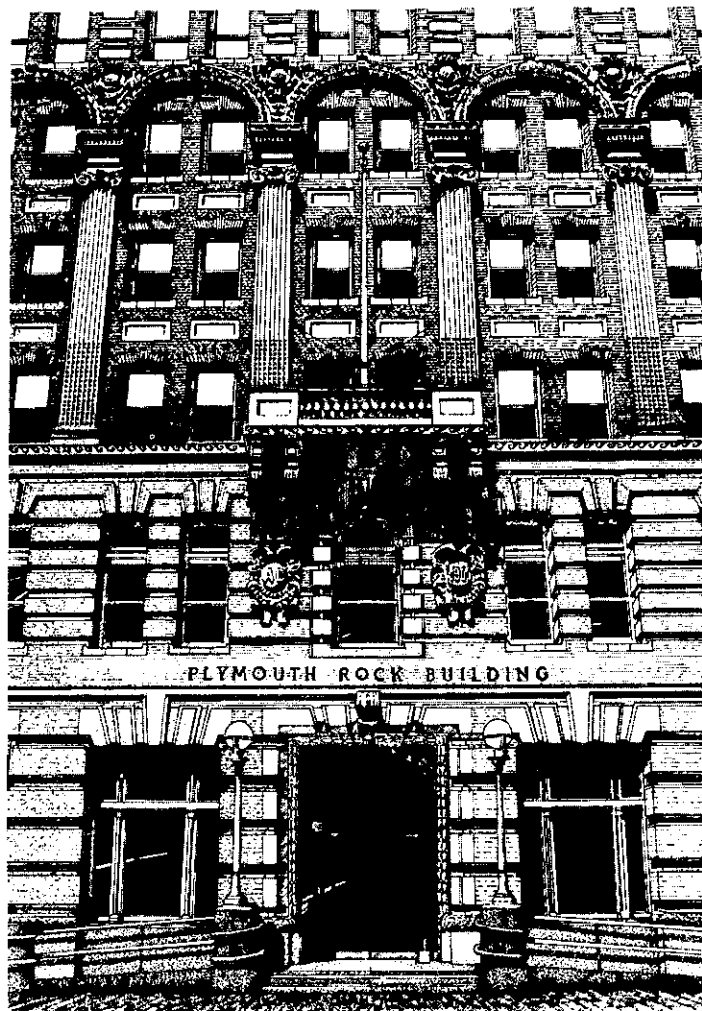


The Plymouth Rock Company



2003 Annual Report

The Plymouth Rock Company
695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 29, 2004

To Our Shareholders:

By virtually any standard, the year 2003 was the best our Company has ever experienced. Net income for the group in the year ended December 31 was \$18.5 million, up more than 55% from the year prior. Internally generated growth in premiums underwritten or managed was a record \$125 million. And, most important still, the Palisades reciprocal completed an acquisition that will more than double the whole group's scale in future years -- and with highly attractive risk-return characteristics. In calendar 2004, we should have total premiums, including those we manage, somewhat in excess of \$1.1 billion. This last year was a fitting time to pass the billion dollar threshold, since the autumn of 2003 marked the twentieth anniversary of Plymouth Rock's first being licensed to write insurance.

Shareholders' equity at year-end, computed according to generally accepted accounting principles, stood at \$130 million, which is \$2 million below the equity at year-end 2002. The year-to-year change may appear inconsistent with the Company's profitability; the explanation lies in our payout of \$25 million in the first quarter of 2003 to repurchase some of Progressive Corporation's shares in our Company. The per share numbers are not deflated in this manner. Stockholders' equity per share rose from \$603 per share to \$713 per share. Net income per share grew by 84%, from \$53.65 to \$98.84. The cumulative book value return on capitalization from inception in 1983 now stands at 17.6% per annum, no longer on the decline. Our GAAP numbers, as usual, tell only a portion of our story. Plymouth Rock's capital is obviously less than that appropriate for a billion dollar enterprise and our income statement, too, looks like that of a smaller company. The GAAP capital is less than one might expect because it omits entirely the quite substantial capital under the New Jersey reciprocal. GAAP also leaves out unrealized gains on our real estate portfolio and, with respect to our common stock investments in Homesite Group and Response Insurance, the value of our holdings in excess of their cost less a proportional share of operating losses to date. On the income side, we look smaller than a billion dollar enterprise mainly because the contribution of the New Jersey acquisition will take a full year to work its way into the numbers, and longer than that to shed its transition expenses. Even then its impact will be recorded on the top line at the scale of its management fees rather than the scale of the premiums earned. This understatement of your Company's true economic value is familiar to all of

you by now, but as Palisades grows relative to the rest of the business, and success comes to Homesite and Response, the effects are increasing. I will do my best to provide a bit of the missing perspective.

Let me describe the acquisition straight away. A year ago last Fall, I received a call from an investment banker informing me that insurance and securities giant Prudential Financial was considering divestiture of its property and casualty insurance businesses. He said that he was confident of finding an interested buyer for everything except the New Jersey subsidiary, and he wondered if we would be interested in acquiring Prudential Property and Casualty of New Jersey, with annual premiums of about \$520 million. When asked whether everyone understood that prices for companies in replacement carrier transactions were traditionally well below book in New Jersey, he responded affirmatively. Thus began nine months or so of intense negotiations, with Hal Belodoff leading our team superbly. Hal, Gerry Wilson and the others did a brilliant job of identifying and then surmounting the many obstacles along the course. In May, the deal was announced. The Palisades reciprocal was to acquire the PruPac of New Jersey group, and the three acquired stock companies, renamed the High Point Insurance Companies, would be managed for a fee by a subsidiary of the Palisades management company.

The purchase and many of the operating agreements required approval of the New Jersey Insurance Department, a department not known for lax scrutiny. The Department indeed applied a particularly high degree of rigor, befitting such a large transaction, and, while we occasionally found the level of scrutiny frustrating, I admit that this was more a reflection of our impatience than a justified criticism of the Department. The examination culminated in a public hearing held in Trenton in late September and, on Halloween evening of 2003, the Department issued its approval order; the closing with Prudential followed within minutes. Prudential has long employed its very effective slogan "Own a Piece of the Rock" in advertising its products. Well, after years of having been teased about how much smaller our rock was than theirs, Palisades actually owns a piece of their rock now, and we are thrilled. It came, moreover, with some highly competent people, including Jim Tignanelli, High Point's president. We heartily welcome Tig and his team to the Plymouth Rock family.

The shape of your Company is somewhat different since the New Jersey acquisition, and that calls for some thought about how its economics can be most clearly presented. The layers of data may be most transparent if one imagines the business not as its component corporations are organized, but as three conceptually different business elements. One is the underwriting of personal lines insurance business, the segment of the Plymouth Rock enterprise most completely reflected on the GAAP balance sheet and income statement. The second is the management for fee income of the same lines of business. In this segment, the fees are recorded as income when they are earned but neither premiums nor the bulk of the capital is permitted to be shown on the financials. The third is related to our investments. One of the ways I look at this element of profit is to compare our actual results with a hypothetical benchmark portfolio and consider the increment that the actual represents over the benchmark as the return on risk and skill. We could, for example,

have met and exceeded industry standards of conservatism by keeping all of our investment assets in intermediate duration fixed income instruments of investment grade. A true believer in efficient markets, with no desire to diversify by asset class and no tolerance for additional risk, might think that a sound choice. Since we are believers in treating efficiency as no more (or less) than a rebuttable presumption -- a starting point for investment thinking -- and we have a bit of tolerance for risk as well as a taste for diversification, our actual portfolio is more than a third invested in various types of equity assets rather than just fixed income investments. The gain we enjoy as a consequence of our deviation from the rigid fixed income standard is what I treat as our third business element.

The scale of each of the three components is as follows. Plymouth Rock Group's underwriting businesses include Plymouth Rock Assurance Corporation, Bunker Hill Insurance Company, and Mt. Washington Assurance Corporation. The gross premium volume in these three entities is about \$275 million. This is more than \$100 million greater than the premiums shown on the financials mainly because the income statement number is reduced by privately reinsured premiums, premiums ceded to the Massachusetts residual market mechanism (CAR), and the change in premiums written but not yet earned. The GAAP cash flow statement and Footnote 2F come considerably closer to tracking the full magnitudes of the underwriting businesses. The management businesses include Pilgrim Insurance and the Palisades Group, where High Point, Palisades Insurance Company, and Palisades Safety and Insurance Association reside. The total premium volume managed by our companies was \$362 million in 2003, with High Point counted for only two months in that calendar year. Our estimate of the run rate for premiums managed, as we enter 2004, is close to \$800 million. With the High Point acquisition, this has become the larger of our two insurance businesses by a substantial margin. Despite considerably lower potential per-unit returns on managed premiums than underwritten premiums, the managed business is likely to become your greater source of future profits.

Gains in the investment profit center are even harder to deduce from published numbers than those in the managed premium business segment. Since the contribution, as I define it, is equal to the difference between total return on the actual portfolio and the returns that would have been earned on a plain vanilla fixed income portfolio, and since neither the total return nor the plain vanilla benchmark is an element of GAAP accounting, one must do the work outside of the audited financials. The plain vanilla benchmark return on invested assets, which by this analysis belongs with the business results for the underwritten and managed business segments, has averaged 5¾% over the last twelve years. What we have made above that, whether reflected in the audited GAAP financials or not, represents the incremental profit. By Rick Childs' estimate, our actual total return is more like 8¼% for the same period. Don't look for too precise a number, though, because some of the assets in the calculation are evaluated at appraised values that may or may not prove accurate, and some are just educated guesswork. If the actual and benchmark numbers are close to the mark, the incremental 2½% or so per annum on our average portfolio balances over the period would have produced about a \$60 million increment for the owners during the last decade. This is quite near Rick's asset-by-asset

estimate, and I suspect it is about right. Even for those of us who live with compound interest calculations every day, the beauty of compounding can still inspire awe. The tax advantages of an equity portfolio, of course, make the true benefits of a portfolio like ours, as compared to a fixed income benchmark portfolio, even more substantial than the simple spread calculation reveals.

Plymouth Rock Assurance is the largest of the underwriting companies. While it did not quite meet its goal of keeping the combined operating ratio under 100% for the year (and thus ultimately paying out less in expenses and claims than it received in premiums), it had quite a satisfactory 2003. There is nothing magic, of course, about 100%. A combined ratio in the 90's is always better, and that is in fact what we aim for. A ratio of 102% -- the actual number for 2003 -- is a little worse than the target, but moderately elevated combined ratios can be tolerable when the costs have been well enough spent. In Plymouth Rock Assurance's case, much of the spending was related to its 2003 premium growth of over \$40 million, more than in any year of the Company's history. The all-inclusive expense ratio, covering claim adjustment and investment costs as well as underwriting expenses, stood at 38%, which represents about a ¾ point improvement from the prior year's number. The bottom line was aided by a transfer of capital in the amount of \$5.6 million from a company departing the state. Overall profit was \$14.5 million, representing an 18.4% return on prior year-end capital. Premium in Connecticut approached \$10 million this year, with an assist from our agency division (which is still quite profitably run by Don Southwick and now called Neighborhood Insurance). It may be a while before Connecticut premium catches any of the others, but I continue to see plenty of potential for us there. Connecticut independent agents used to be coddled by their carriers. Now they have to look harder to find a company -- like ours -- that values them so much.

Perhaps the greatest unknowable for Plymouth Rock Assurance is the future regulatory landscape in Massachusetts. Both the Governor and the Attorney General have pledged to make reform of the auto insurance regulatory framework a priority. It is not entirely clear why they have, given the explosive sensitivity of automobile insurance as a public policy issue and the fact that its politics have been so quiet for decades in this state. Auto insurance is always a volatile topic because it looks to many people like a large regressive tax: regressive in that the urban poor pay more than anyone else for the product; comparable to a tax because insurance is required before one can drive a car -- even when the ability to work depends on driving; and large because premium payments can require one of the largest annual checks that many households write. The political leaders may run some risk of waking a sleeping dragon -- but the political wisdom is for them to judge. We share their view that reforms can help make the system more competitive, and we feel well positioned to thrive in a competitive environment. At the same time, we have tried to emphasize to all who will listen that the bottom line tests of a good reform will not be met by press conferences announcing the entry of a few high profile insurers into the marketplace. The real tests of any reform are: whether it moderates price increases over time relative to the national averages, whether it keeps the residual market from growing, and whether it maintains a workable degree of fairness in relative rates, including those of urban drivers.

Reform will likely backfire and destabilize the markets if the price tag for luring new entrants into the state includes worsening the outcomes on these three tests. National statistics show that, since 1996, insurance premiums for the average Massachusetts driver have risen only 50% as fast as the U.S. averages. Our residual market covers about 7% of the vehicles insured, which is a good, safe number by national standards. In addition, Massachusetts has a successful and tested mechanism for tempering extreme geographic differences in good driver rates. The state's residual market credits prevent the emergence of a relative rate distribution that would be less fair, less affordable in the cities, probably unsustainable ... and could turn our customers against us. If reforms create more freedoms to innovate and compete, we will be happy with them. If they create political chaos, we ought to be able to weather that as well as anyone but uncertainties would abound. Stay tuned for news on this subject.

Mt. Washington Assurance, under Eric Neely's direction, had an improved year. The New Hampshire insurer operated close to break-even on a stand-alone basis, i.e. separated out of its quota share arrangement with Plymouth Rock Assurance, and it grew in annual volume by 23% to \$19 million. Bunker Hill Insurance Company, our homeowners specialty carrier, had a less successful year. Under John Tierney's leadership, the premium volume has gone up and the Probable Maximum Loss, a measure of portfolio risk, has gone down. The expense ratio is 1.2 points better than last year's, a nice accomplishment given that processing and service measures are improving rather than suffering. Unfortunately, two terribly cold winters bracketed the 2003 calendar year and the loss ratio reflected the chill. Unusually high fire and frozen pipe losses contributed to Bunker Hill's showing a net loss of about two-thirds of a million dollars. I said last year that a homeowners writer should be earning 20% on its capital, after purchasing enough reinsurance to withstand the worst weather in a 250 year period. Bunker Hill is now a much sounder company by those metrics than it was a few years ago, but it has more work to do if it is to reach those targets.

In our insurance management segment, you already know the blockbuster news about High Point. The just plain big news is that the Palisades reciprocal is outdoing itself, too. Premiums written at Palisades Safety and Insurance Association and its subsidiary Palisades Insurance Company rose from \$90 million to \$160 million. The net after-tax income generated for the Plymouth Rock group by managing this business rose from \$1.6 million to nearly \$3.7 million. The business was run more efficiently as well. Palisades' all inclusive expense ratio was a full five points lower than the prior year's, and for the first time, below that of Plymouth Rock Assurance Corporation. If that doesn't impress you enough, try this. While the Palisades senior team was absorbed with pushing along the High Point acquisition process and handling their unprecedented internal growth, you might expect that service would have suffered a bit. Instead, we just learned from the New Jersey Insurance Department that Palisades had the lowest (best) ratio of valid complaints to insured vehicles among the thirty-two carriers writing more than 10,000 New Jersey cars in 2003. New Jersey Manufacturers, Chubb and USAA were second, third, and fourth, respectively, so the competition was not exactly made up of slouches. Next year, Gerry and Tig hope to elevate High Point, whose ranking as a Prudential subsidiary was a quite respectable ninth, to the top of that list as well. I said last year that

Gerry Wilson was determined to make New Jersey our largest and most profitable market. With his newly expanded New Jersey portfolio, he is assured of meeting the top line goal in 2004 and may soon be able to meet the bottom line goal.

As in Massachusetts, there is regulatory reform afoot in New Jersey. There, however, the dragon has not been asleep, and the problems of the old system were evident. The legislature and the McGreevey Administration have taken the dragon by its horn, and in 2004 there will be a long list of changes. Palisades is an active member of the Commissioner's Urban Insurance Task Force, and a representative of our group has been asked to chair a new Territorial Rating Commission. The underlying issues and standards for success are similar to those in Massachusetts, but the reform plans are further along in New Jersey and we are guardedly optimistic about where things are going. The state has expanded the leeway for expedited rate increases from 3% to 7% overall in any one year, begun permitting the use of credit as an underwriting criteria, and relaxed the rules that govern its excess profits tax calculation. More dramatically, the state says it plans to phase out the take-all-comers rules that make it very hard to turn down an applicant for insurance on grounds other than fraud. A note of caution is required concerning this phase-out. The whole value of the reforms can be undermined if ending take-all-comers causes a residual market explosion. Serious work on the part of the regulators and the Urban Insurance Task Force will be needed for this and other reasons if the state is to guarantee reasonable availability and affordability to all of its citizens. That having been said, Palisades and High Point will do all they can to help make the changes work -- as long as the playing field is level. Companies with our scale, talent, and service traditions can thrive on any level field and may in fact do better on the new one than the old one, which had accumulated too many ad-hoc repairs over the years.

Pilgrim Insurance is the smallest carrier in the insurance management segment of our business. Its new president, Ellen Wilcox, has left last year's issues behind her and she has nicely moved on to enlarge the business. Total premiums managed at Pilgrim are now just under \$60 million, up 20% from a year ago. Net income was \$1.6 million, the highest profit that company has ever reported. Ellen is hard at work now on broadening Pilgrim's offerings and expanding its footprint and revenue base.

That brings me finally to the investment segment of our business. SRB Corporation now manages well more than a billion dollars in assets, including our own and those of the New Jersey reciprocal and its subs, as well as Homesite's and Response's portfolios. Jim Bailey and Rick Childs continue to run a tight operation. Equity investment decisions are made internally, by Jim and Rick and me. Bond management responsibility is shared with Standish Mellon, a firm that has long provided investment services to us. The portfolio of fixed income securities, whose performance I consider at least as much an aspect of our insurance businesses as a test of the investment operation, had a total return just short of 3% in 2003, the lackluster number being a direct consequence of the low interest rate environment in which we find ourselves. We have little present desire to run a race against the markets in this portfolio. The risks at our scale of stretching for a lofty bond return are not justified by the potential rewards in this, the most efficient of the securities markets.

Strategic investments suffer from no such problem of efficiency. It is no trouble at all to perform in these investments very differently from the broad market indices, though doubtlessly far easier to underperform than to outperform. This has in fact been a promising year for Plymouth Rock's positions in Response Insurance and Homesite Group, our major strategic investment commitments. The headline at Response is that, after eight long start-up years in the red, 2003 was the direct response auto insurer's first year in black ink. The loss ratio, not long ago in the 90's, is now comfortably in the 60's, a level we would be happy to see it hold indefinitely. With help from acquisitions and some skillful belt-tightening on Mory Katz's part, the general expense ratio (not to be compared directly with Plymouth Rock's "all-inclusive expense ratio", which is a much broader measure of insurer costs) improved substantially, falling to about 25% from over 50% just a year or so earlier. The expense ratio has ten points to go before full efficiency can be claimed, but the current percentage costs should now be a ceiling, and profitability at moderate rates of growth should thus be attainable for years to come. One more sound acquisition could complete the drive to economic scale, so Mory and his team are still in the hunt. Response began the year 2004 as a \$140 million company, counting the premium from its year-end purchase of National Merit Insurance Company of Seattle. Net income for 2003 broke through the break-even line to \$1.4 million, and the trend looks as though it will continue into the year ahead. Response is now one of the hundred largest auto insurers in the country -- and *the* largest stockholder-owned national direct response insurer not part of a larger corporate entity. Its next tasks are to grow the renewal book to where its profits can pay for immodest growth, and to show that it can use those profits to gain high quality new exposures at suitable acquisition cost metrics. No one underestimates the rigor of the remaining course, but I am hopeful that the hardest stretch is now in the rearview mirror.

Homesite Group did not make a profit in 2003, but it had an impressive year nonetheless. The national homeowners carrier started the year with less than \$40 million in premiums in force and ended it with around \$100 million of premiums. This coming year, the rapid pace of growth should continue and Homesite expects to have at least \$130 million in business on the books by year-end. CEO Fabian Fondriest strengthened his top operating team this year as well, with the addition of Doug Batting as Chief Operating Officer. Doug counts among his many accomplishments having been a highly successful CEO of Chubb-Canada -- and having been Fabian's boss at Chubb some years ago. Doug adds to Homesite's strength in many dimensions. As you know, Homesite gets its business through partnerships with companies which can acquire the business readily but have less desire than Homesite does to be a part of the homeowners insurance industry. Homesite's largest partners today include GMAC Insurance, Prudential Financial, Nationwide, Wells Fargo and our own High Point Insurance Companies. Watch for a new name next year; Homesite has a contract very close to signing. The net operating loss for 2003 will be about \$11 million, down from \$16 million the prior year. The number would have been better had we not paid our share of the California wildfire claims this summer -- but, then again, Homesite is in business precisely because such things are possibilities. If all goes as Fabian forecasts, progress in 2004 will bring that company much closer to break-even despite its extremely aggressive growth. Cash flow

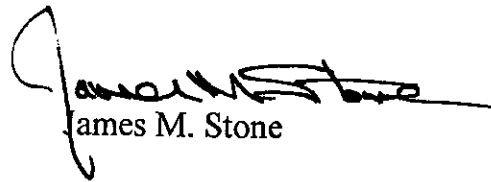
from operations is already positive, and Fabian's forecasts haven't been far from right yet.

The year gone by was a strong recovery year for the stock market, so it should not be too surprising that our marketable equity portfolio did well. The gain was over 30%, beating the Dow and the S&P indices by about two hundred basis points. While we are not confident that bargains abound in this market, we did do some selective buying of stocks already on our short list of approved equity investments. All of us would feel better about the markets without the specter of massive deficits ahead, and without the domestic and foreign uncertainties related to the menace of terrorism. The internal rate of return on all of our marketable equities since we started investing is a satisfying 23.5%. Owner-occupied real estate continued to fall during 2003 in appraised value, and we continue not to be concerned about it. The high cash-on-cash returns and the benefits of controlling our own space have made our office investments winners. We might even expand that portfolio if building prices in our areas of interest fall far enough.

One of our traditional strong points has been the hiring and retention of talented people. Good folks seem to like it here. We have, in fact, never had a better team of executives than we have now -- but, ironically, this is also the area of the Company where we need the most improvement. Part of the task arises simply from recently increased scale and complexity. A formidable team for a moderate sized company can often be lacking in some of the tools needed to do the job in a large enterprise. In addition, there is a greater requirement now for backup and for collegiality at the senior level. We are well staffed at the top echelon. In February of 2004, the Company entered into a new, long-term compensation arrangement with Hal, one which should reward him fittingly over its term for hands-on management at Plymouth Rock Assurance and partnering with me in running the group. Hal is, of course, a huge asset to us as well as a good friend. His having shown up in my office for career advice thirteen years ago was one of the Company's luckiest breaks ever, and I look forward to working with him for the rest of my career. Gerry and Tig, who run the largest of the other companies in the family, both tell us they have never been happier, and the affection is mutual. We are fortunate in our smaller companies' presidents as well. What we do not have is a roster of second-in-commands who can share the load with their presidents, brainstorm decisions that Hal or I would have discussed with them just a few years ago, or fill in for them if they were to be unavailable for any reason.

All of our major companies should have a number two that can play those roles, for the sakes of the presidents and for our sakes as well. None of the Plymouth Rock Companies presently have that job filled. Adding at least one senior executive at each of the major companies in the group is, therefore, a major assignment for 2004. One might argue that adding a person at this level is a bit too expensive and not really necessary, given the bench strength already in place. I strongly disagree. Over the years, I have seen companies hurt by many varieties of overspending. I have never seen a company damaged by adding one more smart and hard-working executive. We are looking for people with native intelligence, a good training in insurance, a high level of energy and ambition, a positive attitude toward work and colleagues, and, of course, unassailable

character. We can offer them competitive compensation, an unusually nice corporate culture and working environment, and an exciting future in our still-entrepreneurial, still-young (but not so small) company.



James M. Stone

THE PLYMOUTH ROCK COMPANY
CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

Assets	2003	2002
Cash and cash equivalents	\$ 26,196,899	\$ 18,369,952
Investment securities	226,497,287	216,860,669
Premiums receivable	47,937,630	29,365,987
Accrued investment income	1,694,525	1,792,494
Receivable from reinsurers	37,559,910	34,112,487
Real estate	23,779,088	23,360,296
Deferred acquisition costs	10,697,753	8,595,038
Fixed assets	14,979,437	10,836,402
Deferred income taxes	4,247,783	5,062,617
Goodwill and intangible assets	3,568,566	3,450,287
Amounts due from service clients	32,854,795	4,243,842
Other assets	9,062,462	5,548,051
Total assets	\$439,076,135	\$361,598,122
 Liabilities		
Claim and claim adjustment expense reserves	\$108,734,842	\$105,597,045
Unearned premium reserve	67,512,909	54,787,182
Payable to reinsurers	44,636,378	18,886,910
Advance premiums	8,908,067	8,591,575
Note payable	4,841,700	5,810,040
Commissions payable and accrued liabilities	30,809,131	25,819,006
Unearned service fees	30,232,353	1,687,869
Amounts due to service clients	10,051,530	7,900,454
Other liabilities	3,245,118	326,577
Total liabilities	308,972,028	229,406,658
 Stockholders' Equity		
Common stock and paid-in capital	23,583,760	21,454,625
Retained earnings	96,170,055	103,621,137
Net unrealized gain on investments	10,350,292	7,115,702
Total stockholders' equity	130,104,107	132,191,464
Total liabilities and stockholders' equity	\$439,076,135	\$361,598,122

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, 2003 and 2002

Revenues	<u>2003</u>	<u>2002</u>
Premiums earned in underwriting activities	\$161,986,968	\$141,285,688
Fees earned from service activities	52,992,935	32,093,162
Investment income and capital gains	18,066,788	14,729,533
Other income	5,850,000	-0-
Total revenues	<u>238,896,691</u>	<u>188,108,383</u>
Expenses		
Claims and claim adjustment expenses	117,618,385	97,580,869
Policy acquisition, underwriting, and general expenses	54,025,421	44,753,662
Service activity expenses	39,738,746	28,840,860
Total expenses	<u>211,382,552</u>	<u>171,175,391</u>
Income before federal income taxes	27,514,139	16,932,992
Federal income taxes	8,984,550	5,178,830
Net income	<u>\$ 18,529,589</u>	<u>\$ 11,754,162</u>

Per share data

Weighted average common shares outstanding:		
Basic	185,351	219,101
Diluted	187,470	219,101
Net income per share:		
Basic	\$99.97	\$53.65
Diluted	\$98.84	\$53.65
Common shares outstanding at end of year	182,487	219,101
Common stockholders' equity per share	\$712.95	\$603.34

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, 2003 and 2002

Cash flows from operating activities	2003	2002
Gross premiums collected	\$244,938,751	\$213,581,771
Reinsurance premiums paid	(61,483,407)	(61,836,742)
Finance charges collected	4,303,652	4,546,488
Fees and commissions collected	80,289,086	29,904,647
Investment income and capital gains received	15,391,664	11,814,154
Gross claims and claim expenses paid	(175,465,122)	(145,346,574)
Reinsured claims and claim expenses collected	54,981,260	47,865,819
Policy acquisition, underwriting, and general expenses paid	(46,036,221)	(42,684,515)
Federal income taxes paid	(8,040,000)	(6,598,745)
Service activity expenses paid	(66,418,026)	(24,902,523)
Other income received	5,850,000	-0-
	<u>48,311,637</u>	<u>26,343,780</u>
Cash flows from financing activities		
Payment on note payable	(968,340)	(968,340)
Repurchase of common stock	(24,809,100)	-0-
Issuance of common stock	1,000,000	-0-
Dividends to stockholders	(1,175,656)	(1,027,584)
	<u>(25,953,096)</u>	<u>(1,995,924)</u>
Net cash provided by operating activities	<u>48,311,637</u>	<u>26,343,780</u>
Net cash used in financing activities	<u>(25,953,096)</u>	<u>(1,995,924)</u>
Net cash provided	<u>\$ 22,358,541</u>	<u>\$ 24,347,856</u>
Investment of net cash provided		
Change in cash and cash equivalents	\$ 7,826,947	\$ (1,438,217)
Net investment activity	4,667,512	17,960,502
Purchase and disposal of goodwill and intangible assets	450,000	(760,670)
Purchases of real estate	611,628	1,971,248
Purchases of fixed assets	8,802,454	6,614,993
	<u>13,348,541</u>	<u>14,726,073</u>
Net cash invested	<u>\$ 22,358,541</u>	<u>\$ 24,347,856</u>

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, 2003 and 2002

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Total Stockholders' Equity
December 31, 2001	\$21,454,625	\$ 92,894,559	\$ 6,311,428	\$120,660,612
Comprehensive income	-0-	11,754,162	804,274	12,558,436
Dividends to stockholders	-0-	(1,027,584)	-0-	(1,027,584)
December 31, 2002	21,454,625	103,621,137	7,115,702	132,191,464
Comprehensive income	-0-	18,529,589	3,234,590	21,764,179
Repurchase of common stock	(4,085)	(24,805,015)	-0-	(24,809,100)
Issuance of common stock	2,133,220		-0-	2,133,220
Dividends to stockholders	-0-	(1,175,656)	-0-	(1,175,656)
December 31, 2003	<u>\$23,583,760</u>	<u>\$ 96,170,055</u>	<u>\$10,350,292</u>	<u>\$130,104,107</u>

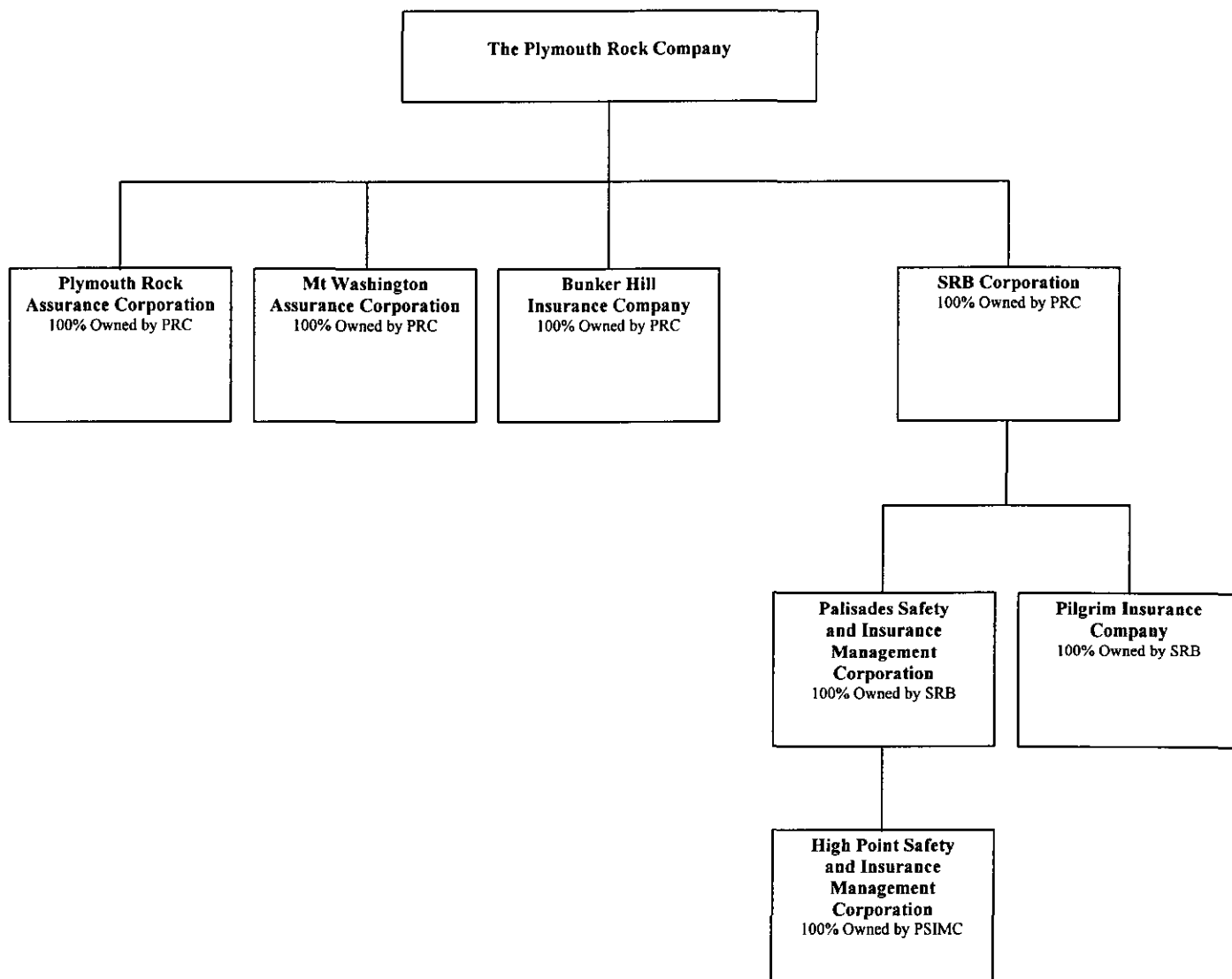
The accompanying notes are an integral
part of the financial statements.

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:



Other affiliates include 99 Bedford Corporation and 695 Atlantic Avenue Company, LLC, which own real estate, Shared Technology Services Group Inc., a wholly owned subsidiary of SRB Corporation, and BCS Holding Company, LLC, a wholly owned subsidiary of Plymouth Rock Assurance Corporation. Direct Response Corporation and Homesite Group Incorporated are not among the Plymouth Rock Companies, but The Plymouth Rock Company owns a common stock interest in each.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

B. Investments and Real Estate

Cash and cash equivalents include short-term money market instruments 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. Where declines in the value of marketable securities are deemed other than temporary, the securities are carried at market value and the loss is reported as a component of net realized capital gains on the sale of securities. Net unrealized gains or losses on securities available for sale, net of applicable deferred income 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 and amortization. The Company provides for depreciation and amortization principally on the straight-line method over the estimated useful lives or the applicable lease terms.

C. 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.

D. 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 arise when there are differences between reported income and taxable income.

Federal income taxes on the statements of income for 2003 and 2002 consist of:

	<u>2003</u>	<u>2002</u>
Current year federal income taxes	\$9,911,419	\$5,725,169
Change in deferred taxes	<u>(926,869)</u>	<u>(546,339)</u>
Total	<u>\$8,984,550</u>	<u>\$5,178,830</u>

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

D. Income Taxes, continued

Deferred income taxes in the balance sheets as of December 31, 2003 and 2002 consist of the net effect of these temporary differences:

	2003	2002
Discounting of claim reserves	\$2,973,042	\$2,926,146
Deferred income	6,888,205	5,465,067
Net unrealized gain on investments	(5,571,775)	(3,830,072)
Other	(41,689)	501,476
Total	\$4,247,783	\$5,062,617

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 difference arises principally because the Company receives significant nontaxable interest from state and municipal bonds.

E. Claim and Claim Adjustment Expense Reserves

Claim reserves represent the estimated liabilities for claims reported to the Company plus reserves for claims incurred but not yet reported. Claim adjustment expense reserves represent the estimated expenses relating 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. The table below provides a reconciliation of the beginning and ending reserves for claims and claim adjustment expenses:

	2003	2002
Balance at beginning of year	\$105,597,045	\$105,367,683
Claims and claim adjustment expenses incurred:		
Current year	122,980,000	110,447,000
Prior years	759,277	(8,014,202)
	123,739,277	102,432,798
Claims and claim adjustment expenses paid:		
Current year	70,242,000	63,424,000
Prior years	45,914,699	38,694,851
	116,156,699	102,118,851
Change in reinsurance recoverable on unpaid claims	(4,444,781)	(84,585)
Balance at end of year	\$108,734,842	\$105,597,045

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

E. Claim and Claim Adjustment Expense Reserves, continued

Prior year reserves on involuntary business were increased by approximately \$4 million in 2003, and reduced by approximately \$2.7 million in 2002.

Claims and claim adjustment expenses incurred, shown above, include expenses for service activity clients of \$6,120,892 and \$4,851,929 reported in service activity expenses in the Company's consolidated statements of income for 2003 and 2002, respectively.

F. 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:

	2003		2002	
	Premiums Written	Losses Incurred	Premiums Written	Losses Incurred
Gross	\$272,682,090	\$177,959,919	\$217,109,985	\$145,565,936
Ceded	(92,310,667)	(60,341,534)	(65,828,318)	(47,985,067)
Net	<u>\$180,371,423</u>	<u>\$117,618,385</u>	<u>\$151,281,667</u>	<u>\$ 97,580,869</u>

Ceded premiums earned for 2003 and 2002 were \$83,095,006 and \$60,262,620, respectively.

The Company has treaties for quota share reinsurance with cession rates of approximately 40 percent for homeowners insurance premiums and 60 percent with respect to premiums for subject automobile coverages. Among the effects of these treaties is to cover losses in excess of approximately 80 percent of premiums earned during specified accounting periods. Revenues and expenses are each reflected net of quota share reinsurance totaling approximately \$74 million and \$42 million for 2003 and 2002, respectively.

The Company also has treaties for catastrophe reinsurance. During the years ended December 31, 2003 and 2002, the Company incurred costs for catastrophe premiums of approximately \$3,238,000 and \$1,731,000, respectively. During 2002, the Company received approximately \$3,005,000 related to its experience under a catastrophe reinsurance treaty for the two and one-half years ended June 30, 2002.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

F. Reinsurance, continued

The Company's Massachusetts subsidiary is required to be a member of Commonwealth Automobile Reinsurers and accounts for its transactions with this entity as reinsurance. The Company records its estimated share of this activity based on information provided by Commonwealth Automobile Reinsurers. The Company evaluates this information and, if necessary, makes adjustments within the reserves to reflect management's estimate of the results of this activity.

The Company acts, through its Pilgrim Insurance subsidiary, as an intermediary for certain insurance companies in administering motor vehicle insurance programs. The Company's income statement and reinsurance activity exclude \$53,206,339 and \$43,931,971 of premiums earned related to this third-party business and \$69,582,192 and \$54,536,676 of claims and claims adjustment expenses in 2003 and 2002, respectively. In connection with these arrangements, claim reserves exclude \$43,925,327 and \$43,856,143 at December 31, 2003 and 2002, respectively.

G. Stock-Based Compensation

Through 2002, the Company recorded compensation costs for stock-based employee compensation plans using the intrinsic value method. In 2003, the Company began recording compensation costs for stock-based employee compensation plans at fair value. Under the fair value method of accounting, expenses incurred for plans in existence prior to 2003 would approximate the Company's recorded amounts.

H. 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 \$1,525,124 and \$1,164,095 at December 31, 2003 and 2002, respectively, and are presented net of unbilled amounts of \$34,792,008 and \$24,055,487, 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, policy processing, billing, and claim management services in three Northeast states. Fee income is earned over the related policy periods. The balance sheet items, amounts due from (to) service clients, are balances with insurers for which Pilgrim Insurance Company, Palisades Safety and Insurance Management Corporation (PSIMC), and High Point Safety and Insurance Management Corporation (HPSIMC) provide services. PSIMC serves as attorney-in-fact for Palisades Safety and Insurance Association, a New Jersey reciprocal insurance exchange. HPSIMC provides services to High Point Preferred Insurance Company, High Point Safety and Insurance Company, and High Point Property and Casualty Insurance Company, insurers domiciled in New Jersey.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Consolidated Revenues

Revenues, net of reinsurance, for the separate companies for 2003 and 2002 were:

	2003	2002
Underwriting revenues:		
Plymouth Rock Assurance Corporation	\$183,371,784	\$147,663,909
Mt Washington Assurance Corporation	985,330	429,676
Bunker Hill Insurance Company	17,288,400	19,029,879
	<u>201,645,514</u>	<u>167,123,464</u>
Management revenues:		
The Plymouth Rock Company	12,031,013	8,038,643
SRB Corporation	8,918,775	7,448,448
Pilgrim Insurance Company	22,153,686	18,930,193
Palisades Safety and Insurance Management Corporation	16,915,367	10,872,036
High Point Safety and Insurance Management Corporation	11,824,279	-0-
	<u>71,843,120</u>	<u>45,289,320</u>
Intercompany eliminations	<u>(34,591,943)</u>	<u>(24,304,401)</u>
Total revenues	<u>\$238,896,691</u>	<u>\$188,108,383</u>

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:

	2003	2002
Net income	\$18,529,589	\$11,754,162
Depreciation and amortization	5,784,930	5,950,465
Deferred income taxes	(926,869)	(546,339)
Change in operating assets and liabilities:		
Premiums receivable	(18,571,643)	(3,727,545)
Accrued investment income	97,969	144,411
Receivable from reinsurers	(3,447,423)	168,946
Deferred acquisition costs	(2,102,715)	(258,096)
Claim and claim adjustment expense reserves	3,137,797	229,362
Unearned premium reserve	12,725,727	8,470,742
Payable to reinsurers	25,749,468	2,999,999
Advance premiums	316,492	1,538,743
Commissions payable and accrued liabilities	6,130,532	4,933,427
Unearned service fees	28,544,484	(1,011,154)
Amounts due from and to service clients	(26,459,877)	635,908
Other assets and other liabilities	(1,196,824)	(4,939,251)
Net cash provided by operating activities	<u>\$48,311,637</u>	<u>\$26,343,780</u>

THE PLYMOUTH ROCK COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. 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 aged 21 years or older. The Company accrued \$2,520,065 and \$1,776,097 during the calendar years ending December 31, 2003 and 2002, respectively, for its share of liabilities relating to this Plan.

The Company has established deferred compensation plans for officers, managers, and directors other than its founding shareholders. These plans generally provide for a rate of return on deferrals based on the financial performance of the Company. The Company accrued \$6,578,199 and \$4,985,151 as of December 31, 2003 and 2002, respectively, for liabilities relating to these plans.

In 1997, the Company implemented a Stock Incentive Award plan to reward key employees. The value of each Stock Incentive Award is based on the compounded increase in excess of 10 percent per year of the appraised value of the Company's common stock for the five-year vesting period following the date of the award. The cumulative numbers of outstanding awards as of December 31, 2003, 2002, and 2001 were 8,315, 9,253, and 9,389, respectively. Awards granted in 2003 and 2002 were 1,942 and 2,071, respectively. No awards have been exercised under this plan, and none were exercisable at December 31, 2003. During 2003, 938 awards were forfeited, and an additional 1,942 expired. Total expense recorded for the Stock Incentive Award plan was \$65,256 in 2003. No expense was recorded in 2002. This plan has been discontinued and no further awards under this 1997 Plan will be granted, although all outstanding awards will be honored in accordance with their terms.

Separate stock incentive awards totaling 6,044 shares were granted to individual officers of the Company in 1998 and 2000. Outstanding awards of 1,111 shares will vest in 2007 provided that certain performance and service requirements are met. The Company recorded expense of \$311,080 in 2003 and \$355,500 in 2002 related to these incentive awards.

Subsequent to year-end and effective February 2, 2004, the Company provided a long-term compensation package to a key officer. This package includes a grant of 3,150 shares of restricted stock and an option on 200 shares of restricted stock at an exercise price of \$150 per share, with an appraised value of \$990 per share. This option expires on December 31, 2006. All of these restricted shares will vest in their entirety in 2010 and 2011 provided that certain performance and service requirements are met. To determine the fair value of the restricted stock option, the Company uses the minimum value method with an interest rate of 5 percent and an expected option life of one year. Under this package, previously outstanding stock option awards to this officer of 4,933 shares were cancelled, and a deferred compensation award to this officer was settled for its fair value.

6. Note Payable

The Company issued a note payable in the amount of \$9,683,400 at an interest rate of 6.32% in 1998 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 \$336,000 and \$398,000 during 2003 and 2002, respectively. The Company has the right to prepay this note at any time.

THE PLYMOUTH ROCK COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Real Estate

The Company had ownership interests in two real estate properties as of December 31, 2003. One of these interests is a two-thirds ownership interest through a limited liability company. This investment is accounted for under the equity method. Costs for building improvements of approximately \$1,574,691 and \$333,571 were incurred in 2003 and 2002, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Land	\$ 4,523,650	\$ 4,697,778
Buildings, improvements, and other	<u>23,431,185</u>	<u>22,645,429</u>
Total cost	27,954,835	27,343,207
Less: accumulated depreciation	<u>4,175,747</u>	<u>3,982,911</u>
Net book value	<u>\$23,779,088</u>	<u>\$23,360,296</u>

Rental income from lessees other than from Plymouth Rock companies aggregated approximately \$3,915,000 and \$4,457,000 in 2003 and 2002, respectively. For each of the years 2004 through 2008, minimum annual rent receivable by the Company is approximately \$1,498,000. Total obligations of lessees to the Company through 2008 are approximately \$7,489,000. Buildings and improvements are depreciated over their useful lives, which range from two to thirty-nine years.

The total appraised value of the Company's real estate interests, as determined by independent appraisers during 2003 using the income and sales comparison approaches, was \$23.5 million. Because of uncertainties inherent in the appraisal process, as well as changing market conditions, the amounts that could be realized if the properties were actually offered for sale may differ from these appraised values.

In January of 2003, the Company sold one of its real estate interests. This real estate interest was sold for approximately \$1,350,000 and had a cost basis at the time of the sale of approximately \$900,000.

8. Goodwill and Intangible Assets

Goodwill of \$2,615,226, representing the excess of the purchase price over the estimated fair value of net assets acquired, results from the Company's purchase of insurance agencies. Effective January 1, 2002, in accordance with new accounting rules, the Company ceased amortizing goodwill. The Company now reviews goodwill annually for impairment. No impairment of goodwill was recorded for 2003 or 2002. Intangible assets of \$953,340, representing expirations and non-competition agreements, also exist as a result of the purchase of insurance agencies and are being amortized over periods ranging from three to seven years. Amortization associated with these intangible assets for 2003 and 2002 was \$331,723 and \$366,892, respectively.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Investment Securities and Investment Income

A. Marketable Securities

At December 31, 2003 and 2002, 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, 2003:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	\$ 40,977,216	\$ 140,784	\$ 328,941	\$ 40,789,059
State and municipal securities	35,962,911	1,556,303	-0-	37,519,214
Corporate debt securities	43,460,454	716,113	127,669	44,048,898
Mortgage-backed securities	22,062,468	124,675	78,848	22,108,295
Common stocks	27,298,009	13,398,095	211,558	40,484,546
Total	<u>\$169,761,058</u>	<u>\$15,935,970</u>	<u>\$ 747,016</u>	<u>\$184,950,012</u>

At December 31, 2002:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	\$ 48,106,284	\$ 1,332,466	\$ -0-	\$ 49,438,750
State and municipal securities	44,749,400	2,164,523	51	46,913,872
Corporate debt securities	27,270,023	1,244,035	43,665	28,470,393
Mortgage-backed securities	15,733,493	380,434	5,534	16,108,393
Common stocks	31,212,180	6,876,314	1,387,686	36,700,808
Total	<u>\$167,071,380</u>	<u>\$11,997,772</u>	<u>\$ 1,436,936</u>	<u>\$177,632,216</u>

At December 31, 2003, maturities of marketable securities were as follows:

	Amortized Cost	Fair Value
Due in 90 days or less	\$ 8,011,895	\$ 8,010,826
Due after 90 days and in one year or less	6,952,805	7,079,620
Due after one year and in five years or less	107,263,454	108,843,234
Due after five years and in ten years or less	8,137,277	8,388,532
Due after ten years	12,097,618	12,143,254
Common stocks	27,298,009	40,484,546
Total	<u>\$169,761,058</u>	<u>\$184,950,012</u>

The Company classifies these marketable securities as available for sale. At December 31, 2003, the Company carried four securities with a total fair value of approximately \$2,703,000 that had been in an unrealized loss position for longer than twelve months. Unrealized losses related to these securities were approximately \$235,000 at year-end. The Company views these losses as resulting from market conditions and believes them to be temporary.

