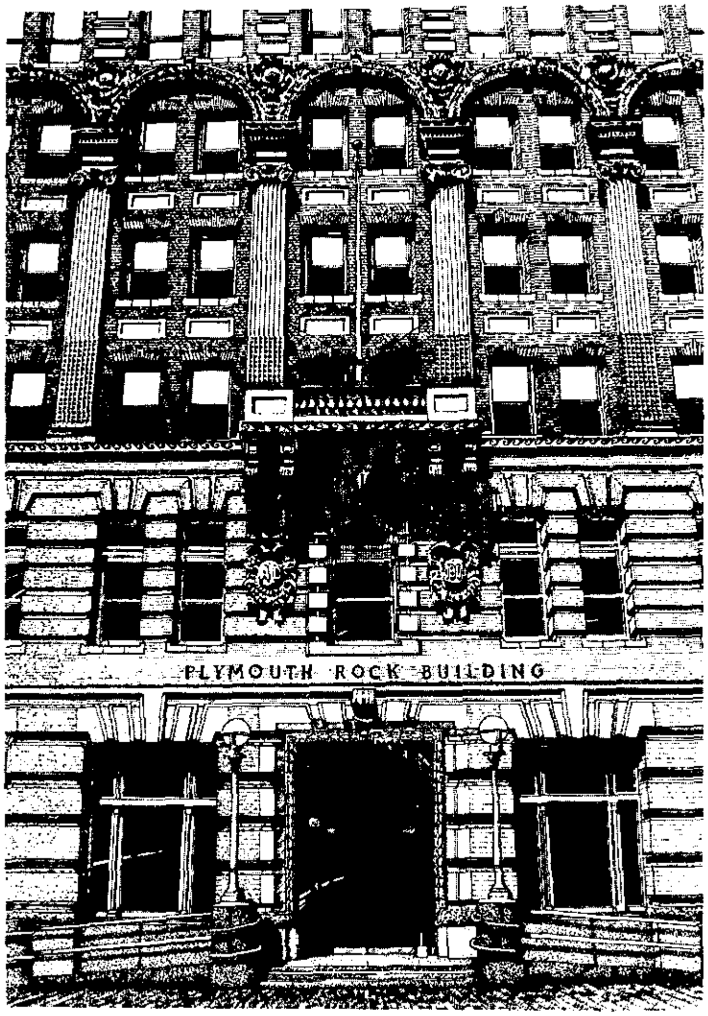
The Plymouth Rock Company



1999 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 29, 2000

To Our Shareholders:

Nothing sounds as boring as an annual report that talks about a year of consolidation and building for the future. Though 1999 was just that kind of year, it was never boring for those of us involved in the process. Consolidation was necessitated by interesting and tough issues the prior year, and the future for which we are preparing is exciting. Your Company's performance last year was better than the budget had predicted and considerably better than in the year prior. While the overall return on shareholders' capital, at 7.1%, lagged Plymouth Rock's historical norms, net income per share was up by 28% over 1998. Relatively few of the year's events are candidates to rank among the Company's historical highlights. No new states or lines of business were added in 1999, and no businesses were diminished or sold. There were no changes in top management officers at any of our companies. Much of the year, at this passing of the millenium, was spent on plans for renewed growth to end a cycle of slow expansion. After more turbulence in 1998 than anyone had sought, this kind of year was both welcome and valuable.

Plymouth Rock Assurance Corporation is still our largest company, which means that Massachusetts automobile insurance is still a major factor in our performance. We have come a long way from the days when it was our only business, but "Mass auto", as it is called around here, always commands attention. One of the various measures of progress in diversification over the years is the diminishing share of total corporate value Mass auto represents. Each year, we have an appraisal of our stock performed by an outside investment banker. In May of 1999, the appraisal reported that the Massachusetts automobile business constituted 27% of the Company's overall value. The same appraisal report placed the share of total value attributable to our other three New England agency companies at about 12%, with the management of our New Jersey reciprocal at another 12% of the total value. Investments, primarily by the parent company, in securities, real estate and the two non-controlled direct response carriers account for the other 49% of your Company's value.

Hal Belodoff is now firmly at the helm of the Plymouth Rock agency group. His first order of business was to restore our historically superb relationship with the agents of Plymouth Rock Assurance. Some of those agents had been spooked by our joint marketing efforts with the Savings Bank Life Insurance Agency last year, and wondered whether there was a deeper message there. Hal spent much of 1999 making clear that, if there was a deeper message, it was a positive one for the Plymouth Rock agent. The future of automobile insurance will inevitably involve modern methods of both customer solicitation and customer service...and we think that is good for the agents who have those tools. The agency company of the future will have relationships with other financial institutions, will service agents and their customers with help from the Internet, and will use every available technique for enhancing the value and effectiveness of its agency sales force. The prospect of leading the way there pleases us. While we lost some valued agency relationships in 1998, when communications with our agents were less than ideal, I am pleased to report that most of the volume has already been restored. Commitments in hand will take the total beyond its prior peak sometime during 2000. Just as important, most of our agents now share our view of the future. They have welcomed our brand new Internet service capability. And more than forty of our agencies are now eligible to write life insurance business through SBLI, an option they never had before. We think that is an ideal combination. Only a Plymouth Rock agent can offer the best service and price combination in both life and auto insurance.

The agency company of the future will own some agencies as well. This is not just to increase stability, but because the arrangement responds to the needs of the agents. While ownership has been frightening to some carriers in the past, we have too long been told by too many agents about perpetuation and liquidity worries not to want to offer an answer. Other agents have decided to concentrate business in a small number of carriers and seek expansion cash in exchange for tighter commitments. The list of motives goes on, but the theme is plain enough. Plymouth Rock should be flexible as a company and entertain any type of relationships our agents want. So, we have committed ourselves to a new receptiveness, and ideas -- including some big ones -- have been coming quickly. We made a major agency purchase in the fall of 1999. Don Southwick, an agent of Plymouth Rock from its earliest days and always one of the very best, decided to seek liquidity and a new professional challenge. As a consequence, Plymouth Rock has purchased the Blair, Cutting and Smith agency, and Don has added some company executive tasks to his continuing agency responsibilities. As an independent agent, Don was our partner, advisor and friend for fifteen years, but this will be even better.

For the last five years now, I have had to devote space in this letter to the price war that has plagued Massachusetts automobile insurance. While the worst now appears to be over, some concern is still warranted. The Commissioner has, once again, set premium rates in the responsible zone, with an increase approaching 1% from last year's base rates. But, as before, the companies followed with downward deviations that take the operative premium rates well below the Commissioner's level. This occurs for two principal reasons. One is that group discounts now apply to perhaps a third of the market, and some of these discounts are set with more wishful thinking than actuarial reality. That behavior is probably inevitable in a competitive environment. The other reason, though, is more artificial. The Insurance Department's Safe Driver Insurance Plan is systematically designed to overprice the best drivers in the state, presumably to minimize the political backlash from bad drivers -- who are handed an undeserved break by the plan. The consequence is that companies seeking to rebalance the prices find themselves able to do only the downward half of the job. Discounts can be offered to drivers with safe records, but, because the Commissioner's rates are the legal limits, the costs cannot be recaptured from those with the accidents and convictions. The result is an average industry-wide rate level stuck perpetually on the short side. The good news is that group discounts, which had fallen a bit in 1998 and 1999, have stayed down in 2000. The unbalanced deviations for safe drivers moderated this year, falling from a market average of 8.0% in 1999 to 6.5% in 2000 for the best drivers. Good fortune with respect to weather, and a continually falling crime rate, made for a reasonable profit picture in 1999. While that is not quite the same as a comfortable environment, it will only take a small increment in pricing rationality to get as much comfort as a business deserves.

Last year's letter took something of a duck on the subject of loss ratio. I noted that the peer group numbers to which we generally compare ourselves looked suspicious in 1998, and the analysis should wait for some seasoning. That instinct proved useful. All published loss ratio numbers combine a measure of hard reality (paid loss data) with a dose of crystal ball gazing (case reserves and IBNR). Last year's, though, were softer than most. The 1998 claim reserve numbers for Plymouth Rock have now been put to the test and found to have been inadvertently ultra-conservative. The numbers for our peers turned out to be imperfect on average in the other direction. A raw inference from the statutory reports last year would have made us feel that we were losing our edge. It now seems that Plymouth Rock is still strong on loss ratio, with a 1999 loss and loss adjustment expense ratio, including residual market costs, of 74%. We also, alas, remain about where we were on the relative expense ratio comparisons, a few points over the peer group average. Hal is never shy about his commitment to reinforce the loss ratio advantage and vanquish the expense ratio deficit.

At Palisades, the year was satisfactory. This was a relief, given all the fear that accompanied a 1998 New Jersey legislative mandate for an across-the-board 15% rate decrease. The same favorable weather conditions and crime rate improvements as in Massachusetts rendered the premium reductions less problematic than predicted, and we almost had a banner year at Palisades. An error on our part, with no one else to blame, removed that opportunity. The reciprocal insurer, Palisades Safety and Insurance Association, had capitalized a sister company in 1997 to broaden its market reach. That company, which is called Palisades Insurance Company, was intended to insure drivers whose safety records would not gain them immediate access to the favorable rates of the Association. The idea was sound, but, through inexperience in that market segment, we slipped and allowed people without prior insurance to be insured by Palisades Insurance at a rate too close to the preferred rate. That single error, now corrected, had a seven-figure impact on earnings for the whole Palisades group for 1999. The good luck outdistanced the cost of the error, so the combined results were above budget. All of the Palisades businesses, taken together, earned about $2 million, and the management company contributed about $500,000 of earnings to Plymouth Rock's consolidated profit.

Profits at the three smaller New England companies were, taken together, short of their budgets by about $1.2 million and short of 1998 results by about $0.8 million. The largest shortfall was at Pilgrim Insurance, which services business on a fee basis for half a dozen other insurance carriers and for the Massachusetts residual market. The work for the latter is in the servicing of the state's taxis and limousines, many of which are ceded to the residual market. The more competitive the voluntary commercial insurance market, the fewer taxis are sent to the residual market pool, and the lower Pilgrim's taxi revenues will be. This year a vigorous market absorbed nearly 40% of Pilgrim's anticipated business. Because Pilgrim had just added a large client, the universally respected USAA, Vin Nieroda did not want to contract employment or infrastructure. He is confident that next year he will bring profits back up above their 1998 levels, even if taxis and limousines continue to be pulled out of the pool. At our homeowners writer, Bunker Hill Insurance Company, where Vin is also the officer in charge, results suffered from the 1998 loss of volume. Consequent scale diseconomies combined with an unrelated reserve strengthening on liability claims to produce a disappointing year. Automobile insurance volume has returned to Plymouth Rock Assurance, but Bunker Hill's homeowners business is just catching up now. Vin projects a strong year at Bunker Hill in 2000.

Mt Washington Assurance, serving New Hampshire since 1991, is our smallest business. Its expected profits and losses tend to be in the hundreds of thousands, a decimal point below its sibling companies. That company's net income has fluctuated for a few years around the breakeven point, with 1999 results slightly in the red. Bill Kelley has long told us that the company needs about $25 million in annual premium volume to post reliable profits. Current volume is just under half that much. Getting there can be half the fun, but, unfortunately, the rest of the journey will be without

Bill Kelley. For entirely personal reasons, Bill has decided to retire. He had long warned me of his plans to spend some of his middle age in retirement; both of us had only hoped that this would come after the volume goals were reached. So Mt Washington will be in need of a new leader next summer. Bill, who contributed in countless ways to Plymouth Rock's successes for most of its first dozen years as its chief of claims and a pillar of its culture, will be missed by all. We are counting on his consulting services as soon as he has time to miss the joys of work he will have given up. Mt Washington's continuity, meanwhile, will be assured by the presence there of Mary Beth McInerney, a veteran manager of great competence who was promoted last year to Vice President.

The year was a roller coaster year for Response Insurance, the older and larger of the two direct response carriers in which Plymouth Rock owns a founder's stake. In May it looked as though that company had hit its stride. Its goal is not modest: Response intends to build a nationally branded billion dollar automobile insurer, operating everywhere except certain New England states, with both loss ratio and expense ratio statistics far better than its traditional competitors. To accomplish that, it needs a scalable technology infrastructure, multiple licenses and approved rates throughout the country, an unusual leadership team, a highly trained customer service staff, an attractive branding motif, and plenty of capital. With no small effort on everyone's part, those elements were largely set in place during 1998 and 1999. The mainframe technology is advanced and scalable to the size we envision, with Internet components being added all the time. Response is licensed in forty-eight states, has rates and forms in twenty-four states and is actually writing in California, New York, Florida, Georgia, Maryland and Illinois (with Texas and Pennsylvania on the near-term horizon). The leadership team was completed with the promotion of Mory Katz to the Chief Executive Officer position and the appointment of Steven Carlsen, who had helped make CAT Limited in Bermuda such a winner, as Chief Operating Officer. They are a fine tag team. The red telephone logo and the Response brand continue to be well received, and the customer service offices in White Plains, New York, and Suisun City, California, are sources of pride to all of us. An internal claims operation to match is currently under construction. Morgan Stanley Dean Witter Capital Partners continues to be fully supportive, and an additional capital commitment in 1999 has now increased its total investment in Response from $120 million to $307 million.

All was as it should have been in the spring, and Response set a goal of quadrupling its writings to $40 million during 1999. As the year went on, though, it became apparent that Response was not in for smooth sailing. The national reduction in crime, including thefts and drunk driving violations, along with a generally safer breed of cars on the road has been good for the public and for insurance industry results, but not so good for a new entrant. Capital is abundant, and recent premium rates have proven excessive. Not surprisingly, this led to rate reductions almost everywhere. When the giants in the industry reduced premiums for all but the worst drivers an unprecedented third year in a row, most of the public stopped shopping for a price break. Direct mail response rates plummeted as the year went on, and those drivers who continued shopping were disproportionately those with records that earned them increases instead of cuts. So, Response ended the year with both its marketing costs and its loss ratio much too high. Many of its direct response competitors, faced with the same conditions, have curtailed expansion -- with the exception of GEICO, which has deep pockets and an exceptionally far-sighted leadership. The whole Response team is thinking hard about an optimal strategy for these conditions. One thing is certain, though. The year 2000 will not look as Mory and Steve had hoped it would just a few months ago. Response will either have to take more risk or accept a slower path to greatness.

Homesite Group, the other direct response investment, is at an earlier stage of development. There, with Charlie Kline, Fabian Fondriest and Russ Fletcher at the helm, a similar building of infrastructure is under way. Fabian was formerly the chief marketing officer of Chubb, and Russ was a senior colleague of Charlie at CAT Ltd. Licenses are coming in quickly, and the building of scalable systems with a focus on the Internet is in process. Test marketing has brought in the first few hundred policies. The strategy, though, is a little different from that of Response. Homesite is not looking to build a stand-alone homeowners insurer by direct mail and advertising, but to become the partner of choice for mono-line automobile insurance writers, mortgage originators and other financial institutions. The opportunity is compelling; while capital was pouring into automobile insurance, it was exiting the homeowners business. Increasingly, even the largest of companies have elected to participate in the homeowners business only indirectly, thus avoiding much of the catastrophe exposure and volatility that inevitably characterizes property coverage. Homesite will be designed, by executives who come with unusual expertise in catastrophe reinsurance, to be the ideal partner. That means having an appreciation of risk assessment and an Internet-driven service capability second to none. It helps, of course, that Homesite is nearly alone in that endeavor. There are few, if any, competitors. The Homesite team is hard at work on building the assets it needs, and negotiating its first major relationship deals. In the best case, next year's letter might not even have to tell you the names of the partners. The better Homesite does in its partnership talks, the more likely you will already know.

Investment results for 1999 were more dramatic in the parts than in the whole. Bond returns were slightly worse than nil while equity prices were up about 20% for Plymouth Rock, just as they were for U.S. stock markets as a whole. The final year of the twentieth century was, according to the index we track, the second worst of the entire hundred years with respect to bond returns, and among the best with respect to equity gains. The combination produced a relatively weak performance, with a total return over the whole marketable securities portfolio of 4.1%. For Plymouth Rock, of course, marketable securities do not tell the whole story. A substantial part of our enterprise value lies in investments that are not marked to market in the manner of publicly traded stocks and bonds. The real estate portion of the portfolio, for example, did better in 1999 than the marketable securities as a whole, and probably a lot better. We had purchased our two Boston buildings, with combined space of more than a quarter million square feet, for a composite price of less than $90 per square foot. Comparable space in Boston sells today for something around $250 per square foot. The cash on cash return for the two buildings in 1999 was about 12%, which is four hundred basis points over our investment benchmark. The investments look stellar by either measure. Plymouth Rock's marketable equity returns over the last five years have averaged a remarkable 33% per annum, versus 29% per year for the S&P, but the five-year real estate returns may have exceeded that. We do not, however, conduct an annual appraisal of the properties, and they are carried at depreciated cost on the balance sheet, so an exact calculation of any year's gain is elusive.

The value of our relationship with Palisades is almost entirely unrepresented on the balance sheet. We carry the little New Jersey management company's shares at their book value, but the reciprocal, with its $55 million in profitable business, is not a part of Plymouth Rock's reporting. Even with an appraisal it is hard to estimate the increment in value in any period, but all of us here are confident that Palisades' value as a business has increased substantially in recent years. The treatment of Response and Homesite in our financials is even more confusing. As non-controlled investments, they are carried according to the "equity method" under Generally Accepted Accounting Principles. This means that our investment basis is reduced by a proportion of their operating losses each year, even if the costs are well spent and the enterprise values of Homesite and Response are growing.

There is no attempt, and none is expected for quite a while, to quantify the true value of Homesite or Response in preparing Plymouth Rock's financials. Since the investments were made, the total write-down of value for the two investments has been over $2 million. In other words, the two companies are carried this year at $2 million less than the amounts of our investments in them, and the balance sheet reflects a loss of value on the investments in that amount. As the direct response insurers grow, they will inevitably experience additional operating losses, and thus Plymouth Rock's balance sheet valuation of the two companies will continue to shrink. Only time will tell whether the true value to the investors was rising or falling during the period of growth, but my bet is that both are first-rate investments. If either company realizes its potential, these two investments will do even better than the real estate.

A comment on the state of the equity markets is inescapable here, since Jim Bailey, Rick Childs and I ask ourselves quite regularly these days whether the bull market is due for a massive correction. None of us believes in market timing under ordinary circumstances. We could never convince ourselves that we know how to make money selling dear and buying cheap by the day, week or month. We are not day traders but decade traders, unshakable members of the fundamental value school. The proper focus of fundamental analysis is usually at the level of the individual company. But there are rare times in history when fundamental analysis leads to judgments of the market as a whole. This may be such a time. When people talk of a "new paradigm" or predict a Dow at 36,000 in short order, I shudder. Familiar ratios -- price to book, price to earnings, dividend yield, and both of the latter relative to bond yields -- are far beyond comfort levels. Someone pointed out to me the other day that the *increase* in market worth of publicly traded U.S. stocks over the last four years is greater than the market value of the country's entire housing stock. What does it mean that traditional economic measuring tools could not have predicted the performance of technology stocks over the last decade? Adam Smith, in The Wealth of Nations, described the shift of value from arable land and hoarded gold to the ownership of productive assets. For the next two hundred years, productive assets were generally associated with capital goods and access to skilled labor. As long as most of the national economy was focused on tangible goods, you could evaluate the key factors of production for quantity and quality, and that provided a first approximation of value. To the extent, however, that ideas, entertainment and other services are now replacing tangible product as purchases of choice, businesses become far trickier to value and limits to their potential growth become devilishly tougher to quantify. This makes it that much harder to set a fundamental value on individual stocks or the market as a whole. Where does that leave Jim and Rick and me? First, we acknowledge that more agnosticism is called for now than in the past, and we are less comfortable becoming equity owners when and where this is the case. Second, despite the recognition that an intangibles-driven economy would call for a degree of "new paradigm" thinking, we continue to place trust in the familiar fundamental ratios as useful tools of long term value assessment. So, we have slowed down the buying of additional positions. If the bull market continues, we may either reduce our equity exposure or reconfigure it to emphasize areas where we think value is still in line with price.

A noteworthy change in The Plymouth Rock Company's stock ownership occurred during the year. Progressive Casualty Insurance Company nearly doubled its holdings, which now represent about 24% of the Company. That makes Progressive the third largest shareholder, after Central Securities and me. It does not change the composition of the Board or the nature of our relationship with any of the owners. The history of the transaction goes back to 1987, when Jim Bailey and I set about arranging Plymouth Rock's second (and, to date, last) round of financing. We wanted to limit ourselves to shareholders who could contribute more than money, and our search took us to Peter

Lewis of Progressive, the late Benno Schmidt of J.H. Whitney & Co., and Mike Johnston of the Capital Group. By the standards of non-monetary contribution, all were home runs. Mike Johnston has been an active and valued director ever since. Benno's contributions were praised to the skies in the 1995 Annual Report. And Progressive (now represented on our board by Chuck Chokel) is my candidate for intellectual leader of our industry. The shares owned by J.H. Whitney & Co. and by Benno personally, though some of them went on a brief journey in-between, are the shares that Progressive bought last year. This is a fitting outcome. Our current owners have been the buyers of choice whenever stock has become available. For those who always seek to read more into events than is really there, please offer the reminder that Progressive has now reinforced an existing agreement not to purchase more Plymouth Rock stock without our consent. Their increase in stake is emphatically not a change of control, either actual or contemplated. It is merely an enhancement of a happy and enduring investment relationship.

The 7% return on capital for 1999 cannot help us catch up to the Company's long-maintained standard of 20% annual returns. Last year's letter reported that the sixteen-year cumulative return on capital had fallen to 19.8%. Adding another year at 7% takes the seventeen-year cumulative return down to 19.0%. If that seems insufficient, perhaps some comfort can be taken from the fact that the measurement ignores all of the same items excluded from book value. The calculation for rate of return is simply an internal rate of return measure, using cash in from owners, cash out to owners, and a terminal item for current book value. If real estate were marked to market *or* if the Palisades management company were carried at its true worth *or* if the Homesite and Response investments were reflected at a market value, the rate of return would be comfortably above 20% since inception. With all three adjustments, you would see a margin of safety as well. Having said this, it is still a nice goal to bring the conservatively measured book return back over the 20% mark. A better profitability environment in our key states may be required, but no better than the historical norms for those states. Some improvement in expense ratios will be required, but no more than Hal already predicts growth with attention to efficiency will offer. Within the top management team, growth and efficiency are the most frequent subjects of conversation at this time. These goals have a renewed constituency in the broader ranks of Plymouth Rock employees as well. That is a powerful advantage for any company. I am pleased to observe that, seventeen years from Plymouth Rock's founding, the entrepreneurial spirit still predominates.

James M. Stone

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 1999 and 1998

Assets	1999	1998
Cash and cash equivalents	$ 15,557,958	$ 8,607,637
Investment securities	182,595,842	190,764,563
Premiums receivable	18,830,218	14,471,353
Accrued investment income	1,772,412	1,896,179
Receivable from reinsurers	30,769,118	29,732,783
Real estate	20,557,616	20,319,832
Deferred acquisition costs	7,692,936	6,968,030
Fixed assets	6,645,440	6,904,761
Deferred income taxes	2,001,869	1,317,245
Goodwill and intangible assets	2,426,457	-0-
Other assets	6,682,529	5,325,016
Total assets	$295,532,395	$286,307,399
Liabilities		
Claim and claim adjustment expense reserve	$106,959,332	$113,004,716
Unearned premium reserve	29,966,506	27,107,560
Premiums payable to reinsurers	15,996,930	20,811,098
Advance premium	6,518,413	5,658,625
Note payable	8,715,060	9,683,400
Commissions payable and accrued liabilities	15,965,644	10,800,274
Unearned service fees	8,614,180	3,669,139
Other liabilities	2,782,573	2,191,659
Total liabilities	195,518,638	192,926,471
Stockholders' Equity		
Common stock and paid-in capital	21,162,165	20,062,365
Retained earnings	70,727,251	65,508,096
Net unrealized gain on investments	8,124,341	7,514,682
Common stockholders' equity	100,013,757	93,085,143
Minority interest in subsidiaries	-0-	295,785
Total stockholders' equity, including minority interest	100,013,757	93,380,928
Total liabilities and stockholders' equity	$295,532,395	$286,307,399

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, 1999 and 1998

Revenues	1999	1998
Premiums earned in underwriting activities	$ 82,062,765	$ 91,661,364
Fees earned from service activities	14,697,856	13,652,086
Investment income and capital gains	13,087,725	20,121,643
Total revenues	109,848,346	125,435,093
Expenses		
Claim and claim adjustment expenses	59,928,194	71,852,104
Policy acquisition, underwriting and general expenses	28,173,046	35,108,817
Service activity expenses	13,263,764	11,955,275
Total expenses	101,365,004	118,916,196
Income before federal income taxes	8,483,342	6,518,897
Federal income taxes	2,090,894	1,272,064
Net income	$ 6,392,448	$ 5,246,833

Per share data		
Weighted average common shares outstanding	217,940	224,901
Net income less preferred stock dividend per share	$29.33	$22.85
Common shares outstanding at end of year	218,732	217,040
Common stockholders' equity per share	$457.24	$428.88

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, 1999 and 1998

Cash flows from operating activities	1999	1998
Gross premiums collected	$126,442,557	$136,165,936
Reinsurance premiums paid	(45,445,190)	(46,227,039)
Finance charges collected	2,281,537	2,607,377
Fees and commissions collected	16,724,591	14,611,082
Investment income received	12,092,722	19,073,791
Gross claims and claim expenses paid	(99,791,188)	(115,062,177)
Reinsured claims and claim expenses collected	35,036,297	42,595,533
Policy acquisition, underwriting and general expenses paid	(25,873,996)	(32,920,651)
Federal income taxes paid	(1,032,170)	(1,490,000)
Service activity expenses paid	(13,915,934)	(12,002,483)
Net cash provided by operating activities	6,519,226	7,351,369
Cash flows from financing activities		
Payment on note payable	(968,340)	-0-
Issuance of common stock	1,099,800	-0-
Purchase of minority interest in subsidiary	(1,012,500)	-0-
Retirement of common stock	-0-	(1,000,000)
Purchase of preferred stock of subsidiary	-0-	(3,000,000)
Dividends to stockholders	(525,235)	(613,275)
Dividends to preferred stockholder of subsidiary	(12,250)	(119,035)
Net cash used in financing activities	(1,418,525)	(4,732,310)
Net cash provided	$ 5,100,701	$ 2,619,059
Investment of net cash provided		
Change in cash and cash equivalents	$ 6,950,321	$ (6,089,624)
Net investment activity	(8,970,179)	3,980,631
Purchase of goodwill and intangible assets	2,471,055	-0-
Purchases of real estate	846,992	560,785
Purchases of fixed assets	3,802,512	4,167,267
Net cash invested	$ 5,100,701	$ 2,619,059

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, 1999 and 1998

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Minority Interests	Total Stockholders' Equity
December 31, 1997	$19,563,891	$71,663,197	$8,025,642	$3,735,223	$102,987,953
Comprehensive income	-0-	5,246,833	(510,960)	-0-	4,735,873
Minority interest	-0-	-0-	-0-	72,812	72,812
Dividends to stockholders	-0-	(613,275)	-0-	-0-	(613,275)
Dividends to preferred stockholder of subsidiary	-0-	(106,785)	-0-	(12,250)	(119,035)
Retirement of common stock	(1,526)	(10,681,874)	-0-	-0-	(10,683,400)
Purchase of preferred stock of subsidiary	500,000	-0-	-0-	(3,500,000)	(3,000,000)
December 31, 1998	20,062,365	65,508,096	7,514,682	295,785	93,380,928
Comprehensive income	-0-	6,392,448	609,659	-0-	7,002,107
Minority interest	-0-	-0-	-0-	80,907	80,907
Dividends to stockholders	-0-	(525,235)	-0-	-0-	(525,235)
Dividends to preferred stockholder of subsidiary	-0-	-0-	-0-	(12,250)	(12,250)
Issuance of common stock	1,099,800	-0-	-0-	-0-	1,099,800
Purchase of minority interest in subsidiary	-0-	(648,058)	-0-	(364,442)	(1,012,500)
December 31, 1999	$21,162,165	$70,727,251	$8,124,341	$ -0-	$100,013,757

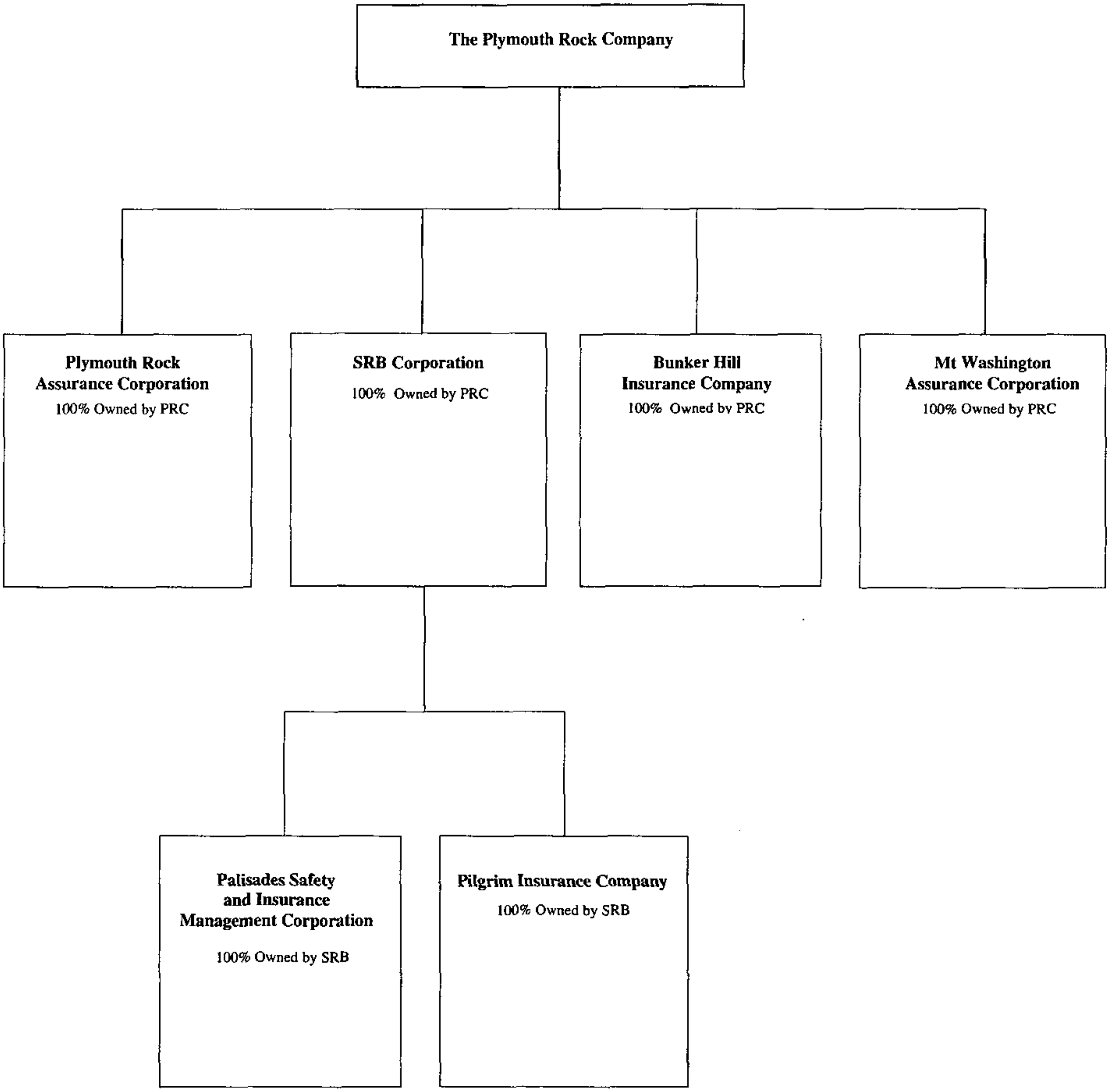
The accompanying notes are an integral part of the financial statements.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization of the Plymouth Rock Companies

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



Direct Response Corporation and Homesite Group Incorporated are not among the Plymouth Rock Companies, but The Plymouth Rock Company owns a common and preferred stock interest in each.

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 1999 reporting practices.

B. Investments and Real Estate

Cash and cash equivalents consist of short-term money market instruments and commercial paper with maturity dates no longer than 90 days at the date of acquisition. Marketable fixed income and equity securities are carried at their fair values. The fair values of securities are based on quoted market prices. The calculation of gain or loss on the sale of marketable securities is based on specific identification at the time of sale. Net unrealized gains or losses on securities available for sale, net of applicable deferred taxes, are credited or charged directly to stockholders' equity. Alternative equity investments are recorded using the equity method of accounting.

Real estate and 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.

C. Income Taxes

The Company files its federal income tax return on a consolidated basis. The provision for income taxes is based on income reported in the financial statements. Deferred income taxes are provided on timing differences between reported income and taxable income.

Federal income taxes consist of:

	1999	1998
Current	$2,873,057	$1,091,850
Deferred	(782,163)	180,214
Total	$2,090,894	$1,272,064

Deferred income taxes in the balance sheets as of December 31, 1999 and 1998 consist of the net effect of these temporary differences:

	1999	1998
Discounting of claim reserves	$2,912,077	$3,265,274
Deferred income	2,737,219	2,427,273
Net unrealized gain on investments	(3,968,739)	(3,871,200)
Other	321,312	(504,102)
Total	$2,001,869	$1,317,245

2. Summary of Significant Accounting Policies, continued

C. Income Taxes, continued

The net unrealized gain on investments is presented in stockholders' equity, net of an estimate of applicable deferred income taxes.

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 $464,947 and $615,755 at December 31, 1999 and 1998, respectively, and are presented net of unbilled amounts of $15,295,872 and $13,022,789, respectively.

Underwriting revenue is derived from personal lines property and casualty insurance activity, predominantly in Massachusetts. The Company also derives fee income by providing insurance, investment management, brokerage, policy processing, billing and claims management services in two Northeast states. Fee income is earned over the related contract periods.

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 catastrophe, quota share and excess of loss contracts that are prospective in nature and remains primarily liable as the direct insurer on all voluntary risks.

Amounts recoverable for claim reserves and paid claims are reflected as receivable from reinsurers. The income statement is reflected net of reinsurance activity as follows:

	1999		1998	
	Premiums Written	Losses Incurred	Premiums Written	Losses Incurred
Gross	$129,347,143	$93,687,740	$135,855,215	$111,103,325
Ceded	(42,726,735)	(33,759,546)	(48,160,179)	(39,251,221)
Net	$ 86,620,408	$59,928,194	$ 87,695,036	$ 71,852,104

Ceded premiums earned for 1999 and 1998 were $44,123,501 and $47,274,239, respectively.

2. Summary of Significant Accounting Policies, continued

E. Reinsurance, continued

The Company has treaties for quota share reinsurance ranging from 40 to 50 percent, which reinsure certain coverages for losses in excess of approximately 88 percent of premiums earned during specified accounting periods. Revenues and expenses are reflected net of quota share reinsurance totaling approximately $28 million and $33 million for 1999 and 1998, respectively.

The Company has a catastrophe reinsurance treaty. At December 31, 1999 and 1998, the Company had paid cumulative premiums of approximately $4,320,000 and $2,800,000, respectively, to the reinsurer to cover future catastrophes. During 1999, the Company accrued approximately $2,287,000 of income relating to its experience under this contract for the three years ending December 31, 1999.

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 related to this third party business of $16,717,936 and $18,291,579 and claim and claim adjustment expenses of $18,003,979 and $16,302,586 in 1999 and 1998, respectively. In connection with these arrangements, receivables and claim reserves exclude $17,928,632 and $11,936,814 at December 31, 1999 and 1998, respectively.

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. Goodwill and Intangible Assets

Goodwill of $1,121,055, representing the excess of the purchase price over the estimated fair value of net assets acquired, results from the purchase of Blair, Cutting & Smith Insurance Agency Corp. It is being amortized over a period of fifteen years. In addition, intangible assets of $1,350,000, representing expirations, are being amortized over a period of seven years. Amortization expense for 1999 was $44,598.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

H. Acquisition

In November of 1999, the Company, through Plymouth Rock Assurance Corporation, purchased Blair, Cutting & Smith Insurance Agency Corp. This transaction was accounted for under the purchase accounting method.

I. 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. Claim and claim adjustment expense reserves are presented before estimated recoveries for reinsurance. The methods of making such estimates and establishing the resulting reserves are reviewed regularly, and any adjustments are reflected in income currently. Claims incurred in 1999 and 1998 include payments for events reported in prior years. Payments for prior reported events amounted to approximately $32.8 million and $31.6 million in 1999 and 1998, respectively. Reserves carried for these claims at prior year end were $42.6 million and $42.3 million, respectively. Claim and claim adjustment expense reserves at December 31, 1997 were approximately $116.9 million.

3. Consolidated Revenues

Revenues, net of reinsurance, for the separate companies for 1999 and 1998 were:

	1999	1998
The Plymouth Rock Company	$ 1,900,990	$ 6,680,174
Plymouth Rock Assurance Corporation	83,814,288	93,570,212
Mt Washington Assurance Corporation	5,543,719	5,350,744
Bunker Hill Insurance Company	11,406,198	14,471,029
SRB Corporation	3,539,074	3,911,355
Pilgrim Insurance Company	7,883,321	9,106,533
Palisades Safety and Insurance Management Corporation	7,080,968	6,581,919
	121,168,558	139,671,966
Intercompany eliminations	(11,320,212)	(14,236,873)
Total revenues	$109,848,346	$125,435,093

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	1999	1998
Net income	$6,392,448	$5,246,833
Depreciation and amortization	5,135,884	3,664,556
Minority interest	80,907	72,812
Change in operating assets and liabilities:		
Premiums receivable	(4,358,865)	2,947,589
Accrued investment income	123,767	315,851
Receivable from reinsurers	(1,036,335)	4,995,955
Deferred acquisition costs	(724,906)	1,072,054
Deferred income taxes	(782,163)	180,214
Claim and claim adjustment expense reserve	(6,045,384)	(3,854,508)
Unearned premium reserve	2,858,946	(2,410,678)
Premiums payable to reinsurers	(4,814,168)	2,658,827
Advance premium	859,788	(3,254,360)
Commissions payable and accrued liabilities	5,070,915	(2,984,463)
Unearned service fees	4,945,041	(439,247)
Other assets and other liabilities	(1,657,552)	5,735,428
Net realized capital gains	470,903	(6,595,494)
Net cash provided by operating activities	$6,519,226	$7,351,369

5. Lease Commitments

Rental expenses for 1999 and 1998 aggregated approximately $476,000 and $443,000, respectively. For each of the years 2000 through 2002, the minimum lease obligations of the Company range from approximately $100,000 to $485,000 annually. Total obligations for leases through 2002 are approximately $695,000.

6. Note Payable

During 1998, the Company executed a note payable in the amount of $9,683,400 at an interest rate of 6.32% in conjunction with the purchase of outstanding shares of its common stock. Payments of principal are scheduled to be made in ten equal annual installments of $968,340. Interest payments on this note totaled approximately $581,000 and $292,000 during 1999 and 1998, respectively. The Company has the right to prepay this note at any time.

7. Real Estate

The Company owns a two-thirds interest in real estate through a limited liability company. This investment is accounted for under the equity method. Building improvements of approximately $304,000 and $623,000 were incurred in 1999 and 1998, respectively. The table below summarizes real estate at December 31, 1999 and 1998.

	1999	1998
Land	$ 4,697,778	$ 4,697,778
Buildings, improvements and other	17,707,233	16,860,241
Total cost	22,405,011	21,558,019
Less: accumulated depreciation	1,847,395	1,238,187
Net book value	$20,557,616	$20,319,832

Rental income other than from Plymouth Rock companies aggregated approximately $2,756,000 and $2,521,000 in 1999 and 1998, respectively. For each of the years 2000 through 2005, minimum annual rent receivable by the Company is approximately $1,958,000. Total obligations of lessees through 2005 are approximately $13,707,000. Buildings and improvements are depreciated over their useful lives, which range from two to thirty-nine years.

8. Fixed Assets

Purchases of fixed assets were approximately $3,803,000 and $4,167,000 in 1999 and 1998, respectively. The table below summarizes fixed assets at December 31, 1999 and 1998.

	Useful Lives	1999	1998
Furniture and fixtures	5-10 years	$ 3,237,264	$ 2,329,644
Computers and software development	3-5 years	7,152,543	7,718,234
Leasehold improvements	2-6 years	2,853,364	2,247,687
Vehicles	3 years	1,300,918	1,293,403
Total cost		14,544,089	13,588,968
Less: accumulated depreciation and amortization		7,898,649	6,684,207
Net book value		$ 6,645,440	$ 6,904,761

9. Investment Securities and Investment Income

A. Available for Sale Securities

At December 31, 1999 and 1998, amortized cost, unrealized gains and losses before federal income taxes and fair value of fixed income and equity securities were as follows:

At December 31, 1999:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 24,253,132	$ 562	$ 915,985	$ 23,337,709
State and municipal securities	43,832,677	119,413	627,569	43,324,521
Corporate debt securities	39,863,215	138,983	1,371,517	38,630,681
Mortgage-backed securities	7,671,946	5,943	179,218	7,498,671
Common stocks	19,830,363	15,923,531	1,001,063	34,752,831
Total	$135,451,333	$16,188,432	$4,095,352	$147,544,413

At December 31, 1998:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 25,454,714	$ 593,200	$ 109,092	$ 25,938,822
State and municipal securities	47,780,551	935,149	48,421	48,667,279
Corporate debt securities	39,160,172	710,136	300,977	39,569,331
Mortgage-backed securities	11,893,272	184,514	10,485	12,067,301
Common stocks	20,128,002	11,897,078	2,465,220	29,559,860
Total	$144,416,711	$14,320,077	$2,934,195	$155,802,593

At December 31, 1999, maturities of available for sale securities were as follows:

	Amortized Cost	Fair Value
Due in 90 days or less	$ 74,987	$ 75,052
Due after 90 days and in one year or less	15,239,127	15,286,903
Due after one year and in five years or less	52,146,280	51,347,814
Due after five years and in ten years or less	36,563,025	34,811,804
Due after ten years	11,597,551	11,270,009
Common stocks	19,830,363	34,752,831
Total	$135,451,333	$147,544,413

9. Investment Securities and Investment Income, continued

B. Alternative Equity Investments

Alternative equity investments include entities that focus predominantly on publicly announced mergers and acquisitions arbitrage. Substantially all of the investments made by these entities are in publicly traded securities, and the Company has the contractual right to withdraw its funds each year. At December 31, 1999 and 1998, the Company's recorded equity in these alternative equity investments, which includes realized and unrealized gains, was $24,335,691 and $26,096,761, respectively. The costs of these investments were $19,000,000 and $24,000,000 in 1999 and 1998, respectively.

Other alternative equity investments include privately held common stocks, preferred stocks, surplus notes and single-purpose entities investing in companies that are not publicly traded. The Company's recorded equity amounted to $10,715,738 and $8,865,209 at December 31, 1999 and 1998, respectively. The costs of these investments were $12,752,873 and $9,929,138, respectively. These amounts include investments in Direct Response Corporation and Homesite Group Incorporated totaling approximately $7.9 million and $5.8 million at December 31, 1999 and 1998, respectively. These companies will derive underwriting revenue from personal lines property and casualty insurance activity, writing throughout the United States, except in certain New England states.

C. Investment Activity

The components of investment activity during 1999 and 1998 were as follows:

	1999	1998
Balance at beginning of year	$190,764,563	$188,444,223
Change in available for sale securities:		
Sales	(87,750,264)	(101,190,762)
Purchases	78,690,626	103,939,475
Net change in available for sale securities	(9,059,638)	2,748,713
Net change in investments in alternative equities	89,459	1,231,918
Net investment activity	(8,970,179)	3,980,631
Net change in purchases in process	94,260	(886,110)
Net change in unrealized gain on available for sale securities	707,198	(774,181)
Balance at end of year	$182,595,842	$190,764,563

Comprehensive income is defined as net income plus the change in net unrealized gain on investments. Accordingly, the net unrealized gain on investments is reduced by realized gains previously included as unrealized in comprehensive income of $756,599 and $635,636 in 1999 and 1998, respectively.

9. Investment Securities and Investment Income, continued

D. Analysis of Investment Income and Capital Gains

The components of investment income and capital gains before federal taxes during 1999 and 1998 were as follows:

	1999	1998
Interest income and dividends from securities	$ 7,984,888	$ 9,257,238
Earnings from alternative equity investments	2,620,292	1,288,913
Rental income	2,755,583	2,520,634
Finance charges from premiums receivable	2,281,537	2,607,377
Gross investment income	15,642,300	15,674,162
Rental expenses	(1,485,750)	(1,602,371)
Investment expenses	(597,922)	(545,642)
Investment income	13,558,628	13,526,149
Net realized capital gains	(470,903)	6,595,494
Investment income and capital gains	$13,087,725	$20,121,643

During 1998, net realized gains included gains of approximately $5.5 million from sales of investments carried at cost.

10. Compensation Plans

The Company has a Savings and Investment Plan under Section 401(k) of the Internal Revenue Code. This defined contribution plan covers all employees 21 years or older with at least one year of service. The Company accrued $1,483,997 and $1,318,334 as of December 31, 1999 and 1998, respectively, for liabilities relating to this Plan.

The Company has a Deferred Compensation Plan for officers, managers and directors other than its founding shareholders. This Plan provides for a rate of return on deferrals based on the financial performance of the Company. The Company accrued $2,635,557 and $2,361,466 as of December 31, 1999 and 1998, respectively, for liabilities relating to this Plan.

Since 1997, the Company has made stock incentive awards annually to key employees. The cumulative number of outstanding awards as of December 31, 1999 and 1998 was 7,129 and 5,578, respectively. The Company has recorded no expense in 1999 and 1998 with respect to outstanding awards. Expense may be recorded in the future with respect to some outstanding awards under the accounting rules applicable to variable awards.

11. Stockholders' Equity

A. Common Stock

Common stock at December 31, 1999 and 1998 is composed of Class A common and Class B common shares, both classes having a par value of $0.10 per share. There are 300,000 Class A shares authorized, of which 151,948 and 150,102 were issued and outstanding on December 31, 1999 and 1998, respectively.

There are 90,000 Class B shares authorized, of which 66,784 and 66,938 were issued and outstanding on December 31, 1999 and 1998, respectively. The Class A common shares are fully transferable and have the right to elect twenty 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 eighty percent of the Board of Directors.

B. 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 $71,472,097 and $65,662,000 at December 31, 1999 and 1998, respectively. Regulatory limits restrict the amount of dividends that can be remitted to the Company from its insurance subsidiaries without approval of state insurance regulators.

C. Earnings per Share

Earnings per common share are computed by deducting dividends paid to the preferred stockholder of the subsidiary from net income and dividing the result by the weighted average number of common shares outstanding. Basic and diluted earnings per share are equal.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
160 Federal Street
Boston MA 02110
Telephone (617) 439 4390

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in stockholders' equity present fairly, in all material respects, the financial position of The Plymouth Rock Company and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States. 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 of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts
February 9, 2000

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

Peter J. Wood, *Vice Chairman*

James N. Bailey

Charles B. Chokel

Michael J. Johnston

Wilmot H. Kidd, III

Norman L. Rosenthal

Officers

James M. Stone
President

James N. Bailey
Treasurer and Clerk

Hal Belodoff
Vice President

Paula W. Gold
Vice President

William M. Kelley
Vice President

Directors and Officers of the Plymouth Rock Group of Companies

Non-Management Directors

Charles B. Chokel
Normand A. Dion
Alexander Ellis, III
Michael J. Johnston
Wilmot H. Kidd, III
Eugene J. Meyung
Peter J. Wood

Management Officers and Directors

Francis P. Arment
Geoffrey H. Arnold
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Frederick C. Childs
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Karen A. Murdock
Vincent V. Nieroda
James M. Stone
Mark A. Sweeney
Glenn K. Tippy
William M. Walker
Richard W. Wilkins

Independent Accountants:
PricewaterhouseCoopers LLP

Counsel:
Ropes & Gray