The Plymouth Rock Company

2014 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2015

To Our Shareholders:

There seemed every reason to anticipate a good year in 2014 throughout our family of companies. While a repeat of the prior year's record results, boosted by the sale of Homesite, was beyond the borders of the possible, Hal and I hoped that your company would report net income of nearly $50 million, approaching 2013's profit net of the Homesite gains. The year was still young, though, when Massachusetts automobile underwriting results began to fall behind; and they worsened as the months went by. Since that line of business is key to the shareholder-owned portion of our enterprise, income for the shareholders suffered. In the end, we earned little more than half of what was expected. The Plymouth Rock Company's net income was $29.2 million, down 56% from the 2013 number and 39% below 2012's less extraordinary profit of $48 million. Return on starting 2014 equity for the shareholders was 8.4%.

The complete picture is not quite as bad as this lead-off might suggest. There was good news from New Jersey, where the reciprocals we manage produced another $20 million in net income. The fully consolidated net income for the whole group was $49.0 million. The equity investment portfolio helped as well. In addition to the realized gains that flowed into income, the securities portfolio provided us substantial unrealized gains, of which $23 million flowed into shareholders' equity – although they aren't considered a part of net income. Plymouth Rock's per-share book value now stands at $3,089 per share versus $2,720 a year ago, up 14%. The 2014 results reduce the cumulative annual book value rate of return since inception (in 1983) by less than a tenth of a point; it still rounds to 18.2%. If real estate gains were included on the balance sheet or measurement of return, along with the other unrealized gains, the single-year rate of return in 2014 would exceed 16%, a solid number by American business standards though less than our own historical average return.

Another positive note is that Plymouth Rock grew in both of its markets. The group's underwritten and managed premium volume now stands at $1.11 billion, up almost $40 million from a year ago. New England's premium growth approached 9%. We were the only Massachusetts independent agent carrier to significantly expand market share. Our premium growth in New Jersey of 1% may not seem impressive, but it is satisfying enough given our recent history and market conditions there. After experiencing several years of declining volume in that state, we welcome the upward slope, however humble. Another 2014 plus is that the construction of a top quality analytical underwriting staff, something I had identified as my top priority a few years back, is now complete. We finally have the math and statistics brainpower a modern company needs, and in fact a strong enough team to set our sights on breaking ahead of the pack. I'd like at some point to have the same with respect to social media and other contemporary marketing methods, a capacity we will try to build in both our core business and our new insurance brokerage firm.

In order to finance 2013's stock buy-back without decimating our equity portfolio, we added in that year a collateralized loan of $45 million to our balance sheet. Since I am habitually debt-averse, I had every expectation that we would rid ourselves of that troublesome loan by now. We moved part way in that direction, but I just couldn't bring myself to finish the job. Federal Reserve policy and a lukewarm economy have rendered this a freak period for interest rates, where debt appears a true bargain. Jim Bailey and I still expect prospective equity returns to exceed borrowing costs by a solid margin. Recall, moreover, that the debt is fully collateralized, with a large cushion to spare, so we are far from betting our legacy on market predictions. We are conforming to the advice I received 45 years ago from a mentor, Georges F. Doriot, who insisted, "You must never borrow money when you need it; only when you don't." We ended the year with $15 million of the original loan still on our balance sheet.

New England results get the front page among individual operations this year, not usually a coveted spot. Chris Olie runs our New England businesses. Three-fourths of his domain's volume comes from Massachusetts auto insurance. This line has been a solid performer for us since the Company's inception, with reasonably consistent top and bottom lines gains. By February, Chris was already warning us that 2014 would fall short. This past year brought the coldest, longest winter Massachusetts has experienced in the new century. March temperatures were five degrees below the fourteen-year norm. Elevator conversations, among folks bundled up even for short walks, were suddenly riddled with a new phrase: Polar Vortex. The relentless cold begat icy roads, and the slippery roads begat unanticipated accident frequencies.

The frigid winter would have been bad enough, but there was a second drag on New England earnings – this one of our own making. It became apparent by midyear that our prior-period automobile insurance claim reserves were inadequate. Reserving is by its nature an inexact science. The task is to predict the final claims cost to an insurer for a stated period at a time when some of that period's claims are yet to be adjusted and paid, some may be awaiting arbitration or trial, and others have not even been reported yet. An actuary uses historical patterns and professionally honed reasoning to make an educated guess about the ultimate costs, and we book a number based on that estimate as a reserve. We do not expect these predictions to be precise, but we always hope that they will prove neither insufficient nor so inaccurate as to misinform our pricing process or the readers of our financials. Our record in Massachusetts auto insurance reserving had been acceptable for most of the last ten years, but it is clear that the reserves set aside for 2012 and 2013 were inadequate. While the shortfalls were within the range of imprecision our industry expects from time to time, less than 4% in each of the two years, the double catch-up for two years of inadequacy was painful for our calendar year performance in 2014. Add the reserve strengthening to the impact of the long, cold winter, and the year was bound to disappoint. The combined ratio for Massachusetts auto was 103%, and the net income for the whole of our New England underwriting businesses was less than $3 million, almost $14 million under budget.

Our joint marketing program with AARP, a cheering bright spot, gained steam in 2014. The growth in New England writings reflected this special opportunity and healthy independent agency relations in general. The latter assertion is evidenced by the fact that our premiums written in Massachusetts have grown by a cumulative 33% in the past three years, not bad for a company some thought couldn't thrive under the state's managed competition regime. A number of our agents in both New England and New Jersey have told us that we are the best of their company partners for this rapidly evolving insurance marketing environment. That's a lead I would like to widen. The direct response giants, GEICO and Progressive, now share a Massachusetts market penetration of 8.5%, up about a point and a half from a year ago. They could perhaps have grown faster, but they still chafe at Massachusetts' admirable consumer safeguards, restricting the use of credit scores and other socio-economic variables in pricing.

Bunker Hill is our New England homeowners carrier. For some years now, it has been shifting emphasis away from writing business when it covers a customer's home but no company in our group insures the auto. Bunker Hill now concentrates on attracting account-written business, where we write both. Premium grew by nearly 13% to $47 million during 2014, and the transition to account-written business is nearly complete. The harsh winter that hurt our auto results so badly had reassuringly little impact on our homes, and the net income contribution of Bunker Hill to our group exceeded $3 million. Pilgrim Insurance Company does work for other insurers on a fee basis. It does a fine job for its customers, and thus continues to add clientele. The Massachusetts public's gain, though, has been Pilgrim's loss. Our Pilgrim's progress has been slowed by healthy conditions in the insurance marketplace, which have caused the involuntarily placed pool of drivers to shrink. Servicing that pool is where Pilgrim had always earned plaudits, but when that residual pool is small, so is the available revenue. The personal auto residual market a few decades ago in Massachusetts was larger than the voluntary market. Now it represents just one to two percent of the total. Still, Pilgrim this year added an important new account, and it kept its contribution to 2014 profit at $2.3 million, about the same as in the prior year. Our forays into other New England states haven't moved any needles much. Mt. Washington Assurance, in New Hampshire, contributed a tiny profit to the group on a $17 million book of business. Our Connecticut earned premium jumped by 50% to $21 million, but it is still written at a loss.

Plymouth Rock Assurance of New Jersey is a tale of three channels. Our industry generally classifies distribution methods into three sales buckets: Independent Agency, Exclusive Agency, and Direct Response. In New Jersey, we use all three approaches, and all are important to us. Our Independent Agency business is our oldest New Jersey channel. Only by comparison to some recent past years would we celebrate its 2014 performance. Its overall profit contribution was negligible, and the number of cars and homes it covers rose by almost 4%. On the growth front, though, this handily beat that channel's last five years' track record, so we hope we are seeing a trend that will continue into 2015. The auto insurance market in New Jersey continues to be quite competitive, with the direct response carriers continuing to drain market share from the two agency channels. Plymouth Rock's New Jersey profit in the Independent Agency channel came entirely from homeowners writings in 2014.

The Exclusive Agency business we write in the Garden State has always been profitable, except in the year of Superstorm Sandy. It suffers, however, from The Shrinks. The number of autos covered was down 5% in 2014. Since Prudential homeowners is our most profitable New Jersey line, and Prudential auto is next, Gerry Wilson's most enduring task as New Jersey CEO, and among his most challenging, is to expand that business. The New Jersey direct response channel is the newest and the fastest growing of the three distribution methods, but its business has yet to reach profitability. Building a direct response book that loses money is not actually a tough challenge. Internet and telephone shoppers are price sensitive enough to arrive in droves if a company purposely underprices its product. The task is to attract them at prices that make the company money. Direct automobile premium has now reached $86 million, and is expected to approach $100 million in 2015. Scale will help the expense ratio, and seasoning will help the loss ratio, so we are counting on the net losses in this channel to decline from this point forward. Gerry, Hal, and I are all, in any case, committed to a three-channel strategy in New Jersey, so we will press forward on all three fronts.

The course of my own work at Plymouth Rock took a bit of a detour in 2014. Hal was out on a well-earned sabbatical in the spring, and Chris took a sabbatical in the fall. It is just coincidence that these relatively rare events occurred in the same year, but the confluence provided me an opportunity for more involvement than normal in the Company's day-to-day management. It was a little like a rerun of a movie from decades ago when I touched everything. My principal focus turned out to be our expenses, since Gerry and Chris took the long oars in moving ahead with the IT team on our essential systems alignment project and Mary Sprong led the successful effort to earn us a coveted spot on the Boston Globe's roster of Best Places to Work in Massachusetts. With much help from other officers, and competent input from an expert outside consultant, I definitively established what we all already knew. Plymouth Rock's overall expense levels, considering all spending other than claims checks, have been about two points higher than industry norms, properly adjusted for marketing channel mix. All officers have now joined me in a pledge to lower our all-inclusive expense ratio by a full point in calendar 2015. We will then endeavor to do the same again in 2016. This will be no small effort, but it is long overdue.

Our bonds returned close to nothing on a GAAP basis, a reflection not of poor management but the current interest rate environment. Stocks, though, made up for the bonds, and our portfolio is more weighted toward equities than those of most insurers. It would scarcely have been possible for the 2014 stock market to have matched its 2013 gain of 32%. Those returns are the stuff of dreams, or more precisely they exemplify the occasional spurts that provide the rationale for a buy-and-hold equity strategy. You don't know when the express train is coming, but you certainly don't want to miss it by staying away from the platform in the delusional belief that you can predict when the fast trains are coming and then rush in to catch them. The Standard & Poor's index returned 13.6% this past year, which isn't all that bad. The overall equity return on our always undiversified portfolio was over 18%. The best performing stock was Intel, which rose 44% during the year. At the other extreme, we have a loss on Coach, a position that prevailing accounting standards require us to record as Other Than Temporarily Impaired. We haven't sold our Coach stock, which you can take as a sign that we remain convinced the retailer's recent weaknesses are reversible. The compound annual gain on Plymouth Rock's common stock investments now stands at 16.7% from inception. This compares nicely with the S&P return of 13.2% for the same period.

Our various companies' investments in competitor Safety Insurance appreciated 18% during the year. We recently sought, and obtained, permission from the state's Insurance Division to allow the combined portfolios we manage to exceed the (almost) 10% of Safety's common stock already held, and we are watching its price carefully now to see if we should purchase more. Yes, this effectively increases our concentration in a single market and product line, but it's one we know well, and we continue to think that Safety is a conservatively run company with more upside than downside. Massachusetts automobile insurance gained a poor industry reputation because of its consumer protections, not its lack of opportunity to earn a fair profit. Had we bought more Safety shares (or, in fact, more of our own shares) in the past, our book value would have grown faster over the years.

Boston real estate enjoyed price rises in excess of long-term trends as well. Gains in the value of our two downtown buildings are not reflected anywhere on our balance sheet or income statement. For historical reasons likely related more to pressure from major financial institutions than public policy goals, Generally Accepted Accounting Principles require that our real estate be carried at amortized cost, no matter how much it may have appreciated in value. Our Massachusetts insurer was able to reflect the full appraised value of the Plymouth Rock Building on its statutory accounting statements by selling it to the parent holding company, but the parent can only carry the building at cost. Consequently, while 695 Atlantic is now worth close to twice our cumulative cost, this gain is not reflected on the consolidated balance sheet. Consider the tax-adjusted gain a component of book value, as real as any other, even though you need to search the footnotes to find it.

The equity securities in our portfolio, other than marketable stocks and real estate, include hedge funds and private equity partnerships. These did not match our marketable equities in performance for the past year. I hear more and more these days that hedge fund indices generally are slipping in return relative to the market, which presumably is related to their over-proliferation. Hedge fund management is the very peak of fashion for talented young people making career choices in this decade, a danger sign that glows ominously in the dark. This observation provides a decent bridge to my next topic.

I often devote a bit of this letter's space to public policy. Excesses in the financial sector have been my recent topic, with a focus on the large banks. This is in part because the banks were at the center of the 2008 crisis and will likely be, if not reined in, similarly central to a next crisis. Hedge fund activity was not the proximate cause of the crash, and the hedge funds are not as vital a part of our economic system as the banks, so they are generally given less attention. More and more, however, I hear from regulators, scholars, and bankers that the reforms needed in banking can never be implemented because the partially regulated banks would then simply lose their business to the unregulated shadow banking world. That world is where hedge funds dominate.

The phrase “hedge fund” is a misnomer; there is no requirement that these entities offset, or hedge, their risks in any way. The phrase, at least in the United States, really means any money management vehicle exempted from regulation under the Investment Company and Investment Advisers Acts of 1940. The Dodd-Frank Act has recently required registration by hedge fund managers under the advisers’ law, but it did not apply the regulatory strictures or disclosure requirements that the two Acts’ framers intended to go with this registration. My view is that, although a number of hedging techniques not visualized in 1940 are useful to our economy, the very existence of exempted investment funds is an error of public policy. What began as an exemption for family offices (with no money from the general public) morphed into an exemption for any collection of wealthy investors, which in turn evolved into an exemption for all large investors, including pension funds and other repositories of the general public’s savings. One of the most successful regulatory regimes in history was thus gutted.

The consequences include these. We are denied regulatory repair in the banking sector. Tax dollars are lost in untraceable overseas dodges. Wealth and influence have become all the more concentrated in the hands of a few. Much of the country’s best talent is drained into unproductive trading activity and its defense. And all other market participants are disadvantaged by a host of strategies, too many of which are on a spectrum that runs from blatant illegality to financial freeloading – scarfing food from the table of slower or more scrupulous investors. I don’t presume hedge fund operators to be any more or less honest than anyone else, but under the cloak of invisibility many more will misbehave than would do so in plain sight. Louis Brandeis famously said that sunlight was the best disinfectant. The shadow banking world should now undergo a major cleansing with that disinfectant. The best start would be to revoke most all of the current exemptions from a modestly updated 1940 Act. The next step would be to require full disclosure of holdings and strategies, and then the forbiddance of those that harm markets and disadvantage ordinary investors. Plymouth Rock invests in some carefully vetted hedge funds, and will continue to do so, but would have no objection whatsoever to their losing the special and unearned privileges of secrecy they now enjoy.

Among the subjects on my mind these days as I ponder Plymouth Rock’s future is the impressive progress being made in automobile safety. I am unconvinced that there is a driverless car right around your corner. Truly autonomous cars may someday ferry this letter’s younger readers from place to place, but for now they are still too experimental for practical use. Engineering and legal issues still unsolved will take at least a decade to work through. On the other hand, cars with radar and automatic braking are already a reality. Gradually, they will come to dominate the assembly lines and, some years after that, the nation’s existing fleet of private vehicles. It seems a dead certainty that they are coming, and, hurrah; this is a wonderful development. Roughly 30,000 people are still killed every year in road accidents, and many times that are injured. Technology can prevent the vast bulk of those tragedies. There will still be accidents when cars hit jaywalkers or kids chasing balls and puppies, and a good number on icy roads where brakes fail, but overall frequency is bound to fall. As it does, revenue to the automobile insurance industry will decline with it. This will not happen suddenly, and it may be preceded by some years in which premiums are generous for the descending indemnity costs, but there is no use pretending that ours will be a twenty-year growth industry.

Plymouth Rock must accept this, shift its emphasis to a growing insurance line, or alter its business direction more fundamentally. All three of these options are available, and none is catastrophic. Companies in most other industries have to reinvent themselves regularly to survive.

One place to look for a shift of emphasis with minimal disruption is the homeowners line. Plymouth Rock has been in the business of insuring homes since the Company's inception, so it's a familiar line of work. And I have some extra knowledge of it from my role in the founding of Homesite Insurance Group, which went on to become the most skilled homeowners writer in the country -- and may soon, as a subsidiary of a large mutual insurer, catch Plymouth Rock in scale. The problem with homeowners insurance is that it is subject, now and forever, to catastrophe risk from natural disasters such as earthquakes and hurricanes. Automobile insurers are largely protected by the law of large numbers; homeowners insurers have no guardian angel. This is why the smartest auto insurance executives I have known stayed away from accepting homeowners risk -- and brokered their potential homeowners customers to others. Progressive was one of the absentees, but, with the 2014 purchase of one of its homeowners partners, it has now signaled a change in course. The average premium for a home was just a fraction of the average premium to insure a car when I entered this industry. Now the two are about equal, and the pace of homeowners premium growth shows no sign of abating. As homes get larger and more expensive, skilled repair craftsmen become rarer, and a higher percentage of people live near the sea, the trend seems plain enough. I am open to a cautious expansion of Plymouth Rock's footprint in the homeowners insurance business, but only if we can develop an expertise in both reinsurance and home-specific risk analytics that matches Homesite's and, at the same time, maintain an effective wall between the auto and homeowners lines.

I reported to you last year that Hal and I had birthed a new insurance brokerage firm with national ambitions. That company, called InsuraMatch, will absorb our existing New England agency and is intended, beyond that, to help lead our whole group into better use of the Internet. It will also provide us some welcome diversification by line and location. Its start in year one was a bit uncertain, with sales not at the levels forecast, but that has been the case for virtually all of the entrepreneurial ventures I have helped to foster. Hal and I still feel highly confident of its prospects. Marc Buro, a veteran Plymouth Rock executive, is now the broker's Chief Executive. And that may not be our only expansion. Entrepreneurship runs in our corporate veins, and some of our best past successes have come by acquisition. Hal, Chris, and I looked hard at a Connecticut company for sale this year, and even made a rational bid for it. Another insurance company put in a higher bid, though, and won the prize -- a result we are used to by now. We always remain open to possible acquisitions, but only when a bargain presents itself. If only the Company were more famous, our patience would be legendary.

James M. Stone

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013
(dollars in thousands)

Assets	2014	2013
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 69,758	$ 84,940
Investment securities	555,851	496,414
Accrued investment income	5,946	7,454
Premiums receivable	119,154	112,949
Ceded unearned premium reserves	20,488	16,063
Deferred acquisition costs	29,045	27,992
Amounts receivable from reinsurers and pools	27,532	28,579
Prepaid expenses, agent loans, and deposits	10,842	13,491
Real estate	36,077	35,692
Fixed assets	39,102	35,031
Goodwill and intangible assets	4,399	4,505
Other assets	2,713	2,201
Subtotal	920,907	865,311
Palisades Reciprocal Group		
Cash and cash equivalents	13,246	48,685
Investment securities	1,164,632	1,076,024
Accrued investment income	5,652	6,885
Premiums receivable	106,540	102,780
Ceded unearned premium reserves	18,602	27,526
Deferred acquisition costs	23,624	21,387
Amounts receivable from reinsurers and pools	51,926	88,310
Goodwill and intangible assets	13,760	15,004
Income tax recoverable	8,145	22,155
Other assets	2,880	1,078
Subtotal	1,409,007	1,409,834
Total assets	$2,329,914	$2,275,145

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013
(dollars in thousands)

Liabilities	2014	2013
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 175,565	$ 148,344
Unearned premium reserves	203,500	190,848
Advance premiums	7,155	6,895
Commissions payable and accrued liabilities	54,524	59,963
Amounts payable to reinsurers	7,189	7,961
Deferred revenue	3,238	1,017
Unearned service fees	3,013	3,687
Secured loan	15,000	45,000
Income tax payable	129	16,849
Deferred income taxes	36,055	19,956
Other liabilities	1,772	2,288
Subtotal	507,140	502,808
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	636,891	679,175
Unearned premium reserves	277,890	272,260
Advance premiums	9,187	9,050
Commissions payable and accrued liabilities	46,323	61,234
Amounts payable to reinsurers	2,129	8,191
Deferred revenue	5,552	6,962
Surplus notes	-0-	25,000
Deferred income taxes	29,353	3,347
Other liabilities	2,062	1,435
Subtotal	1,009,387	1,066,654
Total liabilities	1,516,527	1,569,462
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	30	375
Retained earnings	335,752	307,800
Net unrealized gain on investments	62,146	39,517
The Plymouth Rock Company stockholders' equity	397,928	347,692
Palisades Reciprocal Group	415,459	357,991
Total liabilities and equity	$2,329,914	$2,275,145

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2014 and 2013
(dollars in thousands)

Revenues	2014	2013
The Plymouth Rock Company and Subsidiaries		
Premiums earned in underwriting activities	$ 355,823	$ 317,461
Fees earned from service activities	183,929	183,360
Investment income and capital gains	22,101	62,315
Subtotal	561,853	563,136
Palisades Reciprocal Group		
Premiums earned in underwriting activities	637,718	624,859
Fees earned from service activities	715	582
Investment income and capital gains	25,583	42,849
Subtotal	664,016	668,290
Less: Intra-group transactions	177,035	174,256
Total revenues	1,048,834	1,057,170
Expenses		
The Plymouth Rock Company and Subsidiaries		
Claims and claim adjustment expenses	271,424	225,074
Policy acquisition, underwriting, and general expenses	95,062	87,170
Service activity expenses	151,222	145,778
Subtotal	517,708	458,022
Palisades Reciprocal Group		
Claims and claim adjustment expenses	446,506	440,517
Policy acquisition, underwriting, and general expenses	190,027	186,273
Service activity expenses	827	821
Subtotal	637,360	627,611
Less: Intra-group transactions	177,035	174,256
Total expenses	978,033	911,377
Income before income taxes	70,801	145,793
Income taxes	21,816	25,152
Fully consolidated net income	48,985	120,641
Less: Net income of Palisades Reciprocal Group	19,770	54,603
Net income of The Plymouth Rock Company and Subsidiaries	$ 29,215	$ 66,038

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2014 and 2013
(dollars in thousands, except per share data)

	2014	2013
The Plymouth Rock Company and Subsidiaries		
Net income	$ 29,215	$ 66,038
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	23,477	19,889
Less: Gain on investments included in net income	848	3,630
Change in net unrealized gain on investments during the year	22,629	16,259
Comprehensive income	51,844	82,297
Palisades Reciprocal Group		
Net income	19,770	54,603
Other comprehensive income, net of tax:		
Total unrealized gain on investment securities during the year	41,582	22,681
Less: Gain on investments included in net income	3,884	4,984
Change in net unrealized gain on investments during the year	37,698	17,697
Comprehensive income	57,468	72,300
Fully consolidated		
Net income	48,985	120,641
Change in net unrealized gain on investments during the year	60,327	33,956
Comprehensive income	$ 109,312	$ 154,597

The Plymouth Rock Company and Subsidiaries - Per share data

	2014	2013
Weighted average common shares outstanding	128,390	165,784
Net income per share	$ 227.55	$ 398.34
Common shares outstanding at end of year	128,823	127,816
Common stockholders’ equity per share	$3,088.95	$2,720.25

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, 2014 and 2013
(dollars in thousands)

Cash flows from operating activities	2014	2013
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 401,039	$ 360,062
Reinsurance premiums paid	(43,707)	(33,824)
Finance charges collected	6,294	4,185
Fees and commissions collected	184,638	180,400
Investment income and capital gains received	19,040	57,574
Gross claims and claim expenses paid	(263,752)	(237,445)
Reinsured claims and claim expenses collected	20,427	23,973
Policy acquisition, underwriting, and general expenses paid	(89,914)	(90,858)
Income taxes paid	(29,081)	(25,373)
Service activity expenses paid	(141,771)	(127,441)
Net cash provided by operating activities	63,213	111,253
Palisades Reciprocal Group		
Gross premiums collected	696,299	693,132
Reinsurance premiums paid	(53,711)	(64,760)
Finance charges collected	1,923	4,035
Fees and commissions collected	717	577
Investment income and capital gains received	32,201	46,025
Gross claims and claim expenses paid	(504,180)	(606,024)
Reinsured claims and claim expenses collected	30,858	125,241
Policy acquisition, underwriting, and general expenses paid	(195,935)	(188,991)
Income taxes recovered	12,832	2,961
Service activity expenses paid	(830)	(821)
Net cash provided by operating activities	20,174	11,375
Total net cash provided by operating activities	$ 83,387	$ 122,628

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, 2014 and 2013
(dollars in thousands)

Cash flows from financing activities	2014	2013
The Plymouth Rock Company and Subsidiaries		
Repurchase of common stock	$ -0-	$(141,277)
Proceeds from secured loan	-0-	45,000
Repayment of secured loan	$(30,000)	-0-
Tax impacts of stock-based compensation	(463)	-0-
Net cash used in financing activities	(30,463)	(96,277)
Palisades Reciprocal Group		
Repayment of surplus note	(25,000)	-0-
Net cash used in financing activities	(25,000)	-0-
Total net cash used in financing activities	(55,463)	(96,277)
Net cash provided by/(used in)		
The Plymouth Rock Company and Subsidiaries	$ 32,750	$ 14,976
Palisades Reciprocal Group	$ (4,826)	$ 11,375
Total	$ 27,924	$ 26,351
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ (15,182)	$ 41,893
Net investment activity	24,157	(50,171)
Net real estate activity	2,259	2,016
Purchases of fixed assets	21,516	21,238
Net cash related to investing activities	$ 32,750	$ 14,976
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ (35,439)	$ 15,169
Net investment activity	30,613	(3,794)
Net cash related to investing activities	$ (4,826)	$ 11,375
Total net cash invested	$ 27,924	$ 26,351

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2014 and 2013
(dollars in thousands)

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Total Stockholders' Equity	Palisades Reciprocal Group	Total Equity
December 31, 2012	$ 28,277	$354,098	$23,258	$405,633	$285,691	$691,324
Comprehensive income	-0-	66,038	16,259	82,297	72,300	154,597
Stock-based compensation	1,039	-0-	-0-	1,039	-0-	1,039
Repurchase of common stock	(28,941)	(112,336)	-0-	(141,277)	-0-	(141,277)
December 31, 2013	$ 375	$307,800	$39,517	$347,692	$357,991	$705,683
Comprehensive income	-0-	29,215	22,629	51,844	57,468	109,312
Stock-based compensation	(345)	(1,263)	-0-	(1,608)	-0-	(1,608)
December 31, 2014	$ 30	$335,752	$62,146	$397,928	$415,459	$813,387

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

1. Nature of Operations

The Plymouth Rock Company is a privately held company which was founded in 1982 and has been headquartered in Boston, Massachusetts since its inception. Its primary business is the ownership and management of property and casualty insurance companies, specializing in coverage for personal automobiles and homes. The Plymouth Rock Company, through a number of operating subsidiaries, insures automobiles and homes in Massachusetts, New Hampshire, and Connecticut and provides various insurance and investment management services for insurance entities in those states and other states in the northeastern United States. The Plymouth Rock Company and its wholly owned subsidiaries are generally referred to in these financial statements as "The Plymouth Rock Company and Subsidiaries".

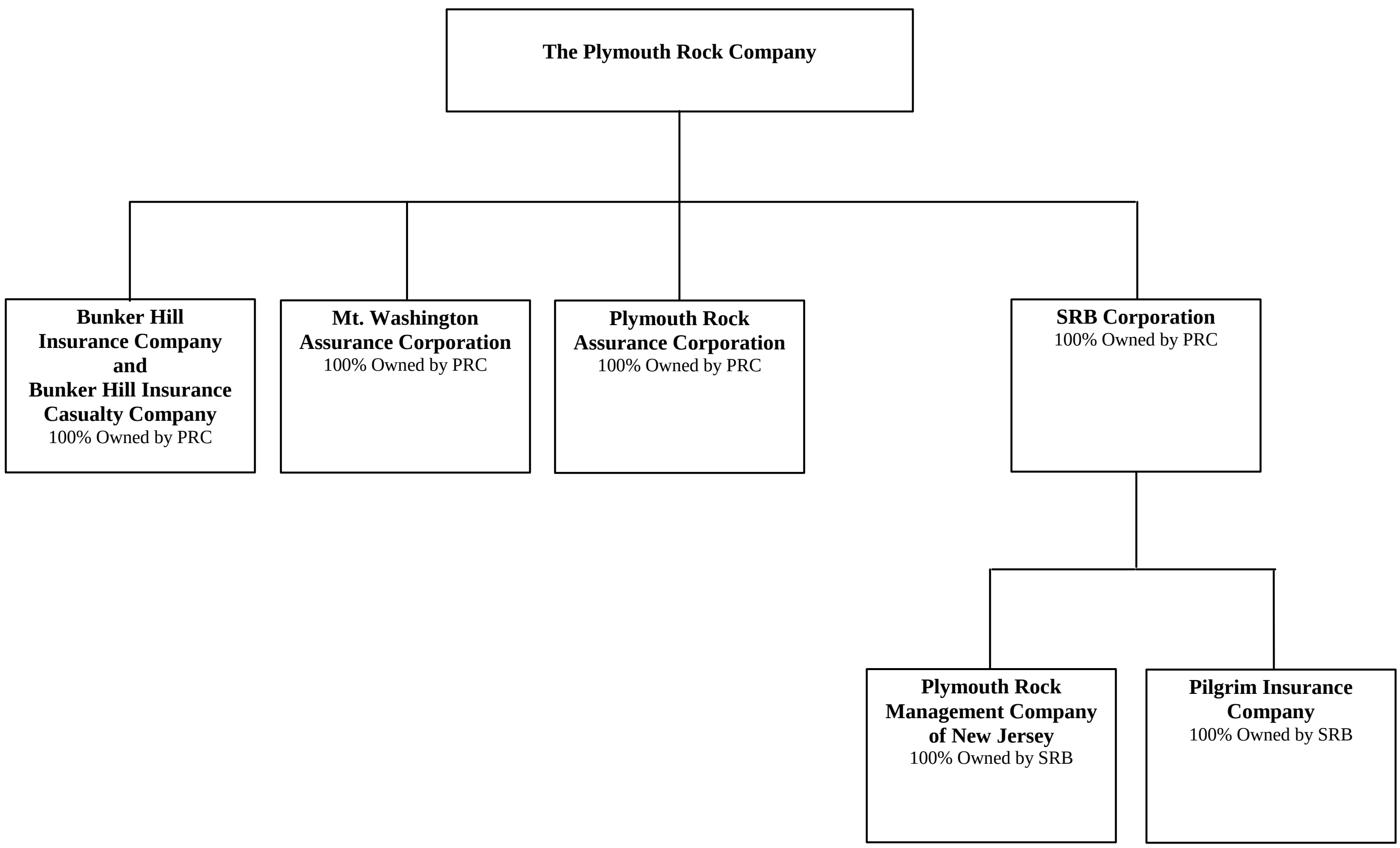
Among The Plymouth Rock Company's largest businesses is the management of a reciprocal insurance group in New Jersey, which is conducted through a subsidiary. The members of that reciprocal group of companies, which are referred to in these financial statements as the "Palisades Reciprocal Group", are not owned by The Plymouth Rock Company. They are operated in accordance with New Jersey statutes and regulations applicable to reciprocal and stock insurers. The Palisades Reciprocal Group includes Palisades Safety and Insurance Association, a New Jersey reciprocal insurance exchange, and several subsidiaries, all of which are domiciled in New Jersey and which operate only in that state. A management company, which is included in The Plymouth Rock Company and Subsidiaries in these financial statements, provides executive management, accounting, marketing, underwriting, and claim adjustment services in exchange for management fees to eight insurers listed below and to two smaller subsidiaries, all of which are included in the Palisades Reciprocal Group. This subsidiary of The Plymouth Rock Company, Plymouth Rock Management Company of New Jersey, provides services to Palisades Safety and Insurance Association, Palisades Insurance Company, Palisades Property and Casualty Insurance Company, High Point Preferred Insurance Company, High Point Safety and Insurance Company, High Point Property and Casualty Insurance Company, Twin Lights Insurance Company, and Teachers Auto Insurance Company of New Jersey. The Plymouth Rock Company also has subsidiaries that provide various insurance and investment management services to both the Palisades Reciprocal Group and other third-party clients in exchange for negotiated fees.

1. Nature of Operations, continued

The Plymouth Rock Company's financial statements consolidate the results of the members of the Palisades Reciprocal Group. The Plymouth Rock Company and Subsidiaries have in the past provided capital to the Palisades Reciprocal Group in the form of surplus notes and preferred stock that account for $18.6 million, or 4.5 percent and 5.2 percent, of the equity of the Palisades Reciprocal Group at December 31, 2014 and 2013, respectively. The Plymouth Rock Company and Subsidiaries do not bear direct risk or earn direct rewards on the basis of the performance of the Palisades Reciprocal Group. Under present accounting standards, a service provider is required to consolidate variable interest entities that it services if it has the power to direct the activities that most significantly affect the performance of those entities and if the fees paid for those services are significant relative to the service recipient's overall economic performance. The Plymouth Rock Company and Subsidiaries manage all activities of the Palisades Reciprocal Group, and the servicing fees received by The Plymouth Rock Company and Subsidiaries are significant relative to the financial results of the Palisades Reciprocal Group; therefore the results are presented in a consolidated manner despite fundamental legal and regulatory distinctions between The Plymouth Rock Company and Subsidiaries on one hand and the Palisades Reciprocal Group on the other.

2. Organization of The Plymouth Rock Company and Subsidiaries

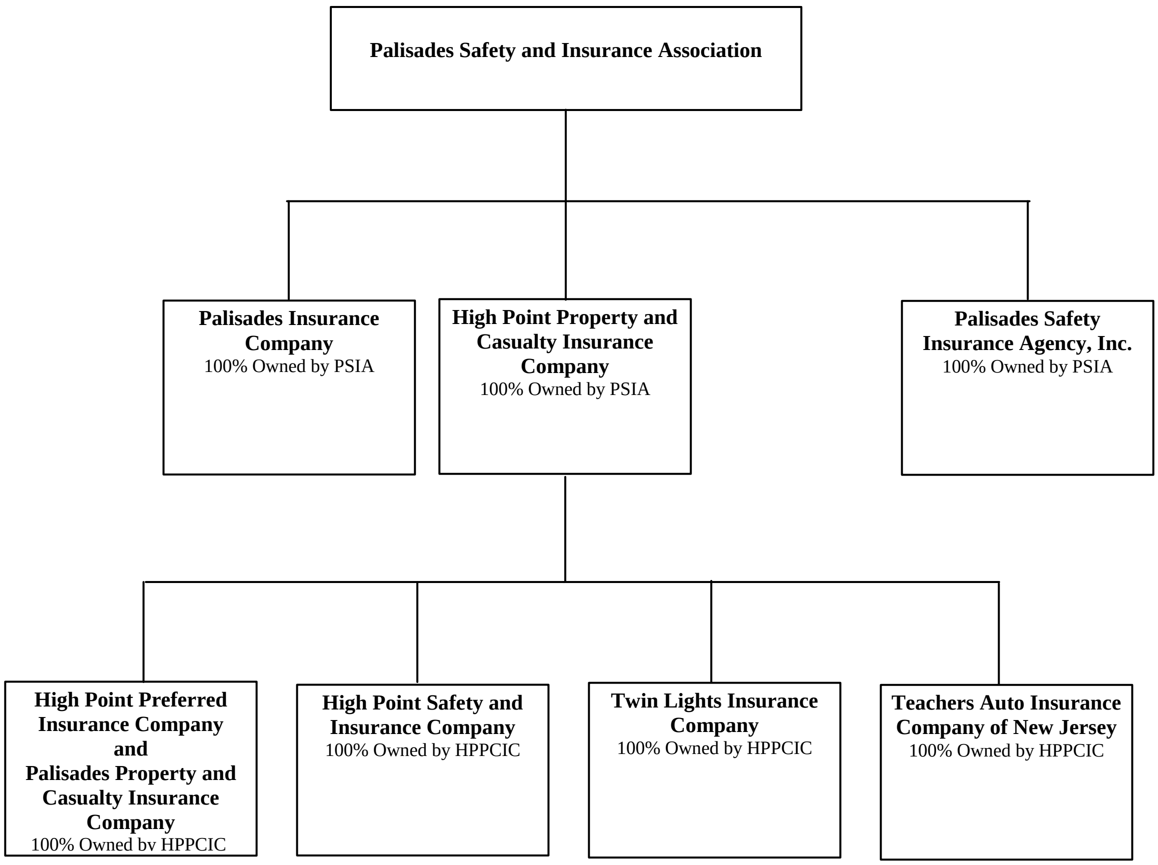
The corporate and ownership structure of The Plymouth Rock Company and principal subsidiaries is shown in the following chart:



Other subsidiaries include 99 Bedford Corporation and 695 Atlantic Avenue Company, LLC, which own real estate; Shared Technology Services Group Inc. and InsuraMatch, LLC (formerly BCS Holding Company, LLC), which are wholly owned subsidiaries of SRB Corporation; and High Point Brokerage Company, Inc. and National Atlantic Insurance Agency, Inc., which are wholly owned subsidiaries of Plymouth Rock Management Company of New Jersey.

3. Organization of the Palisades Reciprocal Group

The corporate and ownership structure of the Palisades Reciprocal Group is shown in the following chart:



4. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of The Plymouth Rock Company and Subsidiaries as well as those of the Palisades Reciprocal Group. Significant accounts and transactions among companies within each of the two groups, as well as those between the groups, have been eliminated upon consolidation. The assets of The Plymouth Rock Company and Subsidiaries have been reduced by amounts due for services provided to the Palisades Reciprocal Group and by the value of certain surplus note and preferred stock investments in the Palisades Reciprocal Group. The liabilities of The Plymouth Rock Company and Subsidiaries have been reduced by the amount of service fee revenue from the Palisades Reciprocal Group that has not yet been earned as of the balance sheet date. Each of the reductions to the balance sheet of The Plymouth Rock Company and Subsidiaries requires a corresponding reduction on the Palisades Reciprocal Group balance sheet. Therefore, while total assets equal the sum of total liabilities and equity, this equation will not hold within the separate groups presented in the balance sheet.

B. Stock-Based Compensation

Expenses for stock-based employee compensation plans are recorded at their fair value on the basis of an annual independent appraisal. The term “fair value” used here and throughout the notes to the financial statements means the value at which a transaction would be expected to occur between a willing buyer and seller.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These judgments affect the amounts of assets, liabilities, revenues, and expenses reported in the consolidated financial statements and the disclosure of contingent assets and liabilities in the footnotes. Actual results could differ from those estimates.

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. Liabilities for outstanding checks for The Plymouth Rock Company and Subsidiaries of $373,000 and $2.3 million are included in accrued liabilities at December 31, 2014 and 2013, respectively. Liabilities for outstanding checks for the Palisades Reciprocal Group of $14.7 million and $7.5 million are included in accrued liabilities at December 31, 2014 and 2013, respectively.

Marketable fixed income and equity securities are carried at their market values. 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, after deduction of applicable deferred income taxes, are credited or charged directly to equity. Where a decline in the value of a marketable security is deemed other-than-temporary, the value of the security is written down to its fair value. Any portion of the decline in value attributable to credit quality is reported as a component of net realized capital gains, while any portion attributable to other factors, such as fluctuations in interest rates, is reported as a component of other comprehensive income. Since unrealized losses are a component of stockholders' equity, the recognition of other-than-temporary impairment losses has no effect on comprehensive income or stockholders' equity.

Alternative equity investments are valued using the equity method, which approximates fair value, with all changes in value included in net income. The values of these holdings are generally determined by the managers of the investment vehicles on the basis of information reported to them as well as their assessments of the underlying investments.

E. Real Estate and Fixed Assets

Real estate and fixed assets are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are principally provided for on the straight-line method over the estimated useful lives or the applicable lease terms. Real estate holdings are valued annually by an independent appraiser.

4. Summary of Significant Accounting Policies, continued

F. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred as of December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of an equivalent amount of deferred commission income on ceded reinsurance, with any deferred ceding commission income in excess of the deferred acquisition costs recorded as a liability. The amortization of deferred acquisition costs and deferred ceding commission income, including any excess portion, are presented on a net basis as policy acquisition expense on the statement of comprehensive income. Net amortization associated with these deferred costs for 2014 and 2013 for The Plymouth Rock Company and Subsidiaries was $53.2 million and $49.8 million, respectively, while the 2014 and 2013 net amortization for the Palisades Reciprocal Group was $47.1 million and $45.5 million, respectively.

G. Recognition of Premium Revenues

Insurance premiums written are earned on a daily basis over the terms of the policies. Unearned premiums represent amounts that are applicable to the unexpired terms of policies in force.

Premiums receivable are net of reserves for doubtful collections. At December 31, 2014 and 2013, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $1.1 million and $941,000, respectively. The reserves for doubtful accounts of the Palisades Reciprocal Group at December 31, 2014 and 2013 were $3.7 million and $3.4 million, respectively.

H. Recognition of Fees Earned from Service Activities

The Plymouth Rock Company and Subsidiaries earn management fees from the Palisades Reciprocal Group and other unaffiliated companies for providing sales, underwriting, policy issuance, claim adjusting, accounting, and other insurance-related services. Fees from service activities are earned over the applicable policy terms. In 2014 and 2013, fees of $177.0 million and $174.3 million, respectively, earned from the Palisades Reciprocal Group are eliminated upon consolidation. The balance sheet item “other assets” consists of balances with insurers for which Pilgrim Insurance Company provides services.

4. Summary of Significant Accounting Policies, continued

I. Amortization of Goodwill and Intangible Assets

The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group each carry goodwill arising from past acquisitions. This goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired. Goodwill is not amortized, but instead is reviewed annually for impairment.

Past acquisitions have also resulted in intangible assets for both The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group. Intangible assets are separated into two categories. Indefinite-lived intangible assets are not amortized and are subject to annual impairment testing like goodwill. Finite-lived intangible assets are amortized using the straight-line method over the estimated useful lives of the assets.

No impairment of the goodwill or indefinite-lived intangibles of either The Plymouth Rock Company and Subsidiaries or the Palisades Reciprocal Group was recorded in 2014 and 2013.

5. Income Taxes

Income taxes in the statements of income for 2014 and 2013 consist of:

(dollars in thousands)	2014	2013
The Plymouth Rock Company and Subsidiaries	$ 14,929	$ 39,077
Palisades Reciprocal Group	6,887	(13,925)
Total	$ 21,816	$ 25,152

The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group file separate federal income tax returns. The provisions for income taxes are based on income reported in the financial statements.

5. Income Taxes, continued

Deferred income taxes arise when there are differences between reported income and taxable income. The realization of deferred tax assets requires sufficient taxable income in either the allowable carryback or carryforward periods. Based upon recent profitable results and projected future profitability, the Company has determined that there will more likely than not be sufficient future taxable income at both The Plymouth Rock Company and Subsidiaries and Palisades Reciprocal Group to realize all deferred tax assets. The presence of taxable losses arising from reserve strengthening in 2010 and extraordinary weather catastrophes in 2011 and 2012 created sufficient uncertainty that future taxable income would exist to enable the Palisades Reciprocal Group to recover its $26.5 million net deferred tax asset as of December 31, 2012. As a result, a full valuation allowance in this amount was recorded against the net deferred tax asset as of this date and reflected in the 2012 statement of income. The significant amount of operating income reported for 2013 along with the expectation of future income provided sufficient evidence to conclude that the net deferred tax asset would be recovered. As a result, the $26.5 million valuation allowance recorded in 2012 was reversed and recorded as a benefit through the statement of income in 2013.

The net unrealized gain on investments is presented in equity, net of an estimate of applicable deferred income taxes. The reported provision for income taxes for The Plymouth Rock Company and Subsidiaries is less than that computed by applying the federal and state income tax rates for these years to income before income taxes. This difference arises principally because of federal income tax deductions for state taxes, where applicable, as well as the favorable federal tax treatment of dividend income and interest from state and municipal bonds.

There are no tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2014, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group is subject to examinations for tax years prior to 2011. Examinations by taxing authorities are presently in progress for The Plymouth Rock Company covering years 2009 through 2012. At this time, we are not aware of any findings that would result in a material change to its financial position.

5. Income Taxes, continued

The Plymouth Rock Company and Subsidiaries

Income taxes in the statements of income for 2014 and 2013 consist of:

(dollars in thousands)	2014	2013
Current year federal income taxes	$10,368	$35,866
Current year state income taxes	1,113	7,478
Change in deferred federal taxes	2,952	(3,552)
Change in deferred state taxes	496	(715)
Total	$14,929	$39,077

Deferred income taxes in the balance sheets as of December 31, 2014 and 2013 consist of the net effects of these temporary differences:

(dollars in thousands)	2014	2013
Net unrealized gain on investments	$(34,317)	$(21,666)
Depreciation	(13,835)	(11,776)
Unearned premiums	13,312	12,720
Compensation expense	9,237	11,526
Deferred acquisition expense	(9,033)	(9,441)
Investment and partnership timing differences	(4,390)	(5,697)
Discounting of claim reserves	2,199	2,492
Stock options expense	200	1,373
Other	572	513
Total	$(36,055)	$(19,956)

Palisades Reciprocal Group

Income taxes in the statement of income for 2014 and 2013 consist of:

(dollars in thousands)	2014	2013
Current year federal income taxes	$ 1,177	$ (7,745)
Current year state income taxes	1	3
Change in deferred federal taxes	5,709	(6,183)
Total	$ 6,887	$(13,925)

5. Income Taxes, continued

Deferred income taxes in the balance sheet as of December 31, 2014 and 2013 consist of the net effects of these temporary differences:

(dollars in thousands)	2014	2013
Net unrealized gain on investments	$(46,989)	$(26,692)
Unearned premiums	18,793	17,765
Deferred acquisition expense	(18,728)	(17,222)
Discounting of claim reserves	8,352	10,043
Guaranty fund accrual	4,328	4,331
AMT credit carryforward	1,905	2,006
Intangibles	1,588	853
Investment and partnership timing differences	806	442
Net operating loss carryforward	-0-	4,687
Other	592	440
Total	$(29,353)	$ (3,347)

There are no federal net operating loss carryforwards available as of December 31, 2014. The Palisades Reciprocal Group has alternative minimum tax credit carryforwards of $1.9 million that do not expire.

6. Claim and Claim Adjustment Expense Reserves

Claim reserves represent the estimated liabilities for claims that have already been reported and for claims that have been incurred but not yet reported. Claim adjustment expense reserves represent the estimated expenses that will be required to settle these claims. Claim and claim adjustment expense reserves are presented before estimated recoveries for reinsurance. The actuarial methods used for making such estimates and for establishing the resulting reserves are reviewed regularly, and any adjustments to these reserves are reflected in income currently.

6. Claim and Claim Adjustment Expense Reserves, continued

The table below provides a reconciliation of the reserves for claims and claim adjustment expenses at the beginning and at the end of the year:

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	2014	2013
Balance at beginning of year	$148,344	$146,460
Claims and claim adjustment expenses incurred:		
Current year	261,997	219,913
Prior years	9,427	5,161
	271,424	225,074
Claims and claim adjustment expenses paid:		
Current year	171,762	147,420
Prior years	71,085	66,434
	242,847	213,854
Change in reinsurance recoverable on unpaid claims	(1,356)	(9,336)
Balance at end of year	$175,565	$148,344

During both the year ended December 31, 2014 and 2013, reserves for claims and claim adjustment expenses for prior years developed unfavorably by $9.4 million and $5.2 million, respectively. The unfavorable development from prior years during both 2014 and 2013 was primarily related to the auto coverage in both Massachusetts and Connecticut.

The amounts shown in the table above include $17.9 million and $22.0 million of estimated claim and claim adjustment expense reserves under Pilgrim's contracts with service clients as of December 31, 2014 and December 31, 2013, respectively. Offsetting amounts are included in "amounts receivable from reinsurers and pools" as assets on the balance sheet. While these policies are issued by Pilgrim, all of the underwriting results have been ceded either to its clients or to a reinsurer via 100 percent quota share reinsurance arrangements such that Pilgrim has not retained any underwriting risk on them.

6. Claim and Claim Adjustment Expense Reserves, continued

Palisades Reciprocal Group

(dollars in thousands)	2014	2013
Balance at beginning of year	$679,175	$779,692
Claims and claim adjustment expenses incurred:		
Current year	469,222	450,079
Prior years	(22,716)	(9,562)
	446,506	440,517
Claims and claim adjustment expenses paid:		
Current year	235,008	209,994
Prior years	221,728	249,385
	456,736	459,379
Change in reinsurance recoverable on unpaid claims	(32,054)	(81,655)
Balance at end of year	$636,891	$679,175

During the year ended December 31, 2014, reserves for claims and claim adjustment expenses for prior years developed favorably by $22.7 million. This change resulted primarily from favorable development of $12.3 million and $11.7 million in personal auto business and homeowners business, respectively, partially offset by unfavorable development of $1.3 million in other lines of business. During the year ended December 31, 2013, reserves for claims and claim adjustment expenses for prior years developed favorably by $9.6 million. This change resulted primarily from favorable development of $8.8 million and $3.4 million in personal auto business and commercial auto business, respectively, partially offset by unfavorable development of $1.8 million in homeowners business.

7. Reinsurance

Treaty reinsurance is used to reduce exposure to large losses under catastrophe, quota share, and excess of loss contracts that are prospective in nature. The financial condition of reinsurers and concentration of credit risk are regularly evaluated to minimize significant exposure. The ceding company remains primarily liable as the direct insurer on all its voluntary risks.

7. Reinsurance, continued

The Plymouth Rock Company and Subsidiaries

Amounts receivable from reinsurers represent amounts recoverable for reinsured claims. Premiums, claims, and claim adjustment expenses, net of reinsurance activity, are as follows:

	2014		2013	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$406,985	$290,973	$374,676	$239,330
Ceded	(42,935)	(19,549)	(34,919)	(14,256)
Net	$364,050	$271,424	$339,757	$225,074

Ceded premiums earned for 2014 and 2013 were $38.5 million and $34.6 million, respectively.

The Plymouth Rock Company and Subsidiaries have treaties for quota share reinsurance for homeowners business. Approximately $21 million of homeowners premiums were ceded in 2014 at cession rates of 25 percent from January through June and 50 percent from July through December. The ceding commissions received under the homeowners treaties vary on the basis of loss ratio. For 2014, revenues and expenses are reflected net of quota share reinsurance totaling $15.4 million and $13.2 million, respectively. For 2013, revenues and expenses are reflected net of quota share reinsurance totaling $10.6 million and $6.7 million, respectively.

There are also in place treaties for catastrophe reinsurance for auto and homeowners coverages, and excess reinsurance per risk for homeowners, commercial auto and umbrella coverages. During the years ended December 31, 2014 and 2013, the costs incurred for these treaties were $3.6 million and $5.1 million, respectively.

Two subsidiaries of The Plymouth Rock Company, Plymouth Rock Assurance Corporation and Pilgrim Insurance Company, are members of Commonwealth Automobile Reinsurers (CAR) and record their estimated share of this activity on the basis of information provided by CAR.

7. Reinsurance, continued

Pilgrim provides auto insurance services to unrelated insurance companies. The income statement for The Plymouth Rock Company and Subsidiaries is reported net of $17.1 million and $17.7 million of ceded premiums earned and $12.7 million and $11.9 million of claims and claim adjustment expenses incurred and ceded in 2014 and 2013, respectively, related to Pilgrim's third-party business. Consistent with Pilgrim's historical practice of not retaining underwriting risk, these amounts were ceded in both 2014 and 2013 either to its clients or to a reinsurer via 100 percent quota share reinsurance arrangements.

To achieve a better balance of reinsurance cost and risk retention at Bunker Hill Insurance Company, The Plymouth Rock Company and Bunker Hill have entered into a Statutory Capital Support Agreement. This agreement provides that The Plymouth Rock Company will make a capital contribution to Bunker Hill if that company's surplus falls below a certain threshold. The Statutory Capital Support Agreement is scheduled to expire on June 30, 2015, on which date it is expected to automatically renew for another year. No capital contribution was made under this agreement during either 2014 or 2013.

Palisades Reciprocal Group

Amounts receivable from reinsurers represent amounts recoverable for reinsured claims. Premiums, claims, and claim adjustment expenses, net of reinsurance activity, are as follows:

	2014		2013	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$699,921	$461,896	$693,432	$505,507
Ceded	(47,649)	(15,390)	(65,619)	(64,990)
Net	$652,272	$446,506	$627,813	$440,517

Ceded premiums earned for 2014 and 2013 were $56.6 million and $65.9 million, respectively.

7. Reinsurance, continued

The Palisades Reciprocal Group has treaties for quota share reinsurance for homeowners business. Approximately $26 million of homeowners premiums were ceded in 2014 at cession rates of 45 percent from January through June and 25 percent from July through December. The ceding commissions received under the homeowners treaties vary on the basis of loss ratio.

For 2014, revenues and expenses are reflected net of quota share reinsurance totaling $38.8 million and $30.7 million, respectively. For 2013, revenues and expenses are reflected net of quota share reinsurance totaling $47.7 million and $44.7 million, respectively.

The Palisades Reciprocal Group has in place catastrophe reinsurance for auto and homeowners coverages, and excess reinsurance treaties on homeowners, commercial auto, and umbrella coverages. During the years ended December 31, 2014 and 2013, the Palisades Reciprocal Group incurred costs of $12.7 million and $3.4 million, respectively, for these treaties.

The Palisades Reciprocal Group also has in place 100% quota share reinsurance with the National Flood Insurance Program for flood coverage that it writes on a direct basis. The net reinsurance cost related to the National Flood Insurance Program was $2.1 million in 2014. New Jersey was affected by weather events that caused flood losses in 2013, with significant losses arising from Superstorm Sandy in 2012. The net reinsurance benefit related to the National Flood Insurance Program was $24.4 million in 2013.

8. Subsequent Events

Subsequent events have been evaluated from December 31, 2014 through March 2, 2015. No material subsequent events have been identified.

9. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2014 and 2013 totaling $10.9 million and $8.6 million, respectively. For the years 2015 through 2019, the minimum lease obligations to unrelated third parties range from $4.7 million to $8.8 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under real estate and automobile leases are $38.8 million through 2021.

During 2014, Plymouth Rock Management Company of New Jersey vacated certain office spaces and anticipates subleasing these spaces for the remaining period of the leases. As the sublease rental income is expected to be less than the management company's rental expense obligation for the remainder of the lease terms, a charge of approximately $2.3 million was recorded at December 31, 2014 to reflect the expected unrecoverable amount for these lease obligations. As of December 31, 2014, the management company has a remaining obligation of approximately $4.3 million under the original leases.

In December 2010, Pilgrim entered into an agreement to sublease office space that it formerly occupied for the remaining period of its lease, which ends on September 30, 2015. As the sublease rental income was known to be less than Pilgrim's rental expense obligation for the remainder of the lease term, a charge of approximately $1.4 million was recorded in 2010 to reflect the expected unrecoverable amount of this lease obligation. As of December 31, 2014, Pilgrim has a remaining obligation of approximately $440,000 under the original lease. Under the sublease, Pilgrim is scheduled to receive approximately $235,000 from January 1, 2015 through September 30, 2015.

Plymouth Rock Assurance has entered into several agreements since December 2011 with companies that write Massachusetts private passenger auto insurance to sell surplus residual market credit premiums that can be used to reduce residual market assignments. Plymouth Rock Assurance recognized revenue from these sales in the amounts of $1.1 million in 2013 and $1.3 million in 2014. During 2014, Plymouth Rock Assurance entered into agreements with four companies to sell additional credit premiums that are expected to generate revenue of $706,000 during 2015.

Plymouth Rock Assurance entered into an agreement in 2011 to purchase $6.7 million of Massachusetts low-income housing tax credits at a cost of $4.6 million. The $4.6 million purchase price was paid in February 2013. The credits are being used to reduce that company's Massachusetts premium tax liability by $6.7 million over the five-year period from 2013 through 2017, with a benefit of $2.1 million to be recognized during 2016 and 2017. Amortization associated with these credits was $1.3 million in each 2014 and 2013.

10. Goodwill and Intangible Assets

The Plymouth Rock Company and Subsidiaries

One subsidiary, InsuraMatch, LLC, has made purchases of insurance agencies that resulted in goodwill of $3.3 million at both December 31, 2014 and 2013. These purchases have also given rise to intangible assets in the form of expirations, noncompetition agreements, and brand names. Intangible assets, which are amortized over periods ranging from three to fifteen years, were valued at $988,000 and $1.1 million at December 31, 2014 and 2013, respectively. Amortization associated with these intangible assets for 2014 and 2013 was $105,000 and $121,000, respectively. Amortization is expected to be $105,000 annually from 2015 through 2019.

Palisades Reciprocal Group

The Palisades Reciprocal Group's purchase of Teachers Auto Insurance Company of New Jersey in 2007 resulted in goodwill of $3.3 million at both December 31, 2014 and 2013. The purchases in 2007 of the Teachers Auto Insurance Company and of renewals from National General Insurance Company also resulted in intangible assets. Intangible assets are in the form of a trademark, renewal rights, and a state license. At both December 31, 2014 and 2013, the value of the trademark was $2.4 million and the value of the state license was $150,000. These intangible assets are reviewed annually for impairment; no impairment was recorded in 2014 or 2013. The remaining intangible assets are being amortized over twenty years and were valued at $7.9 million and $9.2 million at December 31, 2014 and 2013, respectively. Amortization associated with these intangible assets was $1.2 million and $1.4 million in 2014 and 2013, respectively. Amortization is expected to range from $713,000 to $1.1 million annually from 2015 through 2019.

11. 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:

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	2014	2013
Net income	$ 29,215	$ 66,038
Depreciation and amortization	19,125	16,762
Deferred income taxes	3,448	(4,267)
Change in operating assets and liabilities:		
Accrued investment income	1,508	(4,733)
Premiums receivable	(6,205)	(15,307)
Ceded unearned premium reserves	(4,425)	(285)
Deferred acquisition costs	(1,053)	(3,432)
Amounts receivable from reinsurers and pools	1,047	10,475
Claim and claim adjustment expense reserves	27,221	1,884
Unearned premium reserves	12,652	22,581
Advance premiums	260	694
Commissions payable and accrued liabilities	(5,439)	9,879
Amounts payable to reinsurers	(772)	1,093
Deferred revenue	2,221	86
Unearned service fees	30	251
Prepaid expenses, agent loans, and deposits	2,649	(6,337)
Income tax payable	(16,720)	17,971
Other assets and other liabilities	(1,549)	(2,100)
Net cash provided by operating activities	$ 63,213	$111,253

11. Reconciliation of Net Income to Net Cash Provided by Operating Activities, continued

Palisades Reciprocal Group

(dollars in thousands)	2014	2013
Net income	$19,770	$54,603
Depreciation and amortization	1,289	1,420
Deferred income taxes	5,709	(6,183)
Change in operating assets and liabilities:		
Accrued investment income	1,233	(1,121)
Premiums receivable	(3,760)	(844)
Ceded unearned premium reserves	8,925	272
Deferred acquisition costs	(2,941)	(797)
Amounts receivable from reinsurers and pools	36,384	80,391
Claim and claim adjustment expense reserves	(42,284)	(100,517)
Unearned premium reserves	5,630	2,682
Advance premiums	137	543
Commissions payable and accrued liabilities	(14,911)	(14,203)
Amounts payable to reinsurers	(6,062)	860
Deferred revenue	(1,410)	(649)
Income tax recoverable	14,010	(4,781)
Other assets and other liabilities	(1,545)	(301)
Net cash provided by operating activities	$20,174	$11,375

12. Consolidated Revenues

Revenues, net of reinsurance, by company for 2014 and 2013 were:

(dollars in thousands)	2014	2013
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$ 348,230	$ 311,313
Mt. Washington Assurance Corporation	80	76
Bunker Hill Insurance Company	25,178	24,988
Palisades Reciprocal Group	664,016	668,290
	1,037,504	1,004,667
Management company revenues:		
The Plymouth Rock Company	53,526	84,982
SRB Corporation	70,494	75,585
InsuraMatch, LLC	4,613	4,570
Pilgrim Insurance Company	14,792	15,312
Plymouth Rock Management Company of New Jersey	177,534	171,151
	320,959	351,600
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(38,556)	(37,998)
Dividends	(66,145)	(61,188)
Other	(27,893)	(25,655)
	(132,594)	(124,841)
Elimination of intra-group transactions	(177,035)	(174,256)
Total revenues	$1,048,834	$1,057,170

13. Fixed Assets

The table below summarizes fixed assets at December 31, 2014 and 2013.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2014	2013
Computers and software development	3 years	$ 88,941	$ 74,403
Leasehold improvements	10 years	18,292	17,430
Furniture and fixtures	5 years	5,062	6,946
Vehicles	3 years	98	339
Total cost		112,393	99,118
Less: accumulated depreciation and amortization		73,291	64,087
Net book value		$ 39,102	$ 35,031

Depreciation and amortization expenses incurred were $17.1 million and $15.0 million during 2014 and 2013, respectively.

14. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain two plans under Section 401(k) of the Internal Revenue Code. These plans are defined contribution plans that together cover all employees. Expenses of $6.9 million and $6.6 million were incurred related to these plans during 2014 and 2013, respectively. Deferred compensation plans have been established at The Plymouth Rock Company and several of its subsidiaries for officers, directors and managers, other than the founding shareholders. In general, these plans provide for a rate of return on deferred compensation equal each year to the rate of return earned by The Plymouth Rock Company and Subsidiaries that year. Incurred expenses related to these plans were $1.9 million and $3.1 million during 2014 and 2013, respectively.

14. Compensation Plans, continued

On May 1, 2005, a stock incentive award of 1,110 shares was granted to a key officer. This officer received additional awards of 222 shares on May 1 of each year from 2006 through 2010. All of the awards granted to this officer will vest at different times during a period that started in 2006 and will end in 2015, provided that certain financial performance and service requirements are met. An awards granted in 2008 did not vest during 2013 as certain financial performance requirements were not met. An award granted in 2009 vested during 2014 and was exercised for cash. Expenses of $234,000 and $53,000 related to the 2009 award were recorded in 2014 and 2013, respectively. Expenses of $180,000 and $33,000 related to the 2010 award were recorded in 2014 and 2013, respectively, with the expectation that financial performance and service requirements will be met. A credit to expenses of $121,000 was recorded in 2013 to recognize the final cost of the 2008 award. The cost of all of these awards is based on an annual appraisal of the shares of common stock of The Plymouth Rock Company.

Another key officer received a stock incentive award of 625 shares effective May 1, 2007. This award was eligible for vesting and subsequent cash payment at different times during a period that started in 2008 and ended in 2012, provided that certain financial performance and service requirements were met. Fifty-five of these shares vested in 2012 with the payment and expense of $36,000 recorded in 2013.

Effective June 11, 2009, stock incentive awards were granted to three key officers totaling 8,472 shares. The vesting period for these shares ended during 2014 with a portion of the shares vesting based on financial performance during the period. These awards were exercised for a combination of common stock of The Plymouth Rock Company and cash. Expenses of $1.2 million and $962,000 related to these awards were recorded in 2014 and 2013, respectively.

Effective February 16, 2011, a stock incentive award of 701 shares was granted to another key officer. This award will vest in 2016 provided that certain financial performance and service requirements are met. Expenses of $24,000 and $406,000 related to this award were recorded in 2014 and 2013, respectively, on the basis of financial performance for those years.

Effective January 15, 2015, stock incentive awards of 6,577 shares were granted to four key officers. These awards will vest in 2019 provided that certain financial performance and service requirements are met.

15. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2014 and 2013, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income and equity securities were as follows:

At December 31, 2014: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 9,601	$ 13	$ 9	$ 9,605
State and municipal securities	121,677	587	206	122,058
Corporate debt securities	17,632	150	41	17,741
Asset-backed securities	14,651	130	26	14,755
Common stocks	205,259	97,307	1,343	301,223
Preferred stocks	4,946	-0-	99	4,847
Total	$373,766	$98,187	$1,724	$470,229

At December 31, 2013: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 5,042	$ 17	$ 16	$ 5,043
State and municipal securities	153,651	1,351	229	154,773
Corporate debt securities	28,414	430	92	28,752
Asset-backed securities	18,226	239	48	18,417
Common stocks	131,916	60,273	18	192,171
Preferred stocks	4,946	-0-	724	4,222
Total	$342,195	$62,310	$1,127	$403,378

15. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2014, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 702	$ 703
Due after 90 days and in one year or less	7,830	7,885
Due after one year and in five years or less	139,493	139,925
Due after five years and in ten years or less	828	829
Due after ten years	57	62
Asset-backed securities	14,651	14,755
Common stocks	205,259	301,223
Preferred stocks	4,946	4,847
Total	$373,766	$470,229

These marketable securities are classified as available for sale. At December 31, 2014 and 2013, securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $9.2 million and $2.4 million, respectively. Unrealized losses related to these securities were $137,000 and $6,000 at December 31, 2014 and 2013, respectively. A loss of $3.5 million was recorded at December 31, 2014 for other-than-temporary impairment of one common stock holding. No losses were recorded for other-than-temporary impairment in 2013. All other unrealized losses are viewed as resulting from market conditions and are believed to be temporary.

Palisades Reciprocal Group

At December 31, 2014 and 2013, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income and equity securities classified as available for sale were as follows:

At December 31, 2014: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 109,739	$ 192	$ 158	$ 109,773
State and municipal securities	62,477	256	104	62,629
Corporate debt securities	247,974	2,606	639	249,941
Asset-backed securities	241,616	1,392	600	242,408
Common stocks	270,589	131,936	624	401,901
Total	$932,395	$136,382	$2,125	$1,066,652

15. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2013: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 98,370	$ 550	$ 437	$ 98,483
State and municipal securities	72,407	344	341	72,410
Corporate debt securities	296,690	5,835	1,241	301,284
Asset-backed securities	258,093	3,352	948	260,497
Common stocks	176,770	69,190	42	245,918
Total	$902,330	$79,271	$3,009	$978,592

At December 31, 2014, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due after 90 days and in one year or less	$ 7,723	$ 7,793
Due after one year and in five years or less	401,362	403,442
Due after five years and in ten years or less	11,082	11,086
Due after ten years	23	22
Asset-backed securities	241,616	242,408
Common stocks	270,589	401,901
Total	$932,395	$1,066,652

These marketable securities are classified as available for sale. At December 31, 2014 and 2013, securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $92.7 million and $3.6 million, respectively. Unrealized losses related to these securities were $805,000 and $65,000 at December 31, 2014 and 2013, respectively. A loss of $6.3 million was recorded at December 31, 2014 for other-than-temporary impairment of one common stock holding. No losses were recorded for other-than-temporary impairment in 2013. All other unrealized losses are viewed as resulting from market conditions and are believed to be temporary.

15. Investment Securities and Investment Income, continued

B. Non-Marketable Securities

The Plymouth Rock Company and Subsidiaries has investments in privately held stocks. Such investments amounted to $2.3 million and $1.3 million at December 31, 2014 and 2013, respectively.

On December 31, 2013, The Plymouth Rock Company's and the Palisades Reciprocal Group's investments in Homesite Group Incorporated were liquidated as a result of the acquisition of that company by American Family Insurance Group. The Plymouth Rock Company's share of the net purchase price relating to this acquisition was $54.7 million, while the Palisades Reciprocal Group's share of the net purchase price was $25.7 million.

A portion of the sales proceeds of each The Plymouth Rock Company and the Palisades Reciprocal Group of the net purchase price, amounting to $790,000 and $370,000, respectively, was held back until the Homesite Group's final equity at December 31, 2013 was determined. These amounts were recognized as income in 2013. During 2014, The Plymouth Rock Company and the Palisades Reciprocal Group received $800,000 and $375,000, respectively. The differences in amounts held back as of December 31, 2013 and the amounts received in 2014 were recorded to income in 2014.

An additional portion of the sales proceeds of each of these two entities, amounting to $4.0 million and $1.9 million, respectively, was placed in escrow as collateral for potential claims by the American Family Insurance Group or other indemnified parties arising on the basis of representations and warranties made by Homesite Group in conjunction with this transaction. While there is presently no indication that such indemnification payments are probable, contingent liabilities have been recorded in the amounts of $2.6 million for The Plymouth Rock Company and $1.3 million for the Palisades Reciprocal Group as of December 31, 2014 and 2013 to reflect management's best estimate of the fair value of potential indemnification payments between those dates and May 1, 2015.

This transaction resulted in income before taxes in 2013 of $19.3 million for The Plymouth Rock Company and Subsidiaries and $5.3 million for the Palisades Reciprocal Group.

15. Investment Securities and Investment Income, continued

C. Alternative Equity Investments

Investments in marketable alternative equities include positions in entities that focus predominantly on arbitrage relating to publicly announced mergers and acquisitions. Substantially all of the investments made by these entities are in publicly traded securities, and there exist contractual rights to withdraw funds from these entities each year. At December 31, 2014 and 2013, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $48.8 million and $51.7 million, respectively. At December 31, 2014 and 2013, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $82.8 million and $84.5 million, respectively.

Non-marketable alternative equity investments include interests in partnership entities that invest in companies that are not publicly traded. These investments are valued by applying the equity method to values in their most recently available financial statements. The Plymouth Rock Company and Subsidiaries recorded values for non-marketable alternative equity investments of $34.5 million and $40.0 million at December 31, 2014 and 2013, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $15.2 million and $12.9 million at December 31, 2014 and 2013, respectively.

As of December 31, 2014, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $38.9 million in ten private equity funds. Four of these funds are Lindsay Goldberg & Bessemer L.P. I (Fund I), Lindsay Goldberg & Bessemer L.P. II (Fund II), Lindsay Goldberg & Bessemer L.P. III (Fund III) and Lindsay Goldberg & Bessemer L.P. IV (Fund IV). The Chairman of The Plymouth Rock Company is a member of the general partner of each of these four funds. At December 31, 2014, The Plymouth Rock Company and Subsidiaries had $0.4 million, $4.8 million, $15.5 million and $0.0 million invested in Fund I, Fund II, Fund III and Fund IV, respectively, with outstanding commitments to those four funds at that date of $154,000, $1.6 million, $4.7 million and $30.0 million, respectively.

As of December 31, 2014, the Palisades Reciprocal Group had investment commitments outstanding to invest $10.6 million in five private equity funds.

15. Investment Securities and Investment Income, continued

D. Fair Value Measurements

Cash, cash equivalents, and investment securities are valued using a variety of accounting methods, including the equity method, the cost method, and fair value. The estimates of fair value for these assets have been derived from a variety of sources. Published market prices are used to value assets that are actively traded and for which market prices are readily observable. The values of a second category of assets which are not actively traded are determined from other available market data even though trade prices are not published. The fair values of assets in a third category are estimated using internal and external judgments.

The Plymouth Rock Company and Subsidiaries

Cash, cash equivalents, and investment securities totaled $625.6 million and $581.4 million at December 31, 2014 and 2013, respectively. Assets in this category valued using either the equity method or the cost method totaled $84.6 million and $92.0 million, respectively, at December 31, 2014 and 2013. The other assets in this category were reported at fair values totaling $541.0 million and $489.3 million, respectively, at December 31, 2014 and 2013.

The fair value measurements for these assets are categorized as follows:

At December 31, 2014: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 69,758	$ -0-	$ -0-	$ 69,758
U.S. government securities	9,544	61	-0-	9,605
State and municipal securities	-0-	122,058	-0-	122,058
Corporate debt securities	-0-	17,741	-0-	17,741
Asset-backed securities	-0-	14,755	-0-	14,755
Marketable common stocks	301,223	-0-	-0-	301,223
Marketable preferred stocks	4,847	-0-	-0-	4,847
Non-marketable preferred stocks	-0-	-0-	1,000	1,000
Total fair value	$385,372	$154,615	$1,000	540,987
Assets valued using either the equity method or the cost method				84,622
Total value of cash, cash equivalents, and investment securities				$625,609

15. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

At December 31, 2013: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 84,940	$ -0-	$ -0-	$ 84,940
U.S. government securities	4,973	70	-0-	5,043
State and municipal securities	-0-	154,773	-0-	154,773
Corporate debt securities	-0-	28,752	-0-	28,752
Asset-backed securities	-0-	18,417	-0-	18,417
Marketable common stocks	192,171	-0-	-0-	192,171
Marketable preferred stocks	4,222	-0-	-0-	4,222
Non-marketable preferred stocks	-0-	-0-	1,000	1,000
Total fair value	$286,306	$202,012	$1,000	489,318
Assets valued using either the equity method or the cost method				92,036
Total value of cash, cash equivalents, and investment securities				$581,354

An investment in the non-marketable shares of preferred stock of Consumer United, Inc. was determined to have a fair value of $1.0 million as of December 31, 2014 using internal and external judgments. The fair value of this investment as of December 31, 2014 was determined using the most recent sale price of the majority of The Plymouth Rock Company’s shares of preferred stock.

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,177.9 million and $1,124.7 million at December 31, 2014 and 2013, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $98.0 million and $97.4 million at December 31, 2014 and 2013, respectively. The fair values of the other assets in this category totaled $1,079.9 million and $1,027.3 million at December 31, 2014 and 2013, respectively.

15. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

The fair value measurements for these assets are categorized as follows:

At December 31, 2014: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 13,246	$ -0-	$ -0-	$ 13,246
U.S. government securities	109,751	22	-0-	109,773
State and municipal securities	-0-	62,629	-0-	62,629
Corporate debt securities	-0-	249,941	-0-	249,941
Asset-backed securities	-0-	242,408	-0-	242,408
Marketable common stocks	401,901	-0-	-0-	401,901
Total fair value	$524,898	$555,000	$ -0-	1,079,898
Assets valued using either the equity method or the cost method				97,980
Total value of cash, cash equivalents, and investment securities				$1,177,878

At December 31, 2013: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 48,685	$ -0-	$ -0-	$ 48,685
U.S. government securities	98,458	25	-0-	98,483
State and municipal securities	-0-	72,410	-0-	72,410
Corporate debt securities	-0-	301,284	-0-	301,284
Asset-backed securities	-0-	260,497	-0-	260,497
Marketable common stocks	245,918	-0-	-0-	245,918
Total fair value	$393,061	$634,216	$ -0-	1,027,277
Assets valued using either the equity method or the cost method				97,432
Total value of cash, cash equivalents, and investment securities				$1,124,709

15. Investment Securities and Investment Income, continued

E. Analysis of Investment Income and Capital Gains

The Plymouth Rock Company and Subsidiaries

The components of investment income and capital gains before federal income taxes during 2014 and 2013 were as follows:

(dollars in thousands)	2014	2013
Interest income and dividends from securities	$10,526	$10,025
Earnings from non-marketable securities and alternative equity investments	5,706	19,950
Rental income	4,096	3,571
Finance charges on premiums receivable	6,294	4,185
Gross investment income	26,622	37,731
Rental expenses	(3,510)	(3,065)
Investment expenses	(1,724)	(1,543)
Investment income	21,388	33,123
Net realized capital gains	713	29,192
Investment income and capital gains	$22,101	$62,315

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2014 and 2013 were as follows:

(dollars in thousands)	2014	2013
Interest income and dividends from securities	$22,434	$21,698
Earnings from non-marketable securities and alternative equity investments	5,321	14,079
Finance charges on premiums receivable	1,923	4,036
Gross investment income	29,678	39,813
Investment expenses	(7,308)	(7,096)
Investment income	22,370	32,717
Net realized capital gains	3,213	10,132
Investment income and capital gains	$25,583	$42,849

15. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2014 and 2013 was as follows:

(dollars in thousands)	2014	2013
Balance at beginning of year	$ 496,414	$ 523,132
Change in marketable securities:		
Proceeds from maturities	(2,845)	(7,872)
Proceeds from sales	(125,162)	(91,282)
Purchases	159,578	79,078
Net change in marketable securities	31,571	(20,076)
Net change in non-marketable securities	1,034	(24,035)
Net change in alternative equity investments	(8,448)	(6,060)
Net investment activity	24,157	(50,171)
Net change in purchases in process	-0-	(1,806)
Net change in unrealized gain on marketable and non-marketable securities	35,280	25,259
Balance at end of year	$ 555,851	$ 496,414

Palisades Reciprocal Group

Activity in investment securities during 2014 and 2013 was as follows:

(dollars in thousands)	2014	2013
Balance at beginning of year	$1,076,024	$1,052,635
Change in marketable securities:		
Proceeds from maturities	(6,245)	(10,436)
Proceeds from sales	(374,674)	(254,109)
Purchases	410,984	272,319
Net change in marketable securities	30,065	7,774
Net change in non-marketable securities	-0-	(15,027)
Net change in alternative equity investments	548	3,459
Net investment activity	30,613	(3,794)
Net change in unrealized gain on marketable and non-marketable securities	57,995	27,183
Balance at end of year	$1,164,632	$1,076,024

16. Secured Loan

On July 24, 2013, The Plymouth Rock Company took out a secured loan for $45.0 million from a bank. This loan is payable in full by July 24, 2016 and is structured with monthly payments of interest only, payable at a variable interest rate based on LIBOR. The Plymouth Rock Company prepaid $30.0 million of the balance of this loan without penalty during 2014. The Plymouth Rock Company has pledged to the bank, as collateral, securities which had a market value of approximately $24.2 million as of December 31, 2014. The amount of pledged securities was reduced in proportion to the outstanding balance of the loan after the partial repayments during 2014. The Plymouth Rock Company incurred $289,000 and $252,000 of interest expense on this loan during 2014 and 2013, respectively.

17. Surplus Notes

On October 31, 2003, the Palisades Reciprocal Group issued a surplus note in the amount of $25.0 million to the former owner of High Point Preferred Insurance Company. The payment of this note was subordinated to the prior payment in full of all claims arising from policies issued by High Point Property and Casualty Insurance Company, which carried the surplus note at December 31, 2013, as well as to its senior debt. This note had a maturity date of October 31, 2018, at which time it would have been payable in full. In December 2013, the New Jersey Department of Banking and Insurance granted approval for the Palisades Reciprocal Group to prepay the full principal balance of $25.0 million. The payment was made from statutory surplus on January 2, 2014 to the former owner of High Point Preferred Insurance Company, which retired the surplus note in full without any prepayment penalty.

18. Real Estate

At December 31, 2014, The Plymouth Rock Company owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

Building improvement costs of $2,259,000 and $2,016,000 were incurred on these properties in 2014 and 2013, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2014 and 2013:

(dollars in thousands)	2014	2013
Land	$ 7,449	$ 7,449
Buildings, improvements, and other	47,864	45,605
Total cost	55,313	53,054
Less: accumulated depreciation	19,236	17,362
Net book value	$36,077	$35,692

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $4.1 million and $3.6 million in 2014 and 2013, respectively. For each of the years 2015 through 2019, minimum annual rent receivable by The Plymouth Rock Company is $1.8 million. Total obligations to The Plymouth Rock Company from non-affiliated lessees through 2019 are $18.4 million. Buildings and improvements are depreciated over their useful lives, which range from three to thirty-nine years.

The total appraised value of these two real estate interests as of December 1, 2014 and 2013, as determined by an independent appraiser using the income and sales comparison approaches, was $81.6 million and $73.0 million, respectively. 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 their appraised values.

19. Stockholders' Equity

A. Common Stock

Common stock of The Plymouth Rock Company at December 31, 2014 and 2013 is composed of Class A common shares and Class B common shares, with shares of both classes having a par value of $0.10 each. There are 300,000 Class A common shares authorized, of which 64,729 and 63,722 were issued and outstanding on December 31, 2014 and 2013, respectively.

There are 90,000 Class B common shares authorized, of which 64,094 were issued and outstanding on both December 31, 2014 and 2013. The Class A common shares are fully transferable and have the right to elect 20 percent of the Board of Directors. The Class B common shares are not transferable, but may be converted to Class A common shares on a one-for-one basis at any time at the option of the holder, and are converted automatically upon the occurrence of certain events. The Class B common shares have the right to elect 80 percent of the Board of Directors, a right which has never been exercised in full. Presently, two directors are elected by the Class B shareholders and all other directors are elected by the Class A shareholders.

Following a plan approved by the Board of Directors, The Plymouth Rock Company purchased and subsequently retired 55,299 outstanding shares of its Class A common stock held by four shareholders at a cost of $141.3 million during 2013.

B. Statutory Surplus and Dividend Availability

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 accounting principles generally accepted in the United States of America.

On a statutory accounting basis, capital and surplus of the insurance company subsidiaries of The Plymouth Rock Company totaled $209.4 million and $196.6 million at December 31, 2014 and 2013, respectively. The combined results on a statutory accounting basis for these insurance companies were net income of $34.6 million and $11.9 million in 2014 and 2013, respectively.

19. Stockholders' Equity, continued

B. Statutory Surplus and Dividend Availability, continued

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled \$376.9 million and \$344.6 million at December 31, 2014 and 2013, respectively. The combined operating results on a statutory accounting basis for these insurance companies were net income of \$24.9 million and \$42.8 million in 2014 and 2013, respectively.

Regulatory limits restrict the amount of dividends that can be paid by the insurance companies owned by The Plymouth Rock Company and the insurance companies in the Palisades Reciprocal Group without the permission of state insurance regulators.

C. Earnings Per Share

Earnings per share of common stock are computed by dividing net income by the weighted average number of shares of common stock outstanding throughout the year.

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Independent Auditor's Report

To the Board of Directors of The Plymouth Rock Company

We have audited the accompanying consolidated financial statements of The Plymouth Rock Company, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, cash flows and changes in equity for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Plymouth Rock Company at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 2, 2015

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Directors and Officers of The Plymouth Rock Company

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James M. Stone, *Chairman*

James N. Bailey

Hal Belodoff

Colleen M. Granahan

Michael J. Johnston

Wilmot H. Kidd, III

Norman L. Rosenthal

Sandra A. Urie

Peter J. Wood

Officers

James M. Stone
Chief Executive Officer

James N. Bailey
Treasurer and Clerk

Hal Belodoff
President and Chief Operating Officer

Colleen M. Granahan
Vice President

Gerald I. Wilson
Vice President

Directors and Officers of the Principal Plymouth Rock Companies

Non-Management Directors

Donald I. Bryan
Dennis A. DiMarzio
Kerry A. Emanuel
Michael J. Johnston
Wilmot H. Kidd, III
Eric L. Kramer
Eugene J. Meyung
Dennis R. Replogle
Norman L. Rosenthal
Sandra A. Urie
Peter J. Wood

Management Directors and Corporate Officers

Richard F. Adam
James N. Bailey
Hal Belodoff
Marc V. Buro
Michael J. Cesinger
Frederick C. Childs
Thomas E. Coyne
Edward J. Fernandez
James M. Flynn
Colleen M. Granahan
William D. Hartranft
Keith R. Jensen
Brendan M. Kirby
Paul D. Luongo
Thomas J. Lyons
Richard J. Mariani
Francis W. McDonnell
Karen A. Murdock
Larry M. Nisenson
Christopher B. Olie
Frank P. Palmer
Louis C. Palomeque
Anne M. Petruff
Joseph Scaturro
Mary A. Sprong
Karen L. Stickel
James M. Stone
James A. Tignanelli
Courtland J. Troutman
Basilios E. Tsingos
Gerald I. Wilson

Counsel:
Ropes & Gray LLP

Independent Auditor:
PricewaterhouseCoopers LLP