The Plymouth Rock Company

2004 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 9, 2005

To Our Shareholders:

It would be hard to complain about how 2004 treated Plymouth Rock. Net income was $36.6 million, up 98% from the prior year. Most of the gain was related to the inclusion in our results of the first full year of business at High Point Management Company, which administers the business that the Palisades reciprocal acquired from Prudential in 2003. This is not to suggest that internal growth was sluggish. Business underwritten in New England grew by 29%.

Our company's equity at year-end, computed according to generally accepted accounting principles, stood at $162 million, up $32 million since last year. On a per share basis, the book value increase was from $713 to $886. This 24% gain pushed to 18.0% per annum the cumulative book value return on capitalization from Plymouth Rock's 1983 inception. It is safe to guess that our market value return over the same period has increased at a higher annual rate. Every year we commission an independent outside appraisal to help guide the few purchases and sales that take place in a year, and to set a value on the stock for charitable giving. When we received the appraisal last May, it set the market price estimate at about 2.5 times book value. If this seems like a high multiple, given that the typical insurer trades at something like 1.5 times book, it is not without reason. Our elevated book multiple reflects the fact that so much of the Company's earning capacity is found in its management relationship with the New Jersey reciprocal and is not, therefore, reflected in the book value. We are also, by most measures, doing better than the average company. So, the market to book multiple has presumably increased over time as well as the book value itself. If, when we receive the next appraisal a few months from now, we compute the annual compounded gain in value from the Company's first year to the end of 2004, it will almost certainly show us with an annual market value growth rate in the twenties. I'd like to see the rate of gain in book value advance into that range as well.

In the same manner as GAAP equity excludes the value of the reciprocal relationship, it also ignores some substantial unrealized gains on our real estate portfolio and, with respect to our common stock investments in Homesite Group and Response Insurance, the value of those holdings in excess of their adjusted costs. This does not make the GAAP numbers wrong or inaccurate in any way. One must simply accept that no single measure of net worth captures the whole picture. The picture GAAP offers of our operating scale is similarly contracted. Much of our volume is managed on behalf of a reciprocal insurer and other client companies, and some of it is ceded as reinsurance to private carriers and state pools. What shows as the top line on the income statement is only the premiums our companies underwrite, rather than manage, and then retain after reinsurance is ceded. The group's total premium volume, both underwritten and managed, at year-end 2004 is now $1.1 billion, of which the managed portion now constitutes more than two-thirds.

In last year's letter, I summarized the various elements of our income sliced up as Hal and I tend to look at the pieces. Let me offer that again before turning to a more detailed company-by-company look. The three profit generators in our enterprise are underwriting, insurance management, and investments. The year just ended was a period of good growth and improving profitability for our underwriting business, all of which is written in three of our New England insurance companies. From $321 million in business written, the contribution to net income of underwriting was about $12.5 million, a return on gross premiums of just a hair under 4%. Although this is close to the long-term industry average for automobile insurance writers, it is well short of our ideal target metric for such business. The managed business did better. It returned profits of $24.1 million on gross volume of $790 million. This is a return of over 3% on gross premiums, and closer to the long-term target for this segment. The return target for managed business, of course, is much lower than that for underwritten business because: (a) it requires less capital than underwritten volume; (b) it carries less risk; and (c) the owners of the managed business have to earn a fair return too.

The investment year was not remarkable. The metric strictly additive to the two profit elements above is investment gain at the Plymouth Rock holding company on its own portfolio plus any group profit on the investment items excluded from GAAP. The Plymouth Rock Company earned a solid 13.7% return on its investments, ignoring difficult-to-quantify increases in franchise values at Homesite and Response. This is superior to the overall investment return for the group, which was dominated by low bond yields, but below the typical return the holding company has earned on investments in other years. Another measure of investment performance I like to follow, though one which is *not* additive to the other profit elements because it would double-count some of the insurance returns, is the contribution to economic profit above and beyond the "plain vanilla" portfolio return that would be available to us at minimal risk. The increment this year, in yield terms, was about 320 basis points, slightly above its long-term mean. The increment will probably average something not too far from this as long as most of the portfolio remains in fixed income instruments. So, how does good but less than memorable performance in two of the three profit performance metrics permit such a jump in overall profits? The answer is found in our growth. Plymouth Rock's fine year was more the consequence of the recent expansions in absolute size than its small relative improvements in performance. This is good news, of course, since it means that there is room to do even better in future years.

New Jersey is our biggest state now. There the 2004 news is largely positive at both the company level and the industry level. Hal and I were warned more times than I can count that the acquisition of a large existing company would be fraught with hidden traps and perils, that integration of two distinct companies would seem like an endless nightmare, and that most mergers prove in the end to disappoint. So far, we appear to have ducked those bullets. The business of Prudential P&C of New Jersey, now High Point, was conducted by honest and highly competent people, many of whom now work with us. Their numbers have tested out as accurate. Learning is mutual as techniques and information pass from one group to the other. Most important, perhaps, the High Point people seem to embrace readily the culture that has long characterized Plymouth Rock. Jim Tignanelli, Joe Metz -- the new Chief Operating Officer of High Point -- and their managerial staff meet all of the requirements of a Plymouth Rock company, and they understand teamwork. The integration of the enterprises, that threatened nightmare, has instead proven not only to have been compatible with enhanced results in the pre-existing businesses, but also to be the source of greatest pride in this past year's list of accomplishments for Tig, for Gerry Wilson (who now serves as chairman of High Point as well as president of Palisades), for Hal, and for me. Of the four, I probably deserve the least credit.

Premiums managed at High Point were $570 million in 2004. The gross loss ratio for that company's business was a healthy 62%. The all-inclusive expense ratio is our metric for costs. It joins loss adjustment expenses, investment expenses, and underwriting expenses to develop a measure of total operating outflow other than payments to claimants. This ratio, computed for the insurer and the manager taken together, which is the only way it makes any sense to me in a managed business, was 32%. That sets an example for all of our other companies. Perhaps the greatest source of worry senior management has about High Point today comes from its carrying too much homeowners volume for a single-state carrier. There is a new and beefed-up reinsurance program in place at High Point, but we would prefer to see a reduction in exposure level. Reinsurance is like an umbrella that works better in the sun than in the rain. A second concern arises from an unfinished aspect of the integration of the companies. Until the migration of the High Point IT systems to a Plymouth Rock platform is complete, there could still be rapids ahead on the integration journey. None are in sight so far, though, and High Point is navigating smoothly. It remains a realistic hope that we will all be able to look back in a year or so and describe this as the rare acquisition made in heaven.

Palisades Safety and Insurance Association and its subsidiary Palisades Insurance Company had another good year, but not without its challenges. Premium for those companies was $167 million. The contribution to Plymouth Rock group's net income rose by 16% to $4.3 million. The gross pure auto insurance loss ratio was a splendid 55%, the best in our group, and the all-inclusive expense ratio, again for the combined insurer and management company, improved half a point to 37%. Service remained outstanding. Hal and I had worried once that, if we both lived in Massachusetts, the New Jersey commitment to service quality might suffer. That looks in retrospect to have been a foolish underestimation of Gerry Wilson. Gerry and his team have actually improved the service culture Hal had built. New Jersey's insurance department just published its annual statistics on consumer complaints. Once again, Palisades had the best record of the twenty-nine companies writing in that state. Second in the rankings was an admittedly excellent New Jersey writer. In third place, doing better than all but one of its better known competitors, was our own High Point Insurance, which has moved up from a still respectable ninth the prior year just as Tig promised it would. Toward the bottom of the list were some companies whose names you would know well, one giant carrier having recorded nearly 25 times as many Insurance Department validated complaints per vehicle as High Point. Congratulations are due all of the New Jersey contributors to our success there.

The State of New Jersey, once the *bête noir* of free market enthusiasts in our industry, is now becoming an insurance industry darling. GEICO has returned forcefully to the state after an absence of more than twenty-five years. Mercury General entered the state and hit the ground running. State Farm is no longer threatening to leave. Progressive is rumored to be making an appearance soon. Competition is accordingly heating up. Most of this is the result of a major regulatory reform, which is regarded by some companies here in Massachusetts as a model for our state's future. Some of the most important changes are plainly good policy and common sense. Moderate rate increases are now expedited, where they used to drag through department scrutiny. The state's unusual excess profits tax calculation has been rationalized somewhat. More sophisticated rating and underwriting tools are now permitted, and there has been a relaxation of the take-all-comers mandate -- sensibly conditioned on the assigned risk pool remaining below 10% of the market. We applaud these initiatives in general. Because one of my jobs here is to warn you of risks, though, it may be useful to list some aspects of the new scene that should give pause. One is that New Jersey seems to make a new regulatory deal with each attractive new entrant. Regulation, by its very nature, should be evenhanded and a level playing field is a minimum requirement of fairness in a state-regulated industry. A very temporary and minor tilt toward new entrants is perhaps understandable. We watch each new deal, however, with some concern that it may be more than minor or more durable than would be fair. Then there is the danger of inflated expectations for rate stability. These last few years have been among the best since the proliferation of the automobile for underlying insurance cost trends. It is painless for a regulator to maintain peace between consumers and companies when the trend of rates is so felicitous. New Jersey may not be an easy state in which to keep that peace when the trends turn up again.

Finally, there is a hazard in the potential for relative rate level explosion. New Jersey has limits on territorial relativities, without sufficient compensating incentives to make the market work properly. That means that many companies tend to seek ways to curtail writing in cities. We favor a system of urban premium credits for companies rather than premium increases to consumers to remedy this situation. Prices are already starting to rise disproportionally in the urban areas, and availability may diminish. Like the general rate picture, this is all blurred by the favorable cost trends of the moment, but don't count on that for the indefinite future. If too many carriers are permitted to write less than their shares of city business, moreover, this will exacerbate the stresses. The New Jersey political leadership has successfully removed auto insurance from the front pages for a time. Don't bet that it won't return to the headlines when the deal window closes, urban availability diminishes, and rate trends turn upward. New Jersey remains the most expensive state in which to insure a car, as well as a state with huge socioeconomic disparities between its poorest and richest neighborhoods. These are hardy seeds for discontent in the automobile insurance market.

The challenges I referred to at Palisades are consequences of the heightened competition in New Jersey. Improved regulatory conditions are always a double-edged sword for us. The more our competitors enjoy doing business in a state, the harder we have to work to stay ahead of them. On the other hand, the regulatory climate that can attract the others usually contains the elements of flexibility we can employ to stay a bit ahead. People often ask me whether Plymouth Rock's history of thriving in Massachusetts and New Jersey during their most regulated periods implies that we will suffer in a freer environment. My answer is that we indeed gained in our start-up years from the unpopularity of our two major states. Since a start-up is necessarily weaker than an established company in branding, in scale economies, and in depth of talent and financial resources, a degree of disaffection among the giants is helpful in bootstrapping market share. On the other hand, we are now a top-ten writer of auto insurance in both states (roughly tied for third in New Jersey), our credentials for service are well-established, and we have reasonable depth in all dimensions. So now, if we can be intelligent enough, the flexibilities may be as valuable to us as the clear field. A short-term exception to that logic exists in 2004 and 2005 for Palisades. Before it reentered, GEICO was our largest agency in New Jersey, and a fine one at that. Now it understandably wants for itself the business it can produce, so we have lost a source of revenues. Since some of the customers placed with us by GEICO in the past were only there because GEICO itself was unavailable and each customer can choose which one of us they want in the future, Palisades has lost a share of those drivers as well. Exposure growth, for the first time in Palisades' history, was in the low single digits for 2004 and may well be flat in 2005 as the lost GEICO business runs off. Look to 2006 for a resumption of the growth at Palisades.

Pilgrim Insurance, our Massachusetts-based insurance management company, had a moderate growth year on the top line. Premiums managed were up by about 8%. On the bottom line, though, its performance improvement was much more commendable. Ellen Wilcox has taken Pilgrim's profit from $1.6 million to $2.8 million, cutting the expense ratio by six points. The return on equity at Pilgrim is now in the thirties. Pilgrim, on the other hand, is the Plymouth Rock company potentially most affected by proposed changes in the works for the Massachusetts regulatory environment. Pilgrim has prospered by developing a recognized expertise in handling residual market business under the current Massachusetts rules. Ellen is confident that there will be a role for that expertise no matter what the shape the residual market takes. Hal and I believe that, too, but we may need to be agile to adapt Pilgrim's offerings to a new set of service demand conditions in Massachusetts, and we would all like to see the service offering expanded to a broader list of jurisdictions and products.

Plymouth Rock Assurance Corporation, our first and largest insurance underwriting company, had a better year than the year prior in both absolute and relative terms. In 2003, it wrote $180 million in New

England auto insurance business and its combined ratio was 102%. In 2004, it passed $240 million in automobile insurance premiums and took its combined ratio below 99%. That means that it got to keep a penny on every dollar of business it wrote as well as the investment income on the float. Just as important, it undertook, along with the other Plymouth Rock companies and under the leadership of Paul Luongo, a major overhaul of its IT systems designed to make our family of companies more efficient and more independent of outside vendors. Costs, and the combined ratio, would have been lower had we not committed to this IT project, but no one here doubts that the investment will pay off. The all-inclusive expense ratio, covering claim adjustment and investment costs as well as underwriting (and IT) expenses, stood at 37.3%, down three-fourths of a point for the second year in a row. Hal has kept his promise on this score admirably. Premium in Connecticut, now on Chip Conner's watch, approached $16 million by year-end, up from $10 million last year. The pure loss ratio is around 70%. We will have to figure out how to accelerate there. We aren't as patient as when we first started Plymouth Rock; in those days $6 million in growth seemed like a lot for one year. Chip, as Plymouth Rock Assurance's COO, is also responsible for New Hampshire, where written premium is actually down a bit in 2004, to $17 million. The loss ratio results, on the other hand, have improved, and we saw a small profit in New Hampshire as measured on a stand-alone basis. We've been at it a long time to have such a small book in that state. The agents like us; the staff is excellent; but we haven't hit any home runs in marketing our product. If you know the technique, let Chip know. He's ready to swing for the fences.

As comforting as the Massachusetts results may be in 2004 for automobile insurers, the regulatory environment is discomforting. This is not because we feel threatened by what is occurring but because no one knows what to plan for in the years ahead. The Governor and the Insurance Commissioner are determined to alter key elements of the current regulatory regime in an effort to bring more competitors into Massachusetts. In designing their proposed changes, they have relied heavily on the board of CAR, the residual market mechanism here, and a coalition of companies as policy advisors. The result was a package of reforms, approved by the Commissioner in November, that we thought tolerable and well-meaning but flawed in three specific respects. The first flaw was that the reforms would bring about several years of increased risk pooling on the part of the industry, an invitation for companies to settle claims less diligently than they do when their own money is on the line. The inevitable result of such a socialization of auto insurance claim handling is more fraud and ultimately higher costs for the consumers. The second flaw was that, despite disclaimers from the Administration, the reforms would raise rates for many urban drivers by reducing the tempering of relative premium levels that I believe has kept a just peace with the driving public for nearly three decades now. The third flaw involved the central thrust of the reforms, to move over three years from a reinsurance approach to an assigned risk approach for the Massachusetts residual market. Assigned risk is an approach with many merits, not the least of which is broad acceptance in other states, but which was explicitly rejected by the Massachusetts legislature long ago after having been in use in this state and found wanting. That third flaw, which causes the Commissioner's program for 2005 and 2006 to be described as a "Transition Plan", caught the attention of the courts, and a stay was issued against the new plan just a month after it took effect. We will most likely have at least a few quarters now of the old regulatory regime, followed by a return to some new agenda set by the Commissioner – probably with a degree of increased scrutiny by the courts and the legislature this time. Don't ask yet for more specific predictions.

I am not convinced this state can conform to the national model that the Governor has in mind – or should try. If the national model involves huge rate disparities between urban and rural or suburban premiums, or allowing companies to place anyone they don't care for in a pool with higher rates or lower levels of service, the legislature should consider it a step backwards from where we are today. On the other hand, the current regimen has led to a constant upwards ratcheting in the gaming of CAR's rules, and the Governor, the Commissioner, and the Attorney General were absolutely right to demand reforms to put a stop to it. I am not certain any reforms will work if they leave great power at CAR itself. Where else in our society can a company's competitors sit in judgment of it, and take its money to award to themselves? It would be far more assuring if the rules were directly administered by a state agency or at least under the protections of the Administrative Procedures Act and the numerous conflict-of-interest laws that constrain state action. The Commissioner already has ample authority to implement a greater degree of competitive rating, which I tried unsuccessfully to introduce during my term in that office nearly thirty years ago. She also has the authority to halt most of the gaming at CAR. If she wants to win confidence in the system's integrity and good sense, those might be easier places to begin. Whatever she does, and whatever the courts say about whatever she does, we expect that Massachusetts will remain outside the national model for now. You can take a bit of solace from the fact that no equitable plan for future regulation is likely to threaten Plymouth Rock's ability to remain among the state's successful carriers. Perhaps there is a silver lining even in the discomforting environment. The uncertainties may be more upsetting to bureaucratically centralized and inflexible companies than to us, and that too could provide a comparative advantage.

Bunker Hill Insurance Company may deserve the "most improved" award among the underwriting companies. John Tierney, its president, has taken it from a loss of more than half a million dollars in 2003 to a gain of $1.2 million in 2004. Everything there is moving in the right direction – which means toward more profit with less catastrophe risk potential. We are now covered against catastrophes at Bunker Hill for about the one in 100 year storm season and the protection level is rising despite recent changes in the commonly used catastrophe models that have raised the bar in New England by predicting worse weather and increased potential damage. The net income represents an 11% return on equity. While the profits are still short of reflecting the rate of return I'd like to see on homeowners business, and the catastrophe protection is not yet quite enough, John is taking all of the steps available to him to get to the targets without harming the Plymouth Rock agents. Meeting their needs is one of our principal motivations for being in the New England homeowners business. Undertaken other than as Homesite does the business, homeowners insurance is a tough industry in which to thrive.

Investment results for 2004, I said above, did not make history. SRB Corporation, and therefore Rick Childs, Jim Bailey, and I, continues to take responsibility for the Plymouth Rock group portfolios. Feeling constrained by regulators and rating agencies, we still hold two-thirds of the portfolio in high-grade intermediate-duration bonds. How I wish we didn't have to do so. We earned only about a 2% total return on those bonds, while our marketable equity return has averaged more than 20% measured over the entire twelve-year history of our investing in stocks and over 16% for the last five years. I am guessing our strategic equity investments, not yet subject to appraisal, will do at least as well. We would need, however, significant overcapitalization to invest the bulk of our assets in equities. Those days haven't come yet.

Notice that I referred above to the long-term equity returns and not to the 2004 returns. This is not just for principle, though indeed equity performance should always be looked at over a multiyear horizon, but because we took a significant hit in 2004 on our holdings in Merck. In a portfolio of only six common stocks, a market value deterioration like Merck's in 2004 will have a significant impact, and for us it reduced the marketable equity yield for 2004 to around 0%. The lesson here is not that we should hold more stocks. Our cumulative IRR of over 20% would not be achievable with a diversified portfolio. It is not that we need to alter how we evaluate stocks for purchase. We still, in fact, have a respectable 8% annual return on our Merck investment from its inception, and we still have faith in that company's potential to improve the return in the future. If there is a lesson, and it does not follow that every stock market loss contains a lifetime lesson (or, more precisely, a lesson I am capable of figuring out), it is that we need to pay more attention to the operating risks at our portfolio companies. Among the major advantages of holding such an undiversified portfolio is that one can do this. Jim, Rick, and I never had the kind of debate about Vioxx that we have whenever we buy a new stock. I'd like to think we will have such debates in the future. We still won't be stock traders, and we will still give every benefit of the doubt to holding on to the companies that pass our difficult screens, but this was in retrospect the rare possible-sell situation we might have identified.

The Company's real estate, down in appraised value for several years now, began to rebound in 2004. We can see the underlying strength in our own rentals. Our headquarters building will soon boast one of Boston's finest health clubs on the bottom two floors, and the rest of the building is nearly full.

The headline at Response, one of our two major strategic investments, is that it has finished its second year in the black. Mory Katz and his team deserve a great deal of credit for this. The loss ratio, which John Javaruski oversees, remains even better than it needs to be. The IT systems work. The footprint is expanding. Customer service is excellent. The numbers are always prompt and reliable. The expense ratio is not yet what it should be, but this is largely a scale issue and not far from solution now. The company writes $130 million in premium, and it can achieve full scale economies by the time it reaches $200 million in size. What remains to be done is all in the area of internally generated growth. Response grew for a while largely by acquisition. It now needs to build and fuel an internal growth engine that can reliably compound its scale at a rate of at least 20% per year. The fuel for that engine has to be profits on the renewal book of business. Those profits are not yet sufficient to achieve the target growth rates but they are moving steadily toward that. The engine itself has to be a synthesis of marketing techniques that allows volume with a lifetime loss ratio better than 70% to be produced in large increments at an acquisition cost of no more than $0.35 on the premium dollar. All eyes at Response are now on that goal.

My contractual term as chairman of Response concludes in September of 2005. Peter Wood has already ended his service to the direct U.S. companies and returned his focus to the U.K., where he is building yet another new automobile insurer. Without Peter's earlier participation, it is not clear whether Response or Homesite Group would have come to exist. He stays on, of course, as a valued director of Plymouth Rock. Meanwhile, the principal investor in Response, Morgan Stanley Capital Partners, has been spun off from Morgan Stanley and renamed itself Metalmark Capital. Under the direction of Howard Hoffen, Metalmark will continue to manage the investments of the Morgan Stanley private equity funds. Although Howard and I are talking about whether it makes sense to renew our shareholders' agreement, and thus continue my involvement, we agree that the default is a situation in which Plymouth Rock and I would be minority owners of Response but no more than that. I will in that case have left the investors a profitable company, well led and well positioned -- if quite a bit late -- for a valuable future in an inviting industry segment with high barriers to entry. When Mory can operate a fully powered growth machine, Response should be worth a multiple of what I suspect it would be worth on the market today. I'd prefer not to have to sell our Response stake in the next few years, regardless of our level of management involvement.

Homesite Group, the strategic investment we hold in the homeowners business, is still in the red operationally, but don't let that fool you into thinking that Fabian Fondriest and his team produced anything less than a splendid year. Let me describe Homesite, not as it looks in its historical records, but as it might appear to an observer willing to chance an extrapolation into its future. The new business flow to Homesite reached a high of 1700 sales per week in the fall of 2004, and is expected to exceed this over the full year 2005. That translates into new premium volume of roughly $50 million per year. Homesite loses by attrition about 10% of its business each year. If these two metrics continue on that pace, with $50 million coming in and 10% falling away each year, the company will grow asymptotically to half a billion dollars in premium volume. The loss ratio has been pretty reliably below 60 points to date, the policy-life acquisition cost (including commissions to partners) around 15 points, and the sum of loss adjustment and general expenses is trending with scale toward a total less than 15 points. Should Homesite even come close to achieving or maintaining those numbers, and assuming reasonable investment results, you can imagine Homesite earning close to 15 pre-tax points on premiums when it reaches the size to which its current partner list can take it. It may be wise to think of these numbers as wishes rather than predictions because a limitless number of unseen obstacles lie in the future, and Fabian would never promise that everything will go right. Surely obstacles will arise and some things will in fact go wrong, but I can tell you that, when something does, Fabian is the one to fix it. Fabian *can* promise that he hasn't, and won't, stop looking for new partners to take the numbers even higher.

One challenge for Homesite is that its prospects may outstrip its capital base. A push to raise some additional capital seems highly likely in 2005. A potential investor will see a company with a remarkable list of blue chip partners, the newest and already among the largest of which is AIG's direct auto operation. Homesite will begin the year with $100 million in direct premiums, up from $60 million in direct premiums (excluding substantial reinsurance assumed from partners) a year ago, and with plans to reach $175 million by the end of 2005. At the same time, and all the more impressive given the remarkable pace of growth, an investor today should see a company waving goodbye to the operating losses that small scale had previously made inevitable. If the potential investor also sees the future as I do, we should be able to make a deal.

This was, of course, Plymouth Rock's best year ever, but each step forward opens to a new stage and some new challenges. That is one of my blessings in life. Lest you be concerned that we are turning the lights off early now, here are some of the subjects Hal and I enjoy talking about as we contemplate the future. There are more states in the Northeast to enter; we are particularly interested in New York and Pennsylvania. Plymouth Rock now has over 1400 employees, and has made some real progress in adding bench strength to the top of the organization recently, but we have many more bright, nice and ambitious people to hire. We will never get in trouble by hiring too many talented people for Plymouth Rock. We will have our share of strategic changes to make as the companies respond to the regulatory reforms in our key states. Especially here in Massachusetts, our ability to adapt may have to substitute for an ability to predict. We also have a persistent gap to bridge between actual profitability and our ambitious target profitability, a gap that can be filled only by enhancements of both loss ratio and efficiency. Finally, we have only scratched the surface in learning how to develop the agencies we have bought and how to help our independent agencies grow their franchises. The task list, thank goodness, never gets any shorter.

James M. Stone

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One International Place
Boston MA 02110-2611
Telephone (617) 530 5000
Facsimile (617) 530 5001
www.pwc.com

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in stockholders' equity present fairly, in all material respects, the financial position of The Plymouth Rock Company and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Boston, Massachusetts
March 4, 2005

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

Assets	2004	2003
Cash and cash equivalents	$ 28,308,444	$ 26,196,899
Investment securities	304,063,548	226,497,287
Accrued investment income	1,901,288	1,694,525
Premiums receivable	38,206,115	47,937,630
Deferred acquisition costs	11,782,921	10,697,753
Receivable from reinsurers	34,611,033	37,559,910
Amounts due from service clients	11,059,351	32,854,795
Prepaid expenses, agent loans and deposits	8,277,158	7,395,459
Real estate	22,575,769	23,779,088
Fixed assets	34,901,150	14,979,437
Goodwill and intangible assets	4,516,225	3,568,566
Deferred income taxes	185,810	4,247,783
Income tax recoverable	8,940,775	-0-
Other assets	2,774,645	1,667,003
Total assets	$512,104,232	$439,076,135
Liabilities		
Claim and claim adjustment expense reserves	$129,113,785	$108,734,842
Unearned premium reserve	79,535,686	67,512,909
Advance premiums	9,218,185	8,908,067
Commissions payable and accrued liabilities	51,376,800	30,809,131
Payable to reinsurers	34,328,555	44,636,378
Unearned service fees	32,046,099	30,232,353
Amounts due to service clients	9,248,470	10,051,530
Note payable	3,873,360	4,841,700
Income tax payable	-0-	1,969,804
Other liabilities	1,315,874	1,275,314
Total liabilities	350,056,814	308,972,028
Stockholders' Equity		
Common stock and paid-in capital	24,335,943	23,583,760
Retained earnings	130,022,489	96,170,055
Net unrealized gain on investments	7,688,986	10,350,292
Total stockholders' equity	162,047,418	130,104,107
Total liabilities and stockholders' equity	$512,104,232	$439,076,135

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2004 and 2003

Revenues	2004	2003
Premiums earned in underwriting activities	$194,045,502	$161,986,968
Fees earned from service activities	178,684,585	67,371,066
Investment income and capital gains	19,243,627	18,172,045
Other income	-0-	5,850,000
Total revenues	391,973,714	253,380,079
Expenses		
Claims and claim adjustment expenses	143,031,969	117,618,385
Policy acquisition, underwriting, and general expenses	54,075,250	54,030,928
Service activity expenses	135,668,460	52,817,643
Total expenses	332,775,679	224,466,956
Income before income taxes	59,198,035	28,913,123
Income taxes	22,566,324	10,383,534
Net income	$ 36,631,711	$ 18,529,589

Per share data		
Weighted average common shares outstanding:		
Basic	179,555	185,351
Fully diluted	182,300	187,470
Net income per share:		
Basic	$204.01	$99.97
Fully diluted	$200.94	$98.84
Common shares outstanding at end of year	182,840	182,487
Common stockholders’ equity per share	$886.28	$712.95

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, 2004 and 2003

Cash flows from operating activities	2004	2003
Gross premiums collected	$322,871,998	$244,938,751
Reinsurance premiums paid	(116,279,102)	(61,483,407)
Finance charges collected	5,638,084	4,303,652
Fees and commissions collected	201,502,970	66,056,264
Investment income and capital gains received	15,081,174	15,496,921
Gross claims and claim expenses paid	(187,823,442)	(175,465,122)
Reinsured claims and claim expenses collected	68,230,709	54,981,260
Policy acquisition, underwriting, and general expenses paid	(43,201,476)	(51,229,124)
Income taxes paid	(27,983,381)	(9,078,508)
Service activity expenses paid	(124,696,181)	(46,059,050)
Other income received	-0-	5,850,000
Net cash provided by operating activities	113,341,353	48,311,637
Cash flows from financing activities		
Payment on note payable	(968,340)	(968,340)
Repurchase of common stock	-0-	(24,809,100)
Issuance of common stock	113,498	1,000,000
Dividends to stockholders	(2,779,277)	(1,175,656)
Net cash used in financing activities	(3,634,119)	(25,953,096)
Net cash provided	$ 109,707,234	$ 22,358,541
Investment of net cash provided		
Change in cash and cash equivalents	$ 2,111,545	$ 7,826,947
Net investment activity	81,655,779	4,667,512
Purchase of goodwill and intangible assets	1,249,678	450,000
Net real estate activity	(364,456)	611,628
Purchases of fixed assets	25,054,688	8,802,454
Net cash invested	$ 109,707,234	$ 22,358,541

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2004 and 2003

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Total Stockholders' Equity
December 31, 2002	$21,454,625	$103,621,137	$ 7,115,702	$132,191,464
Comprehensive income	-0-	18,529,589	3,234,590	21,764,179
Repurchase of common stock	(4,085)	(24,805,015)	-0-	(24,809,100)
Issuance of common stock	2,133,220	-0-	-0-	2,133,220
Dividends to stockholders	-0-	(1,175,656)	-0-	(1,175,656)
December 31, 2003	23,583,760	96,170,055	10,350,292	130,104,107
Comprehensive income	-0-	36,631,711	(2,661,306)	33,970,405
Issuance of common stock	752,183	-0-	-0-	752,183
Dividends to stockholders	-0-	(2,779,277)	-0-	(2,779,277)
December 31, 2004	$24,335,943	$130,022,489	$ 7,688,986	$162,047,418

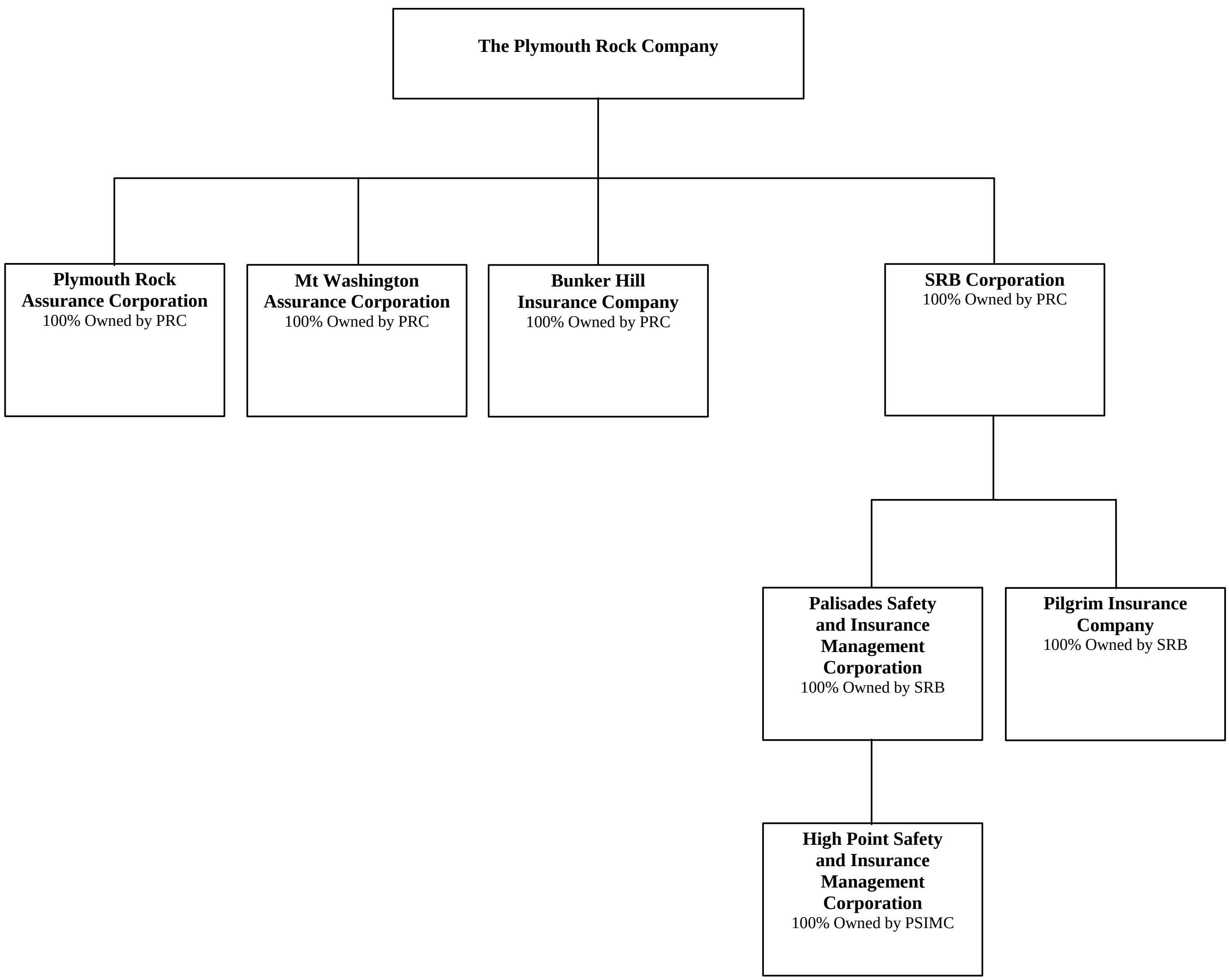
The accompanying notes are an integral
part of the financial statements.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization of the Plymouth Rock Companies

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



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

2. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of The Plymouth Rock Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

B. Investments and Real Estate

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

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

C. Deferred Acquisition Costs

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

D. Income Taxes

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

Income taxes on the statements of income for 2004 and 2003 consist of:

	2004	2003
Current year federal income taxes	$14,388,460	$ 9,911,419
Current year state income taxes	2,684,342	1,398,984
Change in deferred taxes	5,493,522	(926,869)
Total	$22,566,324	$10,383,534

2. Summary of Significant Accounting Policies, continued

D. Income Taxes, continued

Deferred income taxes in the balance sheets as of December 31, 2004 and 2003 consist of the net effect of these temporary differences:

	2004	2003
Discounting of claim reserves	$3,034,247	$2,973,042
Deferred income	8,215,836	6,888,205
Net unrealized gain on investments	(4,140,226)	(5,571,775)
Depreciation	(8,864,992)	(1,520,807)
Other	1,940,945	1,479,118
Total	$ 185,810	$4,247,783

The net unrealized gain on investments is presented in stockholders' equity, net of an estimate of applicable deferred income taxes. The Company's reported provision for income taxes is less than that computed by applying the income tax rate for these years to income from operations before income taxes. This difference arises principally because the Company receives significant nontaxable interest from state and municipal bonds.

E. Claim and Claim Adjustment Expense Reserves

Claim reserves represent the estimated liabilities for claims reported to the Company plus reserves for claims incurred but not yet reported. Claim adjustment expense reserves represent the estimated expenses relating to settling of these claims. Claim and claim adjustment expense reserves are presented before estimated recoveries for reinsurance. The methods of making such estimates and establishing the resulting reserves are reviewed regularly, and any adjustments are reflected in income currently. The table below provides a reconciliation of the beginning and ending reserves for claims and claim adjustment expenses:

	2004	2003
Balance at beginning of year	$108,734,842	$105,597,045
Claims and claim adjustment expenses incurred:		
Current year	143,512,000	122,980,000
Prior years	5,180,505	759,277
	148,692,505	123,739,277
Claims and claim adjustment expenses paid:		
Current year	75,378,000	70,242,000
Prior years	52,917,610	45,914,699
	128,295,610	116,156,699
Change in reinsurance recoverable on unpaid claims	(17,952)	(4,444,781)
Balance at end of year	$129,113,785	$108,734,842

2. Summary of Significant Accounting Policies, continued

E. Claim and Claim Adjustment Expense Reserves, continued

Prior year reserves on voluntary automobile business were increased by approximately $5.5 million in 2004. Prior year reserves on involuntary automobile business were increased by approximately $4 million in 2003.

Claims and claim adjustment expenses incurred, shown above, include expenses for service activity clients of $5,660,536 and $6,120,892 reported in service activity expenses in the Company's consolidated statements of income for 2004 and 2003, respectively.

F. Reinsurance

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

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

	2004		2003	
	Premiums Written	Losses Incurred	Premiums Written	Losses Incurred
Gross	$321,414,035	$208,002,393	$272,682,090	$177,959,919
Ceded	(108,712,502)	(64,970,424)	(92,310,667)	(60,341,534)
Net	$212,701,533	$143,031,969	$180,371,423	$117,618,385

Ceded premiums earned for 2004 and 2003 were $99,119,241 and $83,095,006, respectively.

The Company has treaties for quota share reinsurance with cession rates of approximately 40 percent for homeowners property insurance premiums and 60 percent with respect to premiums for subject automobile coverages. Among the effects of these treaties is to cover losses in excess of approximately 75 percent of premiums earned during specified accounting periods. Revenues and expenses are each reflected net of quota share reinsurance totaling approximately $91 million and $74 million for 2004 and 2003, respectively.

The Company also has treaties for catastrophe reinsurance. During the years ended December 31, 2004 and 2003, the Company incurred costs for catastrophe premiums of approximately $3,868,000 and $3,238,000, respectively.

2. Summary of Significant Accounting Policies, continued

F. Reinsurance, continued

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

The Company acts, through its Pilgrim Insurance Company subsidiary, as an intermediary for certain insurance companies in administering motor vehicle insurance programs. The Company's income statement and reinsurance activity exclude $59,488,559 and $53,206,339 of premiums earned related to this third-party business and $64,672,698 and $69,582,192 of claims and claim adjustment expenses in 2004 and 2003, respectively. In connection with these arrangements, claim reserves exclude $37,861,524 and $43,925,327 at December 31, 2004 and 2003, respectively.

G. Stock-Based Compensation

The Company records compensation costs for stock-based employee compensation plans at fair value.

H. Revenues Earned in Underwriting and Service Activities

Premium revenues are earned on a daily basis over the terms of the policies. Unearned premiums represent billed amounts which are applicable to the unexpired terms of policies in force and are presented net of reinsurance. Premiums receivable are net of reserves for doubtful collections of $1,814,278 and $1,525,124 at December 31, 2004 and 2003, respectively, and are presented net of unbilled amounts of $44,166,483 and $34,792,008, respectively.

Underwriting revenue is derived from personal lines property and casualty insurance activity, predominantly in Massachusetts. The Company also derives fee income by providing insurance, investment management, policy processing, billing, and claim management services in three Northeast states. Fee income is earned over the related policy periods. The balance sheet items, amounts due from (to) service clients, are balances with insurers for which Pilgrim Insurance Company, Palisades Safety and Insurance Management Corporation (PSIMC), and High Point Safety and Insurance Management Corporation (HPSIMC) provide services. PSIMC serves as attorney-in-fact for Palisades Safety and Insurance Association, a New Jersey reciprocal insurance exchange. HPSIMC provides services to High Point Preferred Insurance Company, High Point Safety and Insurance Company, and High Point Property and Casualty Insurance Company (High Point Insurance Companies), insurers domiciled in New Jersey.

In 2004, reimbursable expenses of $14,378,131 for 2003 has been moved from service activity expenses to fees earned from service activities.

2. Summary of Significant Accounting Policies, continued

I. Acquisition

In October of 2004, the Company purchased an insurance agency for approximately $1.3 million. The Company used the purchase accounting method to account for this transaction. The Company's net income includes the results of operations of this agency from the date of purchase through December 31, 2004.

Subsequent to year-end and effective January 31, 2005, the Company purchased another insurance agency for approximately $1.0 million. The Company used the purchase accounting method to account for this transaction.

3. Goodwill and Intangible Assets

Goodwill of $3,322,104 and $2,615,226 at December 31, 2004 and 2003, respectively, representing the excess of the purchase price over the estimated fair value of net assets acquired, results from the Company's purchase of insurance agencies. The Company reviews goodwill annually for impairment. No impairment of goodwill was recorded for 2004 or 2003. Intangible assets of $1,194,121 and $953,340 at December 31, 2004 and 2003, respectively, representing expirations and non-competition agreements, also exist as a result of the purchase of insurance agencies and are being amortized over periods ranging from three to seven years. Amortization associated with these intangible assets for 2004 and 2003 was $302,017 and $331,723, respectively.

4. Consolidated Revenues

Revenues, net of reinsurance, for the separate companies for 2004 and 2003 were:

	2004	2003
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$197,979,624	$183,371,784
Mt Washington Assurance Corporation	178,678	985,330
Bunker Hill Insurance Company	19,876,918	17,288,400
	218,035,220	201,645,514
Management company revenues:		
The Plymouth Rock Company	26,397,016	12,031,013
SRB Corporation	45,940,612	8,918,775
Pilgrim Insurance Company	24,211,810	22,153,686
Palisades Safety and Insurance Management Corporation	35,302,881	25,673,008
High Point Safety and Insurance Management Corporation	113,442,687	17,444,769
	245,295,006	86,221,251
Intercompany eliminations	(71,356,512)	(34,486,686)
Total revenues	$391,973,714	$253,380,079

5. 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:

	2004	2003
Net income	$ 36,631,711	$ 18,529,589
Depreciation and amortization	8,224,205	5,784,930
Deferred income taxes	5,493,522	(926,869)
Change in operating assets and liabilities:		
Accrued investment income	(206,763)	97,969
Premiums receivable	9,731,515	(18,571,643)
Deferred acquisition costs	(1,085,168)	(2,102,715)
Receivable from reinsurers	2,948,877	(3,447,423)
Claim and claim adjustment expense reserves	20,378,943	3,137,797
Unearned premium reserve	12,022,777	12,725,727
Advance premiums	310,118	316,492
Commissions payable and accrued liabilities	20,564,332	6,130,532
Payable to reinsurers	(10,307,823)	25,749,468
Unearned service fees	1,813,746	28,544,484
Amounts due from and to service clients	20,992,384	(26,459,877)
Prepaid expenses, agent loans and deposits	(881,699)	(3,907,976)
Income tax recoverable and payable	(10,910,579)	2,271,453
Other assets and other liabilities	(2,378,745)	439,699
Net cash provided by operating activities	$113,341,353	$ 48,311,637

6. Fixed Assets

Purchases of fixed assets were approximately $25,055,000 and $8,802,000 in 2004 and 2003, respectively. The table below summarizes fixed assets at December 31, 2004 and 2003.

	Useful Lives	2004	2003
Furniture and fixtures	5-10 years	$ 8,245,233	$ 4,881,675
Computers and software development	3-7 years	41,619,434	24,131,250
Leasehold improvements	2-6 years	6,999,435	3,817,664
Vehicles	3 years	2,482,704	2,321,206
Total cost		59,346,806	35,151,795
Less: accumulated depreciation and amortization		24,445,656	20,172,358
Net book value		$34,901,150	$14,979,437

7. Compensation Plans

The Company has a Savings and Investment Plan under Section 401(k) of the Internal Revenue Code. This defined contribution plan covers all employees aged 21 years or older. The Company accrued $5,441,109 and $2,520,065 during the calendar years ended December 31, 2004 and 2003, respectively, for its share of liabilities relating to this Plan.

The Company has established deferred compensation plans for officers, managers, and directors other than its founding shareholders. These plans generally provide for a rate of return on deferrals based on the financial performance of the Company. The Company accrued $7,710,974 and $6,578,199 as of December 31, 2004 and 2003, respectively, for liabilities relating to these plans.

In 1997, the Company implemented a Stock Incentive Award plan to reward key employees. The value of each Stock Incentive Award is based on the compounded increase in excess of 10 percent per year of the appraised value of the Company's common stock for the five-year vesting period following the date of the award. The cumulative numbers of outstanding awards as of December 31, 2004, 2003, and 2002 were 6,806, 8,315, and 9,253, respectively. No awards were issued during 2004. In 2003, 1,942 awards were granted and 1,942 expired. During 2004, 1,351 awards became eligible for exercise, of which 360 were exercised for common stock and 991 were exercised for cash. Under the terms of this plan the cash awards will be held by the Company over a two-year maturation period. At the end of this two-year period, the initial amounts of the cash awards together with investment returns accrued on them will be distributed to the participants. No awards were exercisable during 2003. During 2004 and 2003, respectively, 158 and 938 awards were forfeited. Total expense recorded for the Stock Incentive Award plan was $3,256,425 and $65,256 in 2004 and 2003, respectively.

Separate stock incentive awards totaling 6,044 shares were granted to individual officers of the Company in 1998 and 2000. Outstanding awards of 1,111 shares will vest in 2005 provided that certain performance and service requirements are met. The Company recorded expense of $866,580 in 2004 and $311,080 in 2003 related to these incentive awards.

Effective February 2, 2004, the Company provided a long-term compensation package to a key officer. This package includes a grant of 3,150 shares of restricted stock with an appraised value of $990 per share and an option to purchase 200 shares of restricted stock at an exercise price of $150 per share. The option was exercised on March 26, 2004. All of these restricted shares will vest in their entirety in 2010 and 2011 provided that certain performance and service requirements are met. To determine the fair value of the option on the 200 shares of restricted stock, the Company used the minimum value method with an interest rate of one percent and an expected option life of one year. The Company recorded expense of $452,000 in 2004 related to this package. Under the terms of this package, stock options on 4,933 shares previously granted to this officer were canceled, and a deferred compensation liability to this officer was settled for its fair value.

8. Real Estate

The Company had ownership interests in two real estate properties as of December 31, 2004. One of these interests is a two-thirds ownership interest through a limited liability company. This investment is accounted for under the equity method. Costs for building improvements on these properties of approximately $2,440,381 and $1,574,691 were incurred in 2004 and 2003, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2004 and 2003:

	2004	2003
Land	$ 4,523,650	$ 4,523,650
Buildings, improvements, and other	23,066,729	23,431,185
Total cost	27,590,379	27,954,835
Less: accumulated depreciation	5,014,610	4,175,747
Net book value	$22,575,769	$23,779,088

Rental income from lessees other than from Plymouth Rock companies aggregated approximately $2,842,000 and $3,915,000 in 2004 and 2003, respectively. For each of the years 2005 through 2009, minimum annual rent receivable by the Company is approximately $1,949,000. Total obligations of lessees to the Company through 2009 are approximately $9,747,000. Buildings and improvements are depreciated over their useful lives, which range from two to thirty-nine years.

The total appraised value of the Company's real estate interests, as determined by independent appraisers during 2004 using the income and sales comparison approaches, was $25.2 million. Because of uncertainties inherent in the appraisal process, as well as changing market conditions, the amounts that could be realized if the properties were actually offered for sale may differ from these appraised values.

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

9. Note Payable

The Company issued a note payable in the amount of $9,683,400 at an interest rate of 6.32% in 1998 in conjunction with the purchase of outstanding shares of its common stock. Payments of principal are scheduled to be made in ten equal annual installments of $968,340. Interest payments on this note totaled approximately $275,000 and $336,000 during 2004 and 2003, respectively. The Company has the right to prepay this note at any time.

10. Investment Securities and Investment Income

A. Marketable Securities

At December 31, 2004 and 2003, amortized cost, unrealized gains and losses before federal income taxes, and fair value of fixed income and equity securities were as follows:

At December 31, 2004:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 81,651,917	$ 70,415	$ 510,630	$ 81,211,702
State and municipal securities	35,488,967	711,199	134,989	36,065,177
Corporate debt securities	66,512,696	143,351	448,496	66,207,551
Mortgage-backed securities	40,204,658	88,300	266,523	40,026,435
Common stocks	24,626,992	10,961,390	33,918	35,554,464
Total	$248,485,230	$11,974,655	$ 1,394,556	$259,065,329

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

At December 31, 2004, maturities of marketable securities were as follows:

	Amortized Cost	Fair Value
Due in 90 days or less	$ 37,216,340	$ 37,217,915
Due after 90 days and in one year or less	12,769,049	12,785,973
Due after one year and in five years or less	138,330,422	137,978,356
Due after five years and in ten years or less	17,585,233	17,525,242
Due after ten years	17,957,194	18,003,379
Common stocks	24,626,992	35,554,464
Total	$248,485,230	$259,065,329

10. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

The Company classifies these marketable securities as available for sale. At December 31, 2004 and 2003, the Company carried securities that had been in an unrealized loss position for longer than twelve months with a total fair value of approximately of $17,824,000 and $2,703,000, respectively. Unrealized losses related to these securities were approximately $449,000 and $235,000 at December 31, 2004 and 2003, respectively. The Company views these losses as resulting from market conditions and believes them to be temporary. At December 31, 2004, the Company recorded a loss of $1,020,435 on one security, for which it believes the value it previously recorded to be "other than temporarily impaired" as defined by generally accepted accounting principles. No such losses were recorded in 2003.

B. Alternative Equity Investments

Alternative equity investments include positions in entities that focus predominantly on publicly announced mergers and acquisitions arbitrage. Substantially all of the investments made by these entities are in publicly traded securities, and the Company has the contractual right to withdraw its funds from these entities each year. At December 31, 2004 and 2003, the Company's recorded equity in these alternative equity investments, which includes these investments' realized and unrealized gains, was $27,007,350 and $27,772,247, respectively. The cost of these investments was $19,000,000 in each of 2004 and 2003.

Other alternative equity investments include privately held common stocks, preferred stocks, surplus notes, and partnership entities investing in companies that are not publicly traded. The Company's recorded equity in such investments amounted to $17,990,869 and $13,775,028 at December 31, 2004 and 2003, respectively. The Company recorded unrealized gains of $1,249,113 and $733,113 associated with two of these investments as of December 31, 2004 and 2003, respectively. The costs of all such investments as of December 31, 2004 and 2003 were $16,741,756 and $17,915,633, respectively. These amounts include investments in Direct Response Corporation and Homesite Group Incorporated totaling approximately $9.8 million at December 31, 2004 and 2003. These companies derive underwriting revenue from personal lines property and casualty insurance activity throughout the United States, except in certain New England states.

The Company has committed to invest $10 million in a private equity fund, Lindsay Goldberg & Bessemer L.P. (the Fund). The Company is a limited partner of the Fund. The chairman of the Company is a member of the general partner of the Fund. At December 31, 2004, the Company had invested approximately $2.6 million in the Fund.

10. Investment Securities and Investment Income, continued

C. Analysis of Investment Income and Capital Gains

The components of investment income and capital gains before federal income taxes during 2004 and 2003 were as follows:

	2004	2003
Interest income and dividends from securities	$ 7,772,896	$ 5,477,122
Earnings from alternative equity investments	3,817,562	2,094,378
Rental income	3,505,871	4,016,009
Finance charges from premiums receivable	5,638,084	4,303,652
Gross investment income	20,734,413	15,891,161
Rental expenses	(1,799,891)	(1,717,915)
Investment expenses	(662,382)	(814,672)
Investment income	18,272,140	13,358,574
Net realized capital gains	971,487	4,813,471
Investment income and capital gains	$19,243,627	$18,172,045

D. Investment Activity

The components of investment activity during 2004 and 2003 were as follows:

	2004	2003
Balance at beginning of year	$226,497,287	$216,860,669
Change in marketable securities:		
Sales	(60,212,769)	(108,770,928)
Purchases	138,417,604	111,119,618
Net change in marketable securities	78,204,835	2,348,690
Net change in investments in alternative equities	3,450,944	2,318,822
Net investment activity	81,655,779	4,667,512
Net change in purchases in process	3,337	(7,187)
Net change in unrealized gain on marketable securities and alternative equities	(4,092,855)	4,976,293
Balance at end of year	$304,063,548	$226,497,287

Comprehensive income is defined as net income plus the change in net unrealized gain on investments. Accordingly, the net unrealized gain on investments is reduced by realized gains previously included as unrealized in comprehensive income of approximately $2,107,000 and $2,547,000 in 2004 and 2003, respectively.

11. Other Income

A Company subsidiary, Plymouth Rock Assurance Corporation, entered into an agreement on June 16, 2003 with Holyoke Mutual Insurance Company in Salem, Country Casualty Insurance Company, Country Mutual Insurance Company, Middlesex Mutual Assurance Company, and Mutual Service Casualty Insurance Company (collectively, Holyoke) for the transfer of Massachusetts private passenger automobile business written by Holyoke, effective January 1, 2004. Under the terms of this agreement, the Company's insurance subsidiary agreed to offer agency contracts to independent agencies that represented Holyoke for private passenger automobile insurance in Massachusetts. The agreement allowed agencies formerly appointed by Holyoke the opportunity to offer private passenger automobile insurance policies written by the Company's subsidiary to their customers whose policies written by Holyoke expired in 2004. Under the agreement, the Company assumed Holyoke's obligations to Commonwealth Automobile Reinsurers, including accepting assignment of Holyoke's exclusive representative producers in policy years after 2003. In June 2003, the Company received a cash payment of $5,850,000 from Holyoke pursuant to this agreement.

12. Commitments and Guarantees

The Company's rental expenses for 2004 and 2003 aggregated approximately $2,613,000 and $2,582,000, respectively. For the years 2005 through 2009, the minimum lease obligations of the Company to unrelated third parties range from approximately $2,235,000 to $5,913,000 annually. Total obligations of the Company under leases are approximately $37,304,000 through 2014.

As of December 31, 2004, a subsidiary of the Company had guarantees outstanding on loans to certain of its independent insurance agents with balances totaling approximately $558,000. These loans were fully performing in 2004 and are not expected to result in any net liability to the Company.

Effective October 31, 2003, two subsidiaries of the Company, Palisades Safety and Insurance Management Corporation and High Point Safety and Insurance Management Corporation, entered into a Transition Services Agreement with Prudential Insurance Company of America. The purpose of this agreement is to provide transitional processing support for the High Point Insurance Companies, formerly Prudential's New Jersey personal lines insurance companies, which were acquired on October 31, 2003 by Palisades Safety and Insurance Association, a New Jersey reciprocal insurance exchange managed by Palisades Safety and Insurance Management Corporation. Under the terms of the agreement, Prudential will supply certain levels of systems and administrative support for a variable period of 18 to 36 months. The estimated remaining costs for this arrangement are approximately $34 million through 2006.

13. Stockholders' Equity

A. Common Stock

Common stock at December 31, 2004 and 2003 is composed of Class A common shares and Class B common shares, both classes having a par value of $0.10 per share. There are 300,000 Class A shares authorized, of which 116,723 and 116,270 were issued and outstanding on December 31, 2004 and 2003, respectively.

There are 90,000 Class B shares authorized, of which 66,117 and 66,217 were issued and outstanding on December 31, 2004 and 2003, respectively. 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 others are elected by the Class A shareholders.

In December 2002, the Company entered into an agreement with one of its shareholders to repurchase 40,701 shares of Class A common shares. On January 31, 2003 and March 5, 2003, the Company repurchased and retired 9,600 and 31,101 shares of Class A common shares for payments of $6,000,000 and $18,660,600, respectively.

B. Statutory Surplus and Dividend Availability

The Company's insurance subsidiaries are required to file financial statements with state insurance departments. The accounting principles prescribed or permitted for these financial statements differ in certain respects from accounting principles generally accepted in the United States of America. On a statutory accounting basis, capital and surplus of the Company's insurance subsidiaries aggregated approximately $104,316,428 and $94,942,465 at December 31, 2004 and 2003, respectively. Regulatory limits restrict the amount of dividends that can be remitted to the Company from its insurance subsidiaries without permission of state insurance regulators.

One of the Company’s subsidiaries, Plymouth Rock Assurance Corporation, made a loan of $8.0 million to the Company and a loan of $8.5 million to one of the Company’s consolidated subsidiaries on February 21, 2003 and January 31, 2003, respectively. Additionally, an extraordinary dividend of $6.7 million from the same insurance subsidiary was approved by the Massachusetts Division of Insurance and was paid to the Company on February 20, 2003.

C. Earnings Per Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding throughout the year plus dilutive potential common shares that were outstanding at year-end.

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

James N. Bailey

Hal Belodoff

Michael J. Johnston

Wilmot H. Kidd, III

Norman L. Rosenthal

Peter J. Wood

Officers

James M. Stone
President

James N. Bailey
Treasurer and Clerk

Hal Belodoff
Vice President

Paula W. Gold
Vice President

Colleen M. Granahan
Vice President

Directors and Officers of the Plymouth Rock Group of Companies

Non-Management Directors

Alexander Ellis, III
Kerry A. Emanuel
Fabian J. Fondriest
Samuel F. Fortunato
Michael J. Johnston
William M. Kelley
Wilmot H. Kidd, III
Eugene J. Meyung
Norman L. Rosenthal
Peter J. Wood

Management Officers and Directors

Richard F. Adam
Francis P. Arment
Geoffrey H. Arnold
James N. Bailey
Hal Belodoff
Marc V. Buro
Frederick C. Childs
Nancy L. Conlin
William J. Conner, III
William E. Emmons
Paula W. Gold
Colleen M. Granahan
Stewart W. Kemp
Eric L. Kramer
Lisa K. Lasky
Marlowe G. Leibensperger
Michael A. Luciani
Paul D. Luongo
Loren J. Mattingly
Mary Beth McInerney
Joseph W. Metz
Karen A. Murdock
Thomas G. Myers
Carl A. Peterson
Linda D. Schwabenbauer
Donald J. Southwick
James M. Stone
Mark A. Sweeney
Barry O. Tagen
John P. Tierney
James A. Tignanelli
Ellen S. Wilcox
Gerald I. Wilson
Scott A. Wilson

Counsel:
Ropes & Gray LLP

Independent Auditors:
PricewaterhouseCoopers LLP