to cover the deficits of a defunct residual market system and a private reinsurance charge specifically reflective of startup status. Both should move in our favor as time goes on.

The reciprocal inherited $16 million in capital at its creation. At the time, I predicted half of that would be consumed in launching a successful enterprise. Whether we can keep to this forecast is still an open question. If the reciprocal has pre-tax losses totaling $12 million before it turns profitable, and then gets back $4 million of that sum in tax benefits, the goal will have been met. By the end of 1993, Palisades had accumulated pre-tax losses of $6.6 million. Hal and Keith Rodney, who serves as Palisades' board chairman, think they can hold next year's loss on this basis to less than $2.7 million, while actually operating at a profitable rate by the final quarter of 1994. They will deserve a cheer if they can accomplish this, since that would better my original prediction.

While making money in the reciprocal is not the same as having the Plymouth Rock group earn a profit from its ownership of the management company, the two are certainly linked. In 1993 the management company, which is the only part of the enterprise we reflect in the consolidated financial statements, lost $118,000. We hope that someday it can contribute several million dollars to our annual net income, but that will occur only when the reciprocal and its members are prospering as well.

In New Hampshire, where Peter Jones was hoping to reach break-even in 1993, we are leaving the champagne on ice. Net losses for the year at Mt Washington Assurance Corporation decreased from $516,000 in 1992 to about $250,000. This is half the distance but not a touchdown. Bill Kelley, Mt Washington's chairman, and Peter now project the same course as Palisades: reduced operating losses in the first part of the year, an operating gain in the final months, followed by a full year gain in 1995. That would be

just fine. Premium volume in New Hampshire is now about $7 million. While economies of scale there are probably available at a smaller volume than in New Jersey, Mt Washington will still need at least $25 million in premiums to reach an acceptable expense ratio. The small population of New Hampshire and its relative regulatory calm make growth more of a challenge there than in Massachusetts or New Jersey.

There were no great surprises this year for the three businesses that comprise our Boston service cluster. SRB Corporation made a small profit on its sale of investment and data processing services. Pilgrim continued to earn its slim but steady profit providing first-rate service to other insurers. Boston Risk Management lost a little money as it continued to hunt for its path into the alternative markets world. Taken together these three companies contributed about half a million dollars to net income, a little more than the combined losses of Mt Washington and the Palisades management company.

The newest business involvement for our group is Centre Cat Limited, one of the Bermudian reinsurers formed last year to fill a widely acknowledged gap between the supply and demand for catastrophe coverage (hence "Cat") in the wake of Hurricane Andrew. Andrew, a storm that raised both rates and consciousness, came just as Lloyd's of London, for entirely independent reasons, was moving into a retrenchment mode. The market responded quickly, and more than half a dozen new carriers were born. Centre Cat, whose formation was led by Morgan Stanley with Zurich Re, Centre Re, Chubb, AT&T, General Motors and Chemical Bank as the other major owners, came into this world with an initial capital of $312 million.

Plymouth Rock, the only small investor, owns less than one percent of the equity. I serve, however, on Centre Cat's board with enthusiasm. The distinguishing feature of the company is its uncompromising commitment to scientific underwriting. Unlike some of its competitors, who see risk selection as a business of hunches, instincts and keenly honed insights, Centre Cat believes that the underwriting of property catastrophe insurance can be analytical and mathematical. The management was selected with that view in mind. While there is always some degree of luck in the cat business, and thus I can not regard our investment as a guaranteed winner, I am confident that Centre Cat will hold its dependence on pure luck to as low a level as any participant in its industry.

Of the total net income for 1993, $11.8 million was earned at Plymouth Rock Assurance Corporation. That company, in ten years, has become the tenth largest writer of Massachusetts personal lines. Our agents (and Insurance Division complaint statistics) suggest it ranks first in service; and its pure loss ratio, which has always been good, remained in the neighborhood of fifty points. These are our twin towers. The industry-wide deficit at Commonwealth Automobile Reinsurers, meanwhile, fell sharply as the residual market continued to contract. Readers may remember that in 1989 C.A.R. was insuring over two-thirds of the vehicles in the state; the current figure is more like one in

ten. Plymouth Rock and everyone else, therefore, paid less than expected for the residual market in 1993.

The company's gross expense ratio, including claim adjustment and investment expenses, came in below 38 percent for the first time in its history. While that is still three points north of my updated target, it represents gratifying progress. The claim department, with three excellent new managers, has now gotten into full swing in the hunt for efficiencies. I am guardedly optimistic that Plymouth Rock Assurance can squeeze out another expense point in 1994.

The expense ratio is on the right course as we look ahead, and it would be an unexpected setback if the residual market repopulates any time soon. The loss ratio, however, faces some jeopardy over the next few years. The causes are largely external to Plymouth Rock. The last five years in Massachusetts have all been blessed with mild winters, a favorable regulatory climate, and little or no growth in miles driven. The winter that began in December of 1993 has been fierce. The economic recovery, so welcome on all other grounds, will increase discretionary miles driven and, thus, claim frequency. The legal and regulatory climate poses a still greater concern.

Since the last set of legislative reforms in 1988, tort claims have continued to push bodily injury costs up by more than 20 percent per year, but the property damage statistics have improved each year, due largely to "direct pay" programs like our Crashbusters vans. The problem is that the bodily injury increases can go on forever, while the property damage results must eventually level out. If I am right about the economic recovery, this is probably the year that property damage costs will start upward again. To make matters worse, however, the legislature is seriously considering a complete repeal of no-fault. Although the Governor has put forward a sensible approach to redesigning no-fault, the trial bar has won the day already in the Senate. The option of continuing under the current regime is unappealing, but a pure tort environment would surely be worse. When things are working badly, not every change will make them better. I hope the legislature understands this.

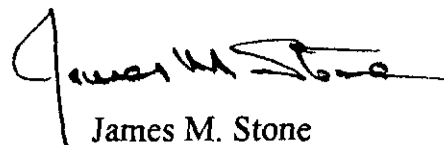
An issue of this magnitude in any prior year would have taken virtually all of my time. Fortunately, we now have Paula Gold, Plymouth Rock's newest vice president, to help us navigate the political thicket. She comes with more than fifteen years of government experience, including a distinguished tenure as Massachusetts Secretary of Consumer Affairs and Business Regulation. Paula and I will do the best we can, but it would be disingenuous to suggest undue confidence concerning near-term rate adequacy in Massachusetts auto insurance. At least, though, we can be sure of this. We are better positioned for stormy times than most, and, since the state's insurers are now overwhelmingly domestic with no deep pockets elsewhere, the government has far less freedom than it once did to jeopardize their condition for any substantial duration.

This year's letter ends with some reader response time. The three rules for equity investing presented in last year's Annual Report generated surprising feedback. The first two rules, calling for understandable product stories and for holding periods measured in decades, caused no problems, but the third ("we will consider only companies with whose chief executives we would all be willing to be photographed") elicited both confusion and criticism. One commentator asked if we ruled out companies with ugly CEOs, and another asked whether this meant we invested only in companies whose CEOs were pictured in their Annual Reports. No, no, no.

In addition to its Centre Cat position, Plymouth Rock now holds $1.5 million of equity investments. Marketable equities represent a still conservative one percent of the total portfolio, and all were selected with careful adherence to the three rules. We never once judged a company by the CEO's appearance, though we take full account of the company's, and its managers', standard of ethics. If the relationship between shared ethics and a willingness to engage in joint photo-opportunities was too subtly stated in the last Annual Report, this should set the record straight.

That brings me to the criticism. One investment executive, who had no trouble comprehending the photograph rule, said it was the "most unprofessional" statement of investment philosophy she had ever heard. Ethics, she said, are not correlated with return. I have thought long and hard about her statement, and it is not easy to refute with rigor. One response would be that the universe of potential investments is so broad that no such correlation is required for us to confine our attention to a select subset without sacrifice of return. I prefer the stronger statement that there may, in fact, be a positive correlation between companies with managers we admire and those situations that the investment team at Plymouth Rock can identify as winners.

Just as our businesses outside Massachusetts personal lines will inevitably be of greater significance to the consolidated results, so it is inescapable that investments will also play an increasing role. We will stay with the three rules of equity selection; we will maintain our conservatism in asset allocation; and, most important, we will endeavor not to be distracted from the fundamentals of insurance. An insurance carrier that earns its customers' loyalty and knows how to select a profitable book has a valuable and durable franchise, even if its investments are uninspired. The most brilliant investing, in the absence of good service and underwriting, offers no comparable robustness.



James M. Stone

Coopers
&Lybrand

certified public accountants

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
The Plymouth Rock Company:

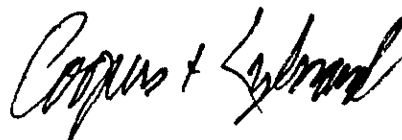
We have audited the accompanying consolidated balance sheets of The Plymouth Rock Company and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, cash flows and changes in stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Plymouth Rock Company and subsidiaries as of December 31, 1993 and 1992, and the consolidated results of their operations, and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

As described in note 2E to the consolidated financial statements, in 1993 the Company changed its accounting for reinsurance to conform to a newly promulgated financial accounting standard.

Boston, Massachusetts
February 11, 1994



THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 1993 and 1992

Assets	1993	1992
Cash and marketable securities	$163,869,322	$129,769,517
Premiums receivable	7,499,583	6,824,397
Accrued investment income	2,216,764	1,831,572
Receivable from reinsurers	29,807,985	35,081,226
Deferred acquisition costs	6,999,376	5,705,243
Fixed assets	5,983,763	6,242,808
Deferred income taxes	4,609,583	3,308,861
Other assets	532,006	1,309,900
Total assets	$221,518,382	$190,073,524
Liabilities		
Claim and claim adjustment expense reserve	$ 93,323,105	$ 79,693,383
Premiums payable to reinsurers	28,100,289	24,525,375
Unearned premium reserve	23,142,077	20,355,151
Advance premium	10,517,615	9,833,000
Commissions payable and accrued liabilities	6,957,524	5,707,990
Unearned service fees	2,610,465	1,772,030
Other liabilities	1,880,029	4,015,561
Total liabilities	166,531,104	145,902,490
Stockholders' Equity		
Common stock and paid-in capital	10,536,024	10,536,024
Retained earnings	40,906,408	30,081,996
Common stockholders' equity	51,442,432	40,618,020
Minority interests in subsidiaries	3,544,846	3,553,014
Total stockholders' equity, including minority interests	54,987,278	44,171,034
Total liabilities and stockholders' equity	$221,518,382	$190,073,524

The accompanying notes are an integral part of the financial statements.

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1993 and 1992

Revenues	1993	1992
Premiums earned in underwriting activities	$87,826,748	$64,747,656
Fees earned from service activities	7,854,559	5,596,931
Investment income and capital gains	11,566,252	10,163,002
Total revenues	107,247,559	80,507,589
Expenses		
Claim and claim adjustment expenses	57,101,015	42,145,885
Policy acquisition, underwriting and general expenses	26,032,863	18,600,415
Service activity expenses	7,485,163	6,381,165
Total expenses	90,619,041	67,127,465
Income before federal income taxes	16,628,518	13,380,124
Federal income taxes	4,696,276	3,623,353
Net income	$11,932,242	$ 9,756,771

The accompanying notes are an integral part of the financial statements.

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 1993 and 1992

Cash flows from operating activities	1993	1992
Gross premiums collected	$132,750,251	$118,188,148
Reinsurance premiums paid	(37,913,360)	(52,703,861)
Finance charges collected	2,727,220	2,502,962
Fees and commissions collected	7,776,850	7,636,248
Investment income received	9,682,258	8,357,829
Gross claims and claim expenses paid	(71,784,985)	(59,625,942)
Reinsured claims and claim expenses collected	33,565,513	47,139,800
Policy acquisition, underwriting and general expenses paid	(28,174,266)	(18,634,729)
Federal income taxes paid	(7,582,201)	(4,067,756)
Service activity expenses paid	(6,091,690)	(6,969,419)
Net cash provided by operating activities	34,955,590	41,823,280
Cash flows from financing activities		
Dividends to stockholders	(974,830)	-0-
Dividends to preferred stockholder of subsidiary	(140,000)	(140,000)
Net cash used in financing activities	(1,114,830)	(140,000)
Net cash provided	$ 33,840,760	$ 41,683,280
Investment of net cash provided		
Change in cash and marketable securities	$ 34,099,805	$ 40,984,990
Change in fixed assets	(259,045)	698,290
Net cash invested	$ 33,840,760	$ 41,683,280

The accompanying notes are an integral part of the financial statements.

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 1993 and 1992

	Common Stock and Paid-in Capital	Retained Earnings	Minority Interests	Total Stockholders' Equity
December 31, 1991	$10,536,024	$20,465,225	$3,554,018	$34,555,267
Net income	-0-	9,756,771	(1,004)	9,755,767
Dividends to preferred stockholder of subsidiary	-0-	(140,000)	-0-	(140,000)
December 31, 1992	10,536,024	30,081,996	3,553,014	44,171,034
Net income	-0-	11,932,242	(1,168)	11,931,074
Dividends to stockholders	-0-	(974,830)	-0-	(974,830)
Dividends to preferred stockholder of subsidiary	-0-	(133,000)	(7,000)	(140,000)
December 31, 1993	$10,536,024	$40,906,408	$3,544,846	$54,987,278

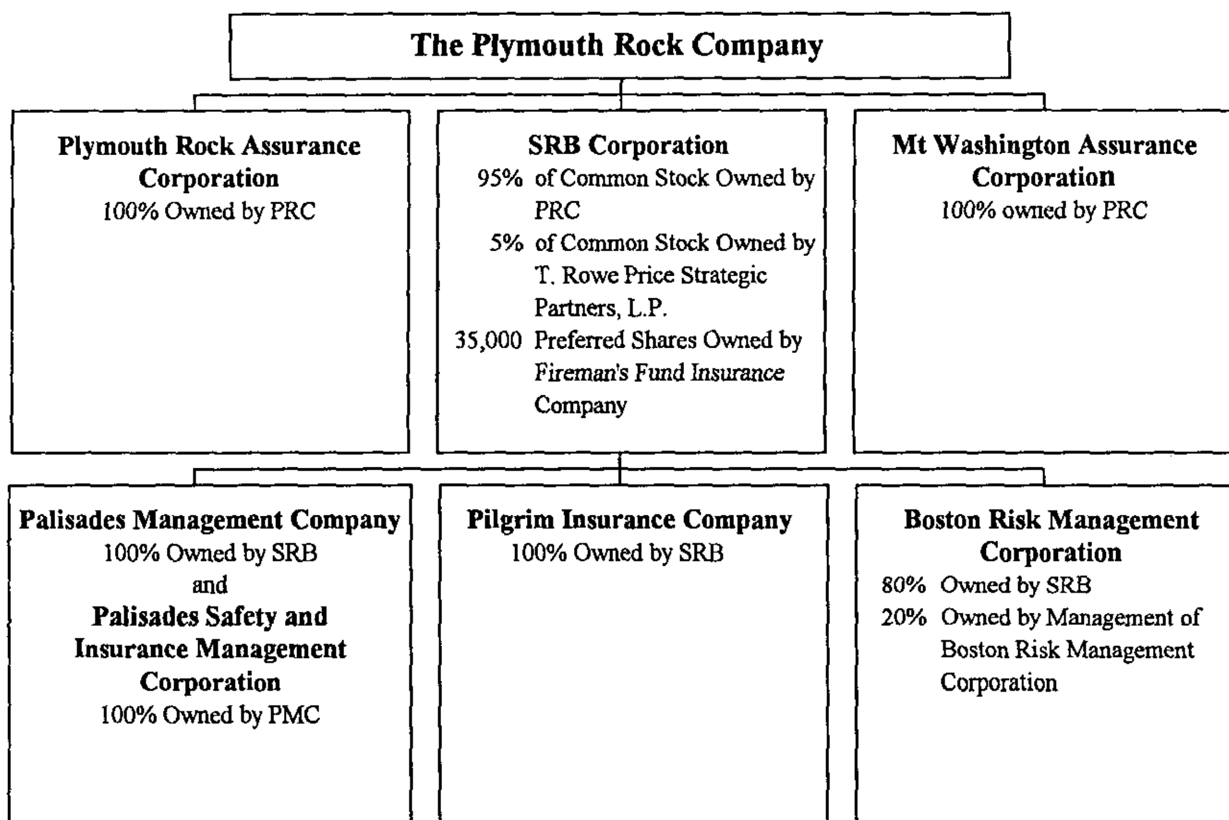
The accompanying notes are an integral part of the financial statements.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization of the Plymouth Rock Companies

The corporate and ownership structure of the Plymouth Rock Companies is reflected in the following chart:



2. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of The Plymouth Rock Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to 1993 reporting practices.

B. Tangible Assets

The cash and marketable securities category is comprised primarily of fixed income investments carried at amortized cost. The calculation of gain or loss on the sale of marketable securities is based on specific identification at the time of sale. The fair values of investments are based on quoted market prices.

Fixed assets are carried at cost less accumulated depreciation. The Company provides for depreciation and amortization principally on the straight-line method over the estimated useful lives or the applicable lease terms.

2. Summary of Significant Accounting Policies, continued

C. Income Taxes

The Company files its federal income tax return on a consolidated basis. The Company's federal income tax return reflects current taxes which are not the same as the provision for income taxes shown in the Consolidated Statements of Income. This is because the rules of the Internal Revenue Code and those of generally accepted accounting principles can differ with respect to the time periods in which income and expenses are recognized.

Federal income taxes consist of:

	1993	1992
Current	$5,996,998	$6,204,722
Deferred	(1,300,722)	(2,581,369)
Total	$4,696,276	$3,623,353

Deferred income taxes in the balance sheet as of December 31, 1993 and 1992 consist of the net effect of these temporary differences:

	1993	1992
Discounting of claim reserves	$2,733,704	$2,092,206
Deferred income	2,312,002	1,946,256
Other	(436,123)	(729,601)
Total	$4,609,583	$3,308,861

The Company's reported provision for federal income taxes is less than that computed by applying the federal income tax rate for these years to income from operations before federal income taxes. This is principally because the Company receives significant non-taxable interest from state and municipal bonds.

D. Revenues Earned in Underwriting and Service Activities

Premium revenues are earned on a daily basis over the terms of the policies. Unearned premiums represent billed amounts which are applicable to the unexpired terms of policies in force and are presented net of reinsurance. Premiums receivable are net of reserves for doubtful collections of $395,006 and $738,037 at December 31, 1993 and 1992, respectively, and are presented net of unbilled amounts of $14,848,362 and $12,880,059, respectively.

The Company derives fee income by providing insurance, investment management, brokerage, policy processing, billing, claims management and systems development services. Fee income is earned over the related contract periods.

2. Summary of Significant Accounting Policies, *continued*

E. Reinsurance

Treaty reinsurance is used to reduce exposure to large claims. The Company regularly evaluates the financial condition of its reinsurer and monitors the concentration of credit risk to minimize significant exposure. The Company maintains contracts that are prospective in nature and remains primarily liable as the direct insurer on all voluntary risks.

The Company has changed its accounting for reinsurance in 1993 to conform to a newly promulgated financial accounting standard. Amounts recoverable for claim reserves and paid claims, which were previously reported as a reduction to claim reserves and premiums payable to reinsurers, are now reflected as receivable from reinsurers. There is no effect on stockholders' equity or net income.

The income statement is reflected net of reinsurance activity as follows:

	1993		1992	
	Premiums Written	Losses Incurred	Premiums Written	Losses Incurred
Gross	$137,158,889	$85,393,287	$119,506,128	$73,127,351
Ceded	(44,238,389)	(28,292,272)	(43,665,508)	(30,981,466)
Net	$ 92,920,500	$57,101,015	$ 75,840,620	$42,145,885

The Company has a 40 percent quota share reinsurance treaty which reinsures certain liability coverages for cumulative losses in excess of 88.5 percent of cumulative premiums earned. The Company's income statements in 1993 and 1992 exclude approximately $19 million and $20 million, respectively, of revenues and expenses relating to this agreement.

The Company has a catastrophe reinsurance treaty. At December 31, 1993, the Company had paid approximately $2,200,000 (net of cumulative losses and commissions) to the reinsurer to cover future catastrophes. The contract has an experience rating feature whereby a substantial portion of the amount paid could be returned to the Company if the experience continues to be favorable or if either party cancels the contract.

The Company is a member of Commonwealth Automobile Reinsurers and accounts for ceded policies as reinsurance. The Company's estimated share of the Commonwealth Automobile Reinsurers deficit is recorded in claim and claim adjustment expenses.

The Company acts as an intermediary for certain other insurance companies in administering commercial automobile insurance programs. The Company's income statement and reinsurance activity exclude premiums earned of $11,970,158 and $8,036,653 and claim and adjustment expenses of $4,643,130 and $4,422,173 in 1993 and 1992, respectively. In connection with these arrangements, receivables and claim reserves exclude $3,816,242 and $6,352,859 at December 31, 1993 and 1992, respectively.

2. Summary of Significant Accounting Policies, continued

F. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred at December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of deferred commission income on ceded reinsurance.

G. Claim and Claim Adjustment Expenses

Claim reserves represent the estimated liability for claims reported to the Company plus reserves for claims incurred but not yet reported. Claim adjustment expense reserves represent the estimated expenses related to settling these claims. The methods of making such estimates and establishing the resulting reserves are reviewed regularly, and any adjustments are reflected in income currently.

3. Consolidated Revenues

Revenues for the separate companies for 1993 and 1992 are:

	1993	1992
The Plymouth Rock Company	$ 2,588,642	$ 1,863,538
Plymouth Rock Assurance Corporation	93,914,493	72,084,523
Mt Washington Assurance Corporation	4,449,752	2,183,725
SRB Corporation	6,109,776	3,863,599
Pilgrim Insurance Company	5,092,471	3,931,354
Palisades Management Company (Consolidated)	1,940,959	1,589,902
Boston Risk Management Corporation	329,490	300,579
	114,425,583	85,817,220
Intercompany eliminations	(7,178,024)	(5,309,631)
Total revenues	$107,247,559	$80,507,589

4. Savings and Investment Plan

The Company has a Savings and Investment Plan under Section 401(k) of the Internal Revenue Code. The Plan, which is a defined contribution plan, covers all employees 21 years or older with at least one year of service. The Company provided $574,164 and $426,682 for discretionary contributions in 1993 and 1992, respectively.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Reconciliation of Net Income to Net Cash Provided by Operating Activities

The following noncash charges to income account for the differences between net income and net cash provided by operating activities:

	1993	1992
Net income	$11,932,242	$ 9,756,771
Depreciation and amortization	2,170,914	1,855,324
Minority interests	(1,168)	(1,004)
Change in premiums receivable	(675,186)	(1,173,552)
Change in accrued investment income	(385,192)	(271,576)
Change in receivable from reinsurers	5,273,241	16,158,334
Change in deferred acquisition costs	(1,294,133)	(1,388,399)
Change in deferred income taxes	(1,300,722)	(2,581,369)
Change in claim and claim adjustment expense reserve	13,629,722	13,384,636
Change in premiums payable to reinsurers	3,574,914	(11,938,614)
Change in unearned premium reserve	2,786,926	12,847,340
Change in advance premium	684,615	2,570,920
Change in commissions payable and accrued liabilities	1,249,534	947,043
Change in unearned service fees	838,435	675,842
Change in other assets and other liabilities	(1,641,267)	2,333,716
Gain on sale of investment securities	(1,856,853)	(1,346,837)
Gain on disposal of fixed assets	(30,432)	(5,295)
Net cash provided by operating activities	$34,955,590	$41,823,280

6. Fixed Assets

The table below summarizes fixed assets at December 31, 1993 and 1992. Purchases of fixed assets were $1,737,702 and $2,560,956 in 1993 and 1992, respectively.

	Useful Lives	1993	1992
Furniture and fixtures	5-10 years	$ 3,449,168	$ 3,305,430
Computers	3-5 years	5,670,416	4,969,817
Leasehold improvements	2-6 years	2,325,661	2,255,630
Vehicles	3 years	608,844	552,253
Total cost		12,054,089	11,083,130
Less: accumulated depreciation and amortization		6,070,326	4,840,322
Net book value		$ 5,983,763	$ 6,242,808

7. Lease Commitments

Rental expenses for 1993 and 1992 (net of 1992 sublease rental income of $41,300) aggregated approximately $1,598,000 and $1,253,000, respectively. There are several leases totaling approximately 81,000 square feet of office space and 22,500 square feet of storage space. Certain leases contain renewal options which may be exercised from three to twelve months prior to expiration. For each of the years 1994 through 1998, the minimum lease obligations of the Company are approximately $1,186,000 annually. The total obligation for leases through 1998 is approximately $5,929,000.

8. Investments and Investment Income

A. Composition of Investment Portfolio

At December 31, 1993 and 1992, amortized cost, unrealized capital gains and market value of cash and marketable securities are as follows:

	1993		1992	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Cash and cash equivalents	$ 13,774,325	$ 13,774,325	$ 9,073,342	$ 9,073,342
U.S. Government securities	20,240,807	20,245,721	17,323,147	17,418,585
State and municipal securities	97,824,572	100,721,254	79,376,749	81,540,966
Corporate securities	32,029,618	33,046,334	23,996,279	24,294,396
Total	$163,869,322	$167,787,634	$129,769,517	$132,327,289

Unrealized capital gains on U.S. Government securities are $79,696 and $193,091 for 1993 and 1992, respectively. Unrealized capital gains on state and municipal securities are $2,919,470 and $2,164,479 for 1993 and 1992, respectively. Unrealized capital gains on corporate securities are $1,091,252 and $466,797 for 1993 and 1992, respectively.

At December 31, 1993, maturities of cash and marketable securities are as follows:

	1993	
	Amortized Cost	Market Value
Cash	$ 227,522	$ 227,522
Due in 90 days or less	13,546,799	13,546,799
Due after 90 days and in one year or less	5,013,741	5,456,167
Due after one year and in five years or less	108,678,510	110,357,449
Due after five years	33,146,205	34,661,146
Common stocks	3,256,545	3,538,551
Total	$163,869,322	$167,787,634

8. Investments and Investment Income, continued

B. Investment Activity

The changes in marketable securities, at amortized cost, during 1993 and 1992 are as follows:

	1993	1992
Balance at beginning of year	$129,769,517	$ 88,784,527
Change in marketable securities:		
Sales prior to maturity	(93,467,185)	(85,485,723)
Redemptions at maturity	(1,549,838)	(1,736,361)
Purchases	124,415,844	122,501,103
Change in marketable securities	29,398,821	35,279,019
Change in cash and cash equivalents	4,700,984	5,705,971
Balance at end of year	$163,869,322	$129,769,517

C. Analysis of Investment Income and Capital Gains

The components of investment income and capital gains before federal taxes during 1993 and 1992 are as follows:

	1993	1992
Interest income from securities	$ 7,933,327	$ 7,076,570
Finance charges from premiums receivable	2,727,220	2,502,962
Gross investment income	10,660,547	9,579,532
Investment expenses	(951,148)	(763,367)
Investment income	9,709,399	8,816,165
Realized capital gains	1,856,853	1,346,837
Investment income and capital gains	$11,566,252	$10,163,002

9. Stockholders' Equity

A. Common Stock

Common stock at December 31, 1993 and 1992 is comprised of Class A common and Class B common shares, both classes having a par value of $.10 per share. There are 300,000 Class A shares authorized, of which 130,572 were issued and outstanding on December 31, 1993 and 1992. There are 90,000 Class B shares authorized, of which 88,000 were issued and outstanding on December 31, 1993 and 1992.

The Class A common shares are fully transferable and have the right to elect 20 percent of the Board of Directors. The Class B common shares are not transferable, but may be converted to Class A common shares on a one for one basis at any time at the option of the holder, or automatically upon the occurrence of certain events. The Class B common shares elect 80 percent of the Board of Directors.

9. Stockholders' Equity, continued

B. Options Exercised and Outstanding

At December 31, 1990, the Company exercised its option to acquire 95 percent of the common shares of SRB Corporation. This transaction was an exchange of shares between companies under common control and has been accounted for using the historical values of each company, in a manner similar to the treatment of a pooling of interests. In connection with the exercise, the Company issued 45,000 additional shares of Class B common stock, 25,000 of which were held in escrow and released early in 1993 based on the performance of the companies through 1992.

C. Preferred Stockholder's Interest in Subsidiary

A subsidiary of the Company has issued 35,000 shares of cumulative preferred stock with no par value, all of which were issued and outstanding at December 31, 1993 and 1992. The preferred stockholder is entitled to receive cumulative cash dividends of 4 percent per year, increasing to 7 percent per year under certain circumstances, when declared by the subsidiary's Board of Directors out of funds legally available. The preferred stockholder is also entitled to receive special cumulative dividends of 20 percent of the difference between the subsidiary's net income and the amount of regular preferred dividends for that year. Such special dividends are limited to $1,000,000 on a cumulative basis. Under certain conditions the preferred shares may be redeemed by the subsidiary at $120 per share with adjustment for dividends. In addition, under certain circumstances the holder may redeem the preferred stock at $100 per share plus any accrued but unpaid dividends. In the event of corporate liquidation, the preferred stockholder of the subsidiary is entitled to receive out of available subsidiary funds $120 per share ($4,200,000 in the aggregate), with adjustment for certain dividends paid, plus any accrued but unpaid dividends. The preferred stock is convertible under certain default circumstances, with appropriate regulatory approval, into specified amounts of the subsidiary's common stock.

D. Statutory Surplus and Dividend Availability

The Company's insurance subsidiaries are required to file financial statements with state insurance departments. The accounting principles prescribed or permitted for these financial statements differ in certain respects from generally accepted accounting principles. On a statutory accounting basis, capital and surplus of the Company's insurance subsidiaries aggregated approximately $39,923,000 and $31,027,000 at December 31, 1993 and 1992, respectively. Regulatory limits restrict the amount of dividends which can be remitted to the Company from its insurance subsidiaries without approval of state insurance regulators.

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

James N. Bailey

Michael J. Johnston

Wilmot H. Kidd, III

Keith R. Rodney

Benno C. Schmidt

Officers

James M. Stone
President

Keith R. Rodney
Executive Vice President and Clerk

James N. Bailey
Treasurer

William M. Kelley
Vice President

Directors and Officers of the Plymouth Rock Group of Companies

Non-Management Directors

Normand A. Dion
Alexander Ellis, III
Michael J. Johnston
Wilmot H. Kidd, III
John F. Meyer
Eugene J. Meyung
Benno C. Schmidt
David L. Warnock

Management Officers and Directors

Francis P. Arment
James N. Bailey
Hal Belodoff
Elyse D. Cherry
Frederic C. Church, Jr.
Paula W. Gold
Peter R. Jones
William M. Kelley
Stewart W. Kemp
Raymond D. Moore
Vincent V. Nieroda
Keith R. Rodney
Myron S. Steere, III
James M. Stone

Independent Accountants:
Coopers & Lybrand

Counsel:
Ropes & Gray