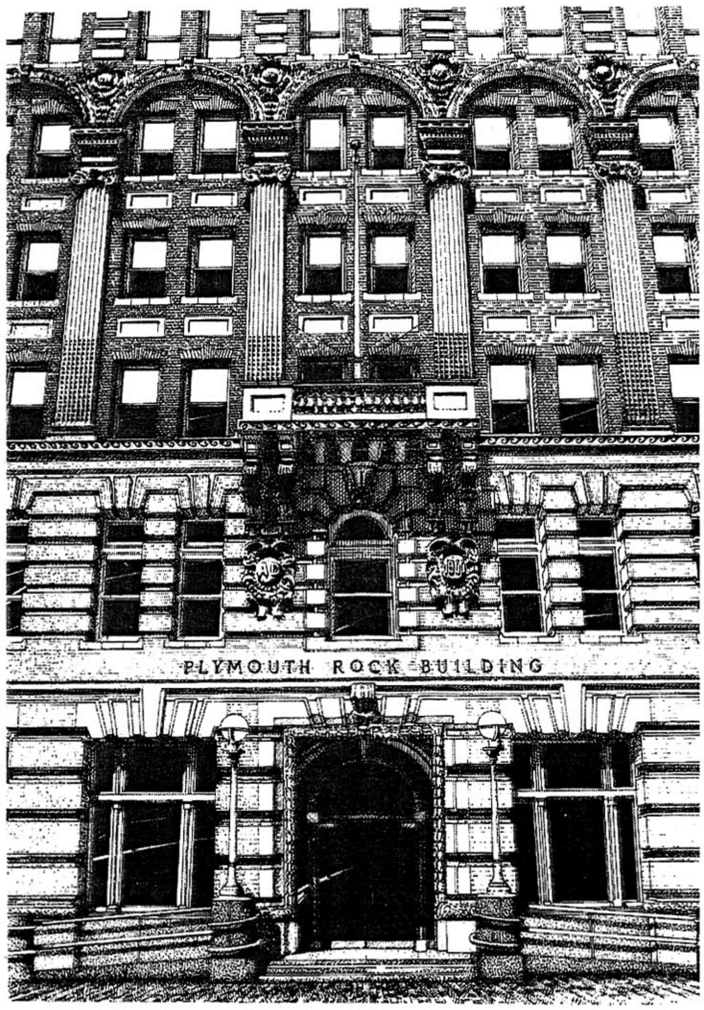
The Plymouth Rock Company



2008 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 12, 2009

To Our Shareholders:

History will record 2008 as the worst year for the financial services sector since the Great Depression. It is with considerable pride in our whole organization, and some measure of relief, that I can describe Plymouth Rock's performance in the same year as respectably decent. While our 13% return on equity may appear dull when compared with profitability in earlier years, there are lots of financial Goliaths out there who would love to have recorded double digit returns without parentheses. Our net income was $35.9 million, even after reflecting some unrealized losses on equity investments, and our budget projects a higher profit for 2009, a year already shaping up to be another harsh one for the economy as a whole. If the value of a business resides in its ability to generate long-term profits under expected conditions and its resilience in the face of adverse circumstances, Plymouth Rock's robustness in 2008 should send a comforting and positive message.

This is not to say that results were as we had hoped or that they were immune from the impact of the autumn market panic. Net income in 2008 for the group was 1.1% less than that of the prior year. Shareholders' equity rose by just under 2% after payment of our usual dividend to our shareholders in March and an extra dividend of roughly the same amount in December. Without these two dividends, equity would have risen by 7.6%. Book value is now $1,543 per common share, and the cumulative book value return over the full twenty-five years of Company operations is 18.4%, having fallen three-tenths of a point below last year's cumulative number. The year's top line was more encouraging than the bottom line. Where 2007 had seen our group's premiums underwritten and managed fall by nearly 4%, the total expanded by 4.6% in 2008 to $1.06 billion. Breaking the results into their largest sub-segments, I can report that our underwriting companies in New England taken together wrote $301 million in gross premiums during 2008, about $13 million less than in 2007, and our three insurance management companies handled $759 million in 2008 premiums, up by $60 million from the prior year. Since premiums in Massachusetts fell on average by 6% since the prior year, the New England dollar decline masks a small increase in policy count. The premium increase in New Jersey, where our reciprocal management companies are located, substantially understates the unit growth trends for the same reason. Both Palisades and High Point experienced net growth in insured exposure units.

I usually offer here a few key indicators to which I pay close attention but which are not readily discernable from our financials. The overall enterprise scale, stated above, of $1.06 billion combines premiums managed and underwritten, taken before reinsurance outlays. It is that number I prefer to use as a starting point for examining profitability. The ratio of net income to gross premiums written in the underwriting companies was 2.4%, significantly underperforming our 7.5% target for that measure. The return on gross premiums in the management companies was a much healthier 3.1%, against a target of 3.75%. In most years, these indices are more informative than traditional rate-of-return measures because our reciprocal management subsidiaries don't really need to keep capital on their balance sheets as an insurer would. These indices, moreover, are in some ways more interesting than ratios that can be computed from the GAAP financials, because the latter, by their nature, are designed to include only the reported numbers of those companies owned by the Plymouth Rock parent, and thus cannot reflect either the income or the equity of the reciprocal insurers that we manage but do not own.

This year the profitability comparisons raise a problem that we have not encountered before. Remember that the investment performance contributing to the results I talk about in this letter, whether measured by GAAP or estimated for economic impact, is only for our owned companies. Investment losses in 2008, or shortfalls against targets, thus are drags only on our underwriting companies' results. The New Jersey reciprocal family necessarily keeps its own balance sheets and income statements. The investment results for the reciprocals in 2008 were similar to those of our owned companies, since all of the companies in our family share the same investment manager, but these numbers are not included in the Plymouth Rock Company financials. Included instead in our numbers are only the results at the two New Jersey management companies, which were by and large unaffected by the stock market crash. The observed 2008 gap between actual performance and targets in the underwriting companies was shaped in part by falling equity prices that had no equivalent impact on our owned businesses in New Jersey. Had investment returns in 2008 mirrored our past track record, the underwriting companies would have earned 6.0% on gross premiums.

Investments this past year were, and remain now, at the front of virtually everyone's thoughts. For that reason, I would like to take the year's story out of its usual order and focus on the investments before turning to the analysis that underlies our underwriting and insurance management performance. The GAAP financials never tell the whole story, especially given our consistent focus on long-term total return. GAAP income statements quite properly reflect realized gains or losses from stocks sold in the current year even when the dominant price changes might have occurred in prior years. In our case, over $6 million of capital gains representing earlier year common stock appreciation was reflected in income for this past year. By the same token, income statements reflect only a portion of the year's changes in investment valuations for assets not sold. Diminutions in market values of publicly traded stocks are reflected only to the extent defined by OTTI (Other Than Temporarily Impaired) accounting rules, which are seldom triggered until a stock has been below cost for more than twelve months. Since most of the stock market declines in our portfolio, and in everyone else's, occurred in the final four months of 2008, the charges to 2008 net income are relatively small when compared to mark-to-market valuation changes. Reductions in the valuations of illiquid assets kept throughout the period, such as private equity and hedge fund interests, are reflected on the income statements under the equity method of accounting that we use only to the extent that fund managers estimate for us their net asset value changes. On Plymouth Rock's 2008 income statement, write-downs for private equity and hedge fund investments averaged 7%. Market value changes in our real estate holdings are not reflected in the GAAP income statement at all. The income statement shows investment income and capital gains of $16.1 million for 2008. Excluding premium finance income and interest on short-term loans, the reported number would have been $10.3 million. This implies that our investment portfolio produced about a 2% overall return. While this presents an accurate GAAP picture, it is not all you need to know. We didn't actually do anywhere near that well in economic terms.

Similarly, the balance sheet provides useful GAAP information, but it, too, tells only part of what an economic analysis of performance requires. The year-end balance sheet displays a reduction in Net Unrealized Gain on Investments in the amount of $15.4 million. Some of the decline represents the mark-to-market adjustments not shown on the income statement, but a portion of the change is simply a recognition of asset sales during the year and realization of the imbedded gains, which are then removed from this equity entry. There is no established audit standard for describing economic or total return results, but I will do my best.

Our bonds, representing just over half of the overall portfolio, returned 3.3% in 2008 on a total return basis. Our undiversified portfolio of half a dozen stocks, on the other hand, lost 31% of its value after the impact of dividends. While this performance beats the negative 37% total return of the Standard and Poor's index for the period, it drags our all-time internal rate of return on marketable common stock investments down to 16.3%. That is almost four points below the 20% cumulative mark we had previously been so proud of beating throughout our equity investment history. For internal measurement purposes, the investment team estimates that our hedge fund and private equity positions are down by 6%. While real estate is carried at cost on our financials, an educated estimate would be that the market values of our two office buildings (which we have neither a need nor a desire to sell) are down about 17% from what they were a year ago. On an economic basis, and in this case mirroring the statements, we estimate that we had a gain in the value of our Homesite holdings. Based on the year's results at Response Insurance, we made a downward adjustment to our valuation of that company as of year-end 2008. In the case of Response, of course, these estimates of value will be replaced by facts reflecting the actual transaction during the first quarter of 2009. Taking all of this together, my estimate is that The Plymouth Rock Company experienced about a $22 million pre-tax economic loss on investments in 2008, representing something like a negative 4.3% return on overall invested assets. That is nothing anyone would seek in the long run, but Jim Bailey and Rick Childs can join me in celebrating that we did no worse.

Those readers with good memories may be ready to take me to task for words I used in these pages last year. I described at that time with satisfaction that our portfolio was moving toward a higher concentration in equities and away from fixed income instruments. Had we not moved in that direction, of course, our results for the year 2008 would be better. Since we make portfolio decisions for the long run and don't try to time markets, however, I'll stand by the thought. I hope in fact that we go farther in the equity direction as markets stabilize and bargains can be sought with a bit less risk of ruin. The lesson from the crash of 2008 is not that one should hold bonds, and surely not long-term bonds that hazard depletion by future inflation. The lesson is that investors should be wary of heavily leveraged businesses, of companies that wager on the continuation of upward trends in historically cyclical indices (such as housing prices), and of those that seek outsized gains trading complex derivatives in combinations with risk profiles and interdependencies even rocket scientists can't fully understand. Jim, Rick and I have always resisted the temptation to mimic the high fliers in our industry with respect to exotic investment strategies. No doubt, you have lost some available returns during the boom years as a consequence. In the winter of 2009, however, you should sleep better at night, as should our nearly 1700 employees, knowing that we are the rare financial company with a billion dollars in business that has no debt at all, never took on highly leveraged hedge fund positions, didn't trade credit default swaps or other complex instruments, and hasn't owned stock in any mortgage lender for twelve years.

Our two strategic investments in insurance companies went in divergent directions in 2008. Two years ago, I described to you a pending purchase of controlling interest in Response Insurance, a transaction that I thought would close in March of 2008, just after the completion of my 2007 letter. Much of what I said in that earlier letter has now turned out to be incorrect, and the transaction never occurred. Instead, Response was recently sold in its entirety to Unitrin, a Chicago-headquartered financial services company with an insurance subsidiary that directly competes with Response. I had long hoped that Unitrin Direct would become part of Response instead of the other way around, but the fates did not cooperate. Or, perhaps more precisely, none of us responsible for guiding Response ever found a path to business-building and brand-building that could work economically at Response's scale. Unitrin will have a better chance, given the greater scale of the combined entity, and it plans to continue use of the Response brand name, a decision I think wise. Although neither Plymouth Rock nor I will be an owner of the new Response, I wish it all possible luck and success.

Homesite Group continues to make progress as an independent company. One piece of good news is the addition of GEICO to the already lustrous list of partners who provide it homeowners insurance referrals. Progressive remains its fastest growing partner, and Homesite is thrilled to have good relationships with both of these direct response market giants. Total premium volume at Homesite Group has reached nearly $275 million on an annualized basis. I continue to predict that Homesite will someday reach the billion dollar premium mark. It may already be the industry's most impressive repository of homeowners insurance talent.

There seems to be a merry-go-round of attention-grabbing challenges in a business as large as ours. One horse at a time comes to front and center, carrying a trouble on its back, and, when it finally passes to the left and fades from view, there's another behind it. Regular readers of this letter will remember how unhappy it made Hal and me to learn that our flagship company, Plymouth Rock Assurance, was underperforming its Massachusetts competitors in profitability. That's still the horse in the front of the carousel. This problem is not in the investment results, but in the loss and expense ratios. Hal and I have both devoted much of our energies in 2008 to remedying the situation. So did the underwriting team and much of the finance team. I can report some progress, but not enough. Plymouth Rock Assurance earned $5.6 million in 2008, but would have earned just over $15 million had this been a normal investment year. Its pure loss ratio was 62%, a few points better than budget, and its all-inclusive expense ratio was 41%, about the number it had budgeted. The combined ratio these numbers produce is not a tragedy but far from a triumph. Growth, on the other hand, was pleasing. In the first year of what is called "managed competition" in Massachusetts, Plymouth Rock Assurance was one of a very few agency companies to increase its market share. Our market share is now approaching 6%, a new historical high for Plymouth Rock.

With our Matrix systems project now complete, and CFO Bill Hartranft providing a new standard of oversight in spending, expenses have improved. Plymouth Rock is now near the middle of the expense pack for its Massachusetts agency peers, and the trend in the expense ratio is toward both absolute and relative improvement. Had it not been for four years in a row of premium reductions that shrunk the denominator, expense ratios would now be approaching long-term acceptable levels. This is not true for the loss ratio. Our low loss ratio used to be an object of envy, and, as recently as 2004, we still had the best loss ratio of the Massachusetts peer group. By 2007, however, our loss ratio had become worse than those of our most comparable peers. The loss ratio gap may have narrowed a little in 2008, due to a program of on-going improvements in our claims processes intended to reduce severities without disrupting fairness or service. It is too early to be confident about the extent of the loss ratio progress to date, but Hal and I can both see the necessary work being done. Plymouth Rock earned its stripes providing unusually good service, while simultaneously exercising disciplined and rigorous underwriting. We will need to concentrate, to push, to measure, to create, and to change until we are sure we are recognizably the best at these skills once again.

Connecticut and New Hampshire results continue to disappoint. The positive trend in Connecticut loss ratios we thought we spotted last year looks less clear now, and New Hampshire's loss ratio, while measurably better than Connecticut's, remains unsatisfactory. Premium declined slightly in Connecticut to just under $13 million, despite a new product offering and new agency appointments. That the Nutmeg State remains such a small part of our family may not be such a bad thing until we figure out how to run our business there more successfully. Our New Hampshire subsidiary, Mt. Washington, saw its business volume grow very slightly to $11 million, which is not enough to efficiently support the expenses of our Granite State operations. I described these states last year not just as beachheads for future expansion but also as laboratories for Plymouth Rock. That means they should be teaching our whole group lessons about underwriting, claims or marketing that we aren't learning in our major states. I'll repeat the assertion, but I am hard pressed to assure anyone that the knowledge gained in these states has been worth the costs of the ventures so far.

Our New England homeowners writer, Bunker Hill Insurance, improved by both top and bottom line measures in 2008. More sophisticated products, continued emphasis on account underwriting, and an expanding agency footprint contributed to modest growth in premiums. What would have been an excellent year was converted to a satisfactory year on the bottom line by an expensive mid-December ice storm in central Massachusetts. The resulting net income of $1.6 million on a base of $39.5 million in premium volume provided an unexciting 4.1% return on gross premiums. That is too little margin for any personal lines business but less attractive still in a business that carries with it catastrophe risk. Part of the problem is that we still over-buy reinsurance at the lower layers of risk and under-buy at the upper layers that protect us from unlikely but severe storms. A second part of the same problem lies in the way reinsurers price those upper layers. As I have often said before, I'd rather be a seller than a buyer of personal lines property catastrophe covers in New England. Expenses also remain a problem at Bunker Hill. Curt Troutman, a veteran executive at that subsidiary, is now the officer charged with making progress in expense reductions during 2009. Other than through Bunker Hill's share of the investment results, the crisis in the financial markets did not have an immediate impact on that company's business, but Bunker Hill plans some extra vigilance in 2009 with respect to homes that may have higher than normal foreclosure risk or declining maintenance.

This is a pleasing time for us in New Jersey. Gerry Wilson at High Point had his most impressive year with our companies, and Ed Fernandez at Palisades did as well. Their tandem success helps explain why our New Jersey operations came so close to meeting their near-term targets and enhanced their future prospects for years to come. In Gerry's case the successes were multiple, with repercussions beyond New Jersey. His number one challenge was to overcome the persistent falloff in volume from Prudential agents that has nibbled at our group's largest automobile writer each successive year for five years now. Prudential, of course, had never guaranteed that automobile insurance growth was to be a top future priority when that part of their business was sold to us. So Gerry came to High Point knowing that he would have to build additional sources of business to compensate for this trend. The optimal path, however, was less than clear. That is exactly why Hal and I asked Gerry to take on the assignment. He is creative, cooperative and driven: a nice combination.

We all agreed several years ago that Gerry should look for acquisitions to bring High Point growth in the short run, and innovative marketing and product design to bring it longer term expansion. At the close of 2007, High Point purchased a book of business from GMAC Insurance that brought us, after attrition, more than $15 million worth of new volume in 2008. That alone roughly compensated for the year's reduction in the volume provided by Prudential agents, so High Point had a little running room. Meanwhile, Gerry, Jim Tignanelli and their marketing wizard, Marc Buro, worked closely and effectively with Pru executives to redesign the growth incentives to cut the shrinkage from that source. We like the way that relationship is maturing. At the same time, they made great strides in building marketing channels independent of Pru and not reliant on purchases of other carriers' business. By the fourth quarter, new business by policy count was arriving from independent organic sources faster than it fell off from Pru, and 55% of all arriving business was from sources independent of

Pru or the purchased GMAC book. Taken all together, vehicles in force at High Point grew by nearly 2% for the year, a positive number for the first time since the High Point acquisition.

Growth by itself is never the whole story. Sometimes it takes extraordinary expenses to achieve expansion. High Point, however, managed in 2008 to accomplish it and still have the best all-inclusive expense ratio (a favorite measure of mine that, by combining underwriting expenses, claims adjustment costs and investment expenses into a single percentage of premiums, nullifies arguments about allocations) in our group of companies. Wearing his corporate hat, Gerry hit homeruns in the enterprise-wide ballpark as well. He led the group in the development of an innovative web marketing effort, which I firmly believe is an indispensible pre-condition to our success in the next decade. The consumer web interface will launch in 2009 at High Point and blaze a trail for our other companies to follow. Just as important, he is leading our whole enterprise's effort in the construction of a decision support database that will empower our talented people to support their insights with more powerful data usage than we have ever had before. Finally, and less noticeably to outsiders but much appreciated within our group, Gerry and his strong team have completed the integration of our largest acquisition into the Plymouth Rock family. High Point is a leader and not a follower in the teamwork culture of strong service, highly analytical thinking, and good citizenship that Plymouth Rock has tried to build through all of these years.

Ed Fernandez had an extraordinary year as well. Palisades had no shrinkage to reverse. It has been the only substantial independent agency company to increase its market share since rate competition was introduced in the New Jersey marketplace five years ago. Even in an environment of falling rates, Palisades was on a path to record growth by both unit count and premium in 2008. But the Palisades team didn't let it rest there. Ed and his officers led the successful purchase of a competitor and by year-end Palisades' personal lines auto insurance volume was more than 50% larger than it was at the close of 2007. In fact, Palisades is now the largest Independent Agency automobile insurance writer in New Jersey. Proformance Insurance had not thrived as fully as Palisades in recent years, and its publicly traded stock had fallen enough to discourage its owners. I admit to having been reluctant at first to engage in the purchase and privatization of a public company, but Ed was stalwart and found a way, working cooperatively with Proformance management, to meet every condition Hal and I imposed. It's a milestone for our group to have completed our first public company acquisition, and to have done so, apparently, without worrisome glitches. The Palisades officers will spend much of their energy in 2009 making sure that the integration goes smoothly, and it is well worth it. Proformance came to us at a price substantially less than its book value, even stated with an extra measure of conservatism on reserves. In this environment, the purchase may turn out to have been an important learning experience for our group. There are sure to be an increasing number of such bargains in a stock market so depressed.

As a consequence of the Proformance acquisition, on top of yet another solid year for loss ratio and expense ratio performance, Palisades contributed $7.2 million to our net income, more than twice the prior year's contribution. Once again, moreover, the successes were earned with no diversion of attention from the quality of customer service. Palisades performed superbly in the New Jersey Insurance Department's ranking of companies by their ratios of valid complaints to vehicles insured. Palisades had no valid complaints and, as icing on the cake, once the acquisition was completed, Proformance had none either. Close behind Palisades' name on the list of meritorious company complaint records, by the way, was High Point's name. Among companies of significant size, our companies held two of the top handful of slots.

Pilgrim Insurance, which sells insurance management services to other insurers, had what is sometimes called a transitional year. It earned a smaller than targeted profit as it shifted its business model to accommodate the managed competition market in Massachusetts. Pilgrim was founded many years ago because Plymouth Rock had valuable expertise in dealing with the assigned exclusive agencies, called ERP's, that were central to Massachusetts' unique residual market mechanism. Servicing of out-of-state carriers' ERP assignments has remained a foundation of Pilgrim's business, although its president, Ellen Wilcox, has made steady progress in diversification. With Massachusetts now eyeing a national model and becoming an Assigned Risk state, ERP's will fade in numbers and importance. Ellen, therefore, has concentrated on new services, some of which are sold on a pure fee basis and do not involve the management of the whole premium dollar for the client company. Pilgrim signed up three new clients for services related to the new Assigned Risk Plan and several clients for claims and medical billing services in the Massachusetts voluntary markets. It is also exploring services for self-insurers of commercial auto. To thrive and secure its future, Pilgrim must replace its ERP focus with demonstrably superior expertise in another high-value-added field of insurance services.

In the shareholders' letter I wrote a year ago, I expounded a bit on the deficiencies in financial regulation over the last few decades and the systemic risks to which this laxity has exposed us. This year the evidence speaks for itself. The shame is that this current crisis, likely the worst since the Great Depression in human suffering and the most expensive ever in terms of cost passed on to our descendents for rescue and stimulus, never needed to occur. The economy could have weathered a turndown in the overheated mortgage and real estate markets without a catastrophe had there been a common sense rulebook in place for our essential institutions of finance. It is little short of amazing that some people today still want to preserve the "fruits of financial innovation" on Wall Street. Some temporarily inflated paychecks, and a crash to follow, are all the fruit that outsized leverage, unchecked scale and concentration, excessively complex instruments, and inadequate transparency can yield. I worry that the nation is now setting about to re-launch some of the damaged institutions, this time at taxpayer expense, without limiting the scope of activities we know beyond a reasonable doubt can endanger the financial institutions themselves, their counterparties, and millions of innocent bystanders.

Because I used to teach economics, I am frequently asked to predict what will happen next in the economy and the financial markets. My answers invariably disappoint. Here, by analogy, is the reason. Seventy-five years ago, in the 1930's, no one could explain hurricanes. By now, scientists have gotten pretty skilled at describing the physics of major storms. But it is still beyond the ability of the experts to predict hurricanes much in advance, and no one can even begin to stop them. The abilities of economists in their field, where phenomena of mass psychology are paramount rather than temperature and pressure gradients, are similarly constrained, and for some of the same reasons. So many uncontrollable factors influence public and market moods in a crisis, and so many sensitive dependencies link the various drivers of outcomes, that prediction and cure are both elusive. Often the best prognostication one can do is to paint alternative scenarios. The nightmare scenario from here is one in which, at this time in 2010, people look back and say: The banks and brokers were bailed out, ditto the auto manufacturers; we had a stimulus package and a middle class tax cut; we ran huge Keynesian deficits; and interest rates were pushed toward zero -- but we are still in trouble. Confidence in that scenario could plummet well below where it is today. The best realistic scenario would seem to be that the passage of time, or those same tools, would gradually restore economic vigor, and paralyzing fears melt slowly into the past sometime during 2010. Any guess I offered about which picture better represents the future would be no better than that of any other interested citizen.

Last year I described it as disappointing that Plymouth Rock's net income was $36.3 million. This year, just twelve months later, I am gratified that the Company earned $35.9 million. The difference, of course, reflects the transformation of the broader economic climate. The Plymouth Rock Companies are not immune from external events but we are in an industry less vulnerable than most to recession. While our customers may slow down their buying of new cars when the economy is soft, they still insure most of the old ones. And they may drive less, especially during evening wining and dining hours, when a disproportionate share of the accidents occur. On the investment side, we will remain less vulnerable to market swings than some others as long as we stay sensible and conservative in our portfolio choices and eschew the temptation to copy those who pursue extra rewards by accepting unwise levels of risk. I have often told others, particularly advice seekers, that almost all successful business outcomes arise from some mix of ability, hard work and luck. I'd like to think your top executives have some talent and useful experience, and I am sure that the complement of men and women who back us up meet the highest standard of ability available in our industry. Hard work has, from day one, been an imperative for all of those who work here. We have never hesitated to make that clear before we hire someone. The third element of the mix, luck, you just hope for. Only a fool thinks that success perfectly tracks merit; only the vain believe it proves brilliance. In these troubled times in particular, let us be sure that Plymouth Rock never slips into complacency or takes any blessing for granted.

James M. Stone

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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, 2008 and 2007, and the results of their operations and their cash flows for 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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
February 20, 2009

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	$ 75,489,435	$ 61,898,693
Investment securities	375,504,086	400,148,774
Accrued investment income	3,474,913	3,426,465
Premiums receivable	92,501,966	95,923,366
Deferred acquisition costs	16,768,018	9,541,592
Receivable from reinsurers	34,884,206	37,052,722
Amounts due from service clients	26,288,931	13,285,649
Prepaid expenses, agent loans, and deposits	7,222,371	7,160,634
Real estate	24,408,165	23,014,040
Fixed assets	31,591,097	45,050,097
Goodwill and intangible assets	4,499,900	3,196,518
Deferred income taxes	12,196,750	-0-
Other assets	3,246,883	2,448,813
Total assets	$708,076,721	$702,147,363
Liabilities		
Claim and claim adjustment expense reserves	$147,790,629	$145,924,331
Unearned premium reserve	127,894,172	113,397,929
Advance premiums	6,574,616	7,310,559
Commissions payable and accrued liabilities	74,435,846	79,926,805
Payable to reinsurers	19,115,310	35,067,714
Unearned service fees	43,777,431	33,923,679
Amounts due to service clients	3,848,040	5,395,116
Deferred income taxes	-0-	1,656,265
Income tax payable	1,434,370	2,331,686
Other liabilities	605,654	28,834
Total liabilities	425,476,068	424,962,918
Stockholders' Equity		
Common stock and paid-in capital	26,109,963	25,682,123
Retained earnings	254,982,644	234,601,433
Net unrealized gain on investments	1,508,046	16,900,889
Total stockholders' equity	282,600,653	277,184,445
Total liabilities and stockholders' equity	$708,076,721	$702,147,363

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, 2008 and 2007

Revenues	2008	2007
Premiums earned in underwriting activities	$236,562,266	$241,207,416
Fees earned from service activities	201,181,846	181,569,978
Investment income and capital gains	16,079,697	34,277,796
Total revenues	453,823,809	457,055,190
Expenses		
Claims and claim adjustment expenses	171,730,246	179,508,818
Policy acquisition, underwriting, and general expenses	68,125,932	72,189,772
Service activity expenses	158,065,030	148,224,226
Total expenses	397,921,208	399,922,816
Income before income taxes	55,902,601	57,132,374
Income taxes	20,003,064	20,817,748
Net income	$ 35,899,537	$ 36,314,626

Per share data		
Weighted average common shares outstanding:		
Basic	179,936	179,873
Fully diluted	183,086	182,505
Net income per share:		
Basic	$ 199.51	$ 201.89
Fully diluted	$ 196.08	$ 198.98
Common shares outstanding at end of year	183,115	183,057
Common stockholders' equity per share	$1,543.30	$1,514.20

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, 2008 and 2007

Cash flows from operating activities	2008	2007
Gross premiums collected	$301,652,898	$318,934,381
Reinsurance premiums paid	(66,371,202)	(85,608,670)
Finance charges collected	5,388,645	5,368,060
Fees and commissions collected	200,542,182	185,092,906
Investment income and capital gains received	13,705,262	31,599,307
Gross claims and claim expenses paid	(206,679,037)	(219,204,275)
Reinsured claims and claim expenses collected	39,448,217	45,365,599
Policy acquisition, underwriting, and general expenses paid	(72,842,006)	(68,423,504)
Income taxes paid	(25,923,860)	(23,752,621)
Service activity expenses paid	(138,688,589)	(127,014,249)
Net cash provided by operating activities	50,232,510	62,356,934
Cash flows from financing activities		
Payment on note payable	-0-	(1,936,680)
Issuance of common stock	143,840	173,190
Dividends to stockholders	(15,518,326)	(13,173,306)
Change in liabilities for outstanding checks	(4,348,993)	4,533,537
Net cash used in financing activities	(19,723,479)	(10,403,259)
Net cash provided	$ 30,509,031	$ 51,953,675
Investment of net cash provided		
Change in cash and cash equivalents	$ 13,590,742	$ 20,400,863
Net investment activity	(1,224,295)	13,472,132
Purchase of goodwill and intangible assets	1,414,677	2,501
Net real estate activity	2,447,838	(254,082)
Purchases of fixed assets	14,280,069	18,332,261
Net cash invested	$ 30,509,031	$ 51,953,675

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, 2008 and 2007

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Total Stockholders' Equity
December 31, 2006	$25,224,933	$211,460,113	$11,838,499	$248,523,545
Comprehensive income	-0-	36,314,626	5,062,390	41,377,016
Issuance of common stock	457,190	-0-	-0-	457,190
Dividends to stockholders	-0-	(13,173,306)	-0-	(13,173,306)
December 31, 2007	25,682,123	234,601,433	16,900,889	277,184,445
Comprehensive income	-0-	35,899,537	(15,392,843)	20,506,694
Issuance of common stock	427,840	-0-	-0-	427,840
Dividends to stockholders	-0-	(15,518,326)	-0-	(15,518,326)
December 31, 2008	$26,109,963	$254,982,644	$ 1,508,046	$282,600,653

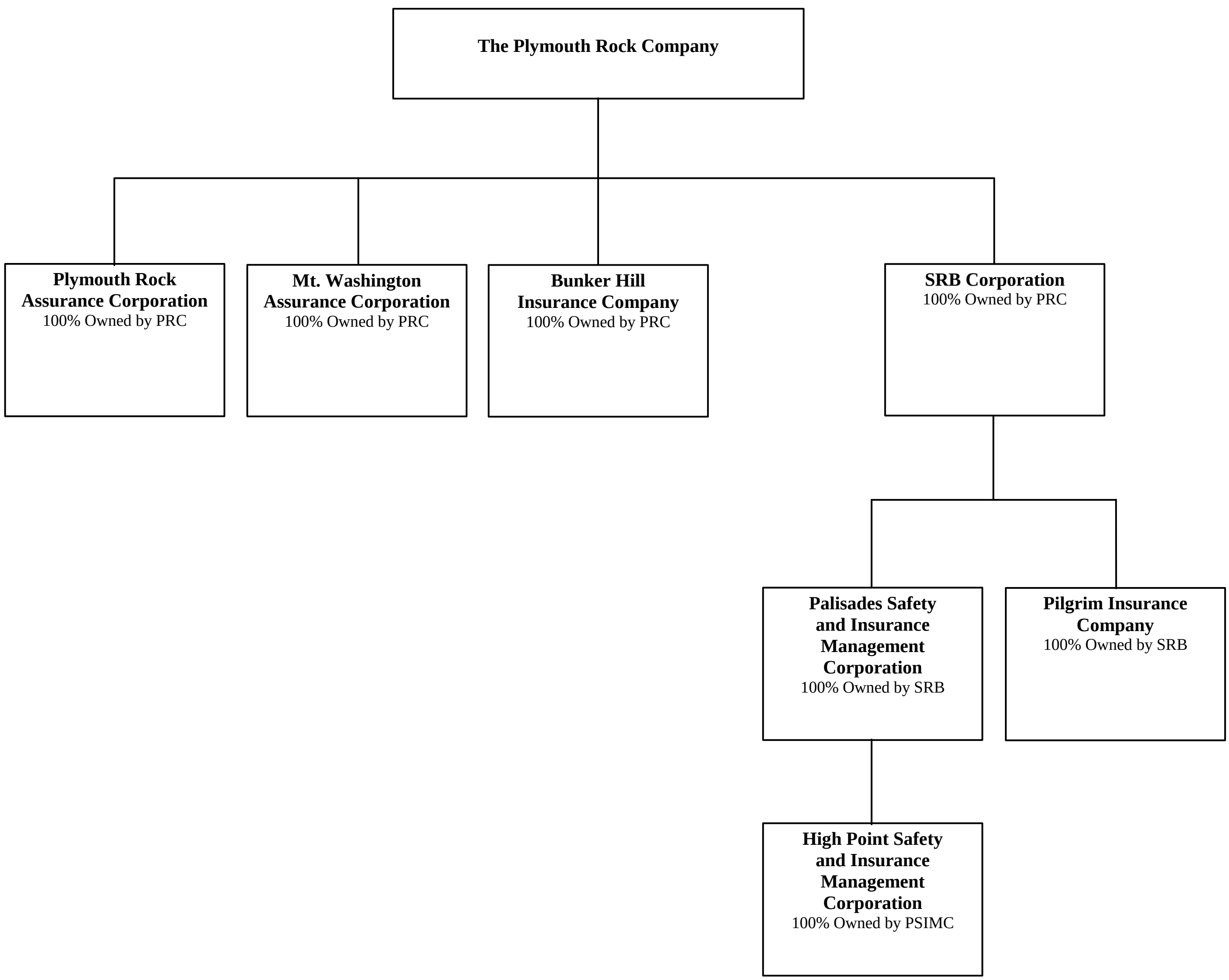
The accompanying notes are an integral
part of the financial statements.

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, as well as Shared Technology Services Group Inc. and BCS Holding Company, LLC, which are wholly owned subsidiaries of SRB Corporation.

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.

The Company, through subsidiaries, manages several entities in New Jersey whose results are not a part of the consolidated financial statements, because the Company does not hold a direct and primary interest in the risks or rewards associated with the business of these entities. Likewise, the Company does not consolidate certain entities in which it holds investments, including Direct Response Corporation and Homesite Group Incorporated (both insurance holding companies), as well as 695 Atlantic Avenue Company, LLC (a real estate company). The Company's total investment in these entities at December 31, 2008 and 2007 was $35,407,709 and $34,631,558, respectively.

B. 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 at the date of acquisition. Liabilities for outstanding checks of $4.7 million and $9.0 million are included in accrued liabilities at December 31, 2008 and 2007, respectively. Marketable fixed income and equity securities are carried at their market value. 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, after deduction of applicable deferred income taxes, are credited or charged directly to stockholders' equity. Alternative equity investments are measured using the equity method, which approximates Fair Value as defined in Statement of Financial Accounting Standards No. 157 (FAS 157 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 based on information reported to them and their assessments of the underlying investments.

C. Real Estate and Fixed Assets

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.

D. FAS 159 – The Fair Value Option for Financial Assets and Liabilities

In 2008, the Company had the option to measure certain financial assets and liabilities such that changes in their value would be reported through current-period income on a prospective basis. As this approach would introduce market volatility to the income statement and reduce the comparability of the Company's financial reporting with that of other insurance companies, the Company elected not to use this measurement approach.

2. Summary of Significant Accounting Policies, continued

E. 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. Net amortization associated with these deferred costs for 2008 and 2007 was $24.2 million and $24.6 million, respectively.

F. Stock-Based Compensation

The Company records costs for stock-based employee compensation plans at FAS 157 Fair Value based on an annual independent appraisal.

G. Use of Estimates

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

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 amounts that 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 $1,072,285 and $1,834,480 at December 31, 2008 and 2007, 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 several 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. PSIMC also provides services to Palisades Insurance Company and Palisades Property and Casualty Insurance Company, insurers domiciled in New Jersey. HPSIMC provides services to 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 (High Point Insurance Companies), all insurers domiciled in New Jersey.

2. Summary of Significant Accounting Policies, continued

I. 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 in the statements of income for 2008 and 2007 consist of:

	2008	2007
Current year federal income taxes	$18,849,341	$19,219,248
Current year state income taxes	6,177,203	5,363,588
Change in deferred federal taxes	(4,168,074)	(3,316,660)
Change in deferred state taxes	(855,406)	(448,428)
Total	$20,003,064	$20,817,748

Deferred income taxes in the balance sheets as of December 31, 2008 and 2007 consist of the net effects of these temporary differences:

	2008	2007
Compensation expense	$ 9,704,972	$ 8,012,729
Deferred income	9,412,819	8,449,598
Deferred acquisition expense	(5,868,806)	(3,339,558)
Discounting of claim reserves	3,020,306	2,896,019
Depreciation	(2,570,710)	(6,059,256)
Investment partnership timing differences	(2,036,913)	(5,028,898)
Stock options expense	1,203,127	2,320,506
Net unrealized gain on investments	(656,392)	(9,485,927)
Other	(11,653)	578,522
Total	$12,196,750	$(1,656,265)

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 rates for these years to income before income taxes. This difference arises principally because the Company incurs state tax expense and receives significant nontaxable interest from state and municipal bonds.

The Company has not yet adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), as a result of FASB's deferral of the effective date of FIN 48 for nonpublic entities until years beginning after December 15, 2008.

2. Summary of Significant Accounting Policies, continued

J. Reinsurance

Treaty reinsurance is used to reduce exposure to large losses. The Company regularly evaluates the financial condition of its reinsurers 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 its voluntary risks.

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

	2008		2007	
	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$301,488,345	$208,885,335	$314,765,935	$221,840,677
Ceded	(50,429,836)	(37,155,089)	(83,222,834)	(42,331,859)
Net	$251,058,509	$171,730,246	$231,543,101	$179,508,818

Ceded premiums earned for 2008 and 2007 were $69,618,935 and $83,876,314, respectively.

The Company has treaties for quota share reinsurance for homeowners and Massachusetts private passenger automobile. The Company presently cedes approximately $12.5 million of homeowners premium at a 30 percent cession rate and about $19 million of automobile premium, down from $60 million in each of the past two years, at a cession rate of 80 percent on certain coverages. The Company receives ceding commission amounts under both treaties that vary based upon loss ratios. Revenues and expenses are reflected net of quota share reinsurance totaling $60 million and $55 million, respectively, for 2008. For 2007, revenues and expenses were reflected net of quota share totaling $70 million and $64 million, respectively.

The Company also has a treaty for catastrophe reinsurance, as well as excess reinsurance per risk for homeowners and umbrella coverages. During the years ended December 31, 2008 and 2007, the Company incurred costs on these programs of $4.3 million and $6.4 million, respectively.

A subsidiary of the Company, Plymouth Rock Assurance Corporation, is required to be a member of Commonwealth Automobile Reinsurers (CAR). Plymouth Rock Assurance Corporation 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 CAR.

2. Summary of Significant Accounting Policies, continued

J. Reinsurance, continued

Through its subsidiary, Pilgrim Insurance Company, the Company acts as an intermediary for certain insurance companies in administering motor vehicle insurance programs. The Company's income statement and reinsurance activity exclude $47,724,015 and $52,361,224 of premiums earned related to this third-party business and $30,098,652 and $44,729,199 of claims and claim adjustment expenses in 2008 and 2007, respectively. In connection with these arrangements, claim reserves exclude $48,658,217 and $56,733,463 at December 31, 2008 and 2007, respectively.

To achieve a better balance of reinsurance cost and risk retention at Bunker Hill Insurance Company, the Company purchased an irrevocable standby letter of credit from a bank in the amount of $7.5 million. The letter of credit, which is not expected to be drawn upon, is security for a Statutory Capital Support Agreement between the Company and Bunker Hill. This agreement states that the Company will make a capital contribution if Bunker Hill's surplus falls below a certain threshold. As security for its repayment obligations, the Company has pledged to the bank securities which had a market value of approximately $9.3 million as of December 31, 2008. The letter of credit is scheduled to expire with the Statutory Capital Support Agreement on June 30, 2009.

K. Claim and Claim Adjustment Expense Reserves

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

	2008	2007
Balance at beginning of year	$145,924,331	$143,587,929
Claims and claim adjustment expenses incurred:		
Current year	181,267,000	180,556,000
Prior years	(4,696,652)	3,849,557
	176,570,348	184,405,557
Claims and claim adjustment expenses paid:		
Current year	117,236,000	120,804,000
Prior years	55,799,724	66,636,586
	173,035,724	187,440,586
Change in reinsurance recoverable on unpaid claims	(1,668,326)	5,371,431
Balance at end of year	$147,790,629	$145,924,331

2. Summary of Significant Accounting Policies, continued

K. Claim and Claim Adjustment Expense Reserves, continued

During the year ended December 31, 2008, reserves for claims and claim adjustment expenses for prior years developed favorably by $4.7 million. This resulted primarily from favorable development of claim adjustment expenses on Massachusetts private passenger automobile business. During the year ended December 31, 2007, reserves for prior years developed unfavorably by $3.8 million, primarily on losses from voluntary Connecticut automobile business.

Claims and claim adjustment expenses incurred, shown above, include expenses for service activity clients of $4,840,102 and $4,896,739 reported in service activity expenses in the Company's consolidated statements of income for 2008 and 2007, respectively.

3. Commitments and Guarantees

The Company's real estate rental expenses for 2008 and 2007 aggregated $7.2 million and $6.6 million, respectively. For the years 2009 through 2013, the minimum lease obligations of the Company to unrelated third parties range from $7.5 million to $9.2 million annually. Total obligations of the Company under leases are $79.0 million through 2020.

4. Goodwill and Intangible Assets

Goodwill of $3,458,198 and $2,940,390 at December 31, 2008 and 2007, respectively, representing the excess of the purchase price over the estimated FAS 157 Fair Value of net assets acquired, has resulted from the Company's purchase of insurance agencies. The Company reviews goodwill annually for impairment. No impairment of goodwill was recorded in 2008 or 2007. Intangible assets of $1,041,702 and $256,128 at December 31, 2008 and 2007, respectively, representing expirations, noncompetition agreements, and brand names, also exist as a result of the purchase of insurance agencies and are being amortized over periods ranging from three to fifteen years. Amortization associated with these intangible assets for 2008 and 2007 was $111,295 and $127,264, respectively.

During 2008, the Company purchased two insurance agencies. These purchases resulted in increases to goodwill and intangible assets of $517,808 and $896,869, respectively.

During 2007, the Company sold portions of its agency business. These sales resulted in reductions to goodwill and intangible assets. In 2007, the reductions to goodwill and intangible assets were $426,400 and $198,689, respectively.

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:

	2008	2007
Net income	$35,899,537	$36,314,626
Depreciation and amortization	28,772,336	29,735,366
Deferred income taxes	(5,023,480)	(3,765,088)
Change in operating assets and liabilities:		
Accrued investment income	(48,448)	(146,494)
Premiums receivable	3,421,400	4,899,440
Deferred acquisition costs	(7,226,426)	2,174,343
Receivable from reinsurers	2,168,516	(4,821,813)
Claim and claim adjustment expense reserves	1,866,298	2,336,402
Unearned premium reserve	14,496,243	(9,664,315)
Advance premiums	(735,943)	249,953
Commissions payable and accrued liabilities	(1,943,952)	3,210,774
Payable to reinsurers	(15,952,404)	(2,409,266)
Unearned service fees	9,853,752	1,311,652
Amounts due from and to service clients	(14,550,358)	1,053,912
Prepaid expenses, agent loans, and deposits	(61,737)	193,856
Income tax payable	(897,316)	830,215
Other assets and other liabilities	194,492	853,371
Net cash provided by operating activities	$50,232,510	$62,356,934

6. Acquisitions

In January and May 2008, the Company purchased insurance agencies with initial down payments of $225,000 and $750,000, respectively, at the time of purchase and future payments to be based on business retained by the agencies during the years 2008 through 2013. During 2008, the Company recorded an obligation of approximately $300,000 to be paid in the first half of 2009 for these two purchases. The Company used the purchase accounting method to account for these transactions. The Company's net income includes the results of operations of these agencies in 2008.

7. Consolidated Revenues

Revenues, net of reinsurance, for the separate companies for 2008 and 2007 were:

	2008	2007
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$226,743,416	$246,037,008
Mt. Washington Assurance Corporation	98,905	142,599
Bunker Hill Insurance Company	23,720,306	22,793,611
	250,562,627	268,973,218
Management company revenues:		
The Plymouth Rock Company	49,708,876	53,666,859
SRB Corporation	77,125,870	78,232,895
BCS Holding Company, LLC	5,355,863	4,650,087
Pilgrim Insurance Company	24,882,063	25,868,103
Palisades Safety and Insurance Management Corporation	56,411,136	43,169,294
High Point Safety and Insurance Management Corporation	113,379,400	110,008,390
	326,863,208	315,595,628
Eliminations:		
Technology costs	(33,074,586)	(39,420,804)
Dividends	(75,744,490)	(70,995,160)
Other	(14,782,950)	(17,097,692)
Total revenues	$453,823,809	$457,055,190

8. Fixed Assets

The table below summarizes fixed assets at December 31, 2008 and 2007.

	Useful Lives	2008	2007
Furniture and fixtures	5 years	$ 10,875,525	$ 10,510,498
Computers and software development	3 years	107,890,250	95,959,705
Leasehold improvements	10 years	14,718,236	13,533,676
Vehicles	3 years	3,019,978	3,213,571
Total cost		136,503,989	123,217,450
Less: accumulated depreciation and amortization		104,912,892	78,167,353
Net book value		$ 31,591,097	$ 45,050,097

Depreciation expenses incurred were $27.6 million and $28.5 million during 2008 and 2007, respectively.

9. 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. The Company incurred expenses related to this plan of $6,805,651 and $6,597,358 during 2008 and 2007, respectively.

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 incurred expenses related to these plans of $2,471,658 and $2,571,738 during 2008 and 2007, respectively.

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 ten percent per year of the appraised value of the Company's common stock for the five-year vesting period following the grant date of the award. The cumulative numbers of outstanding awards as of December 31, 2008, 2007, and 2006 were 0, 1,833, and 3,586, respectively. No awards were issued during 2008. During 2008 and 2007, respectively, 1,739 and 1,753 awards became eligible for exercise, of which 58 and 69 were exercised for shares of common stock and 1,681 and 1,684 were exercised for cash. Under the terms of this plan, the cash awards are 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 are distributed to the participants. During 2008 and 2007, respectively, 94 and 0 awards were forfeited. Total expenses recorded for the Stock Incentive Award plan were $195,154 and $1,372,251 in 2008 and 2007, respectively.

On May 1, 2008, 2007, 2006, and 2005, the Company granted stock incentive awards totaling 222, 222, 222, and 1,110 shares, respectively, to a key officer. These awards will vest at different times during a period that started in 2006 and will end in 2012, provided that certain performance and service requirements are met. During each of 2008 and 2007, respectively, 222 awards of the 2005 grant vested and were exercised for cash. The Company recorded expenses of $69,952 and $207,170 in 2008 and 2007, respectively, related to these awards.

Another key officer received a stock incentive award totaling 625 shares effective May 1, 2007. This award is eligible for vesting at different times during a period that started in 2008 and will end in 2012 provided that certain performance and service requirements are met. No portion of this award vested in 2008.

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 at the time of grant of $990 per share and an option to purchase 200 shares of restricted stock at an exercise price of $150 per share. This 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. The Company recorded expenses of $284,000 in each of 2008 and 2007 related to this package.

10. Real Estate

The Company held ownership interests in two real estate properties as of December 31, 2008. 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 $1.3 million and $0.8 million were incurred in 2008 and 2007, respectively. The table below summarizes the Company's real estate costs and carrying values at December 31, 2008 and 2007:

	2008	2007
Land	$ 4,523,650	$ 4,523,650
Buildings, improvements, and other	28,779,705	26,331,867
Total cost	33,303,355	30,855,517
Less: accumulated depreciation	8,895,190	7,841,477
Net book value	$24,408,165	$23,014,040

Rental income from lessees other than Plymouth Rock Companies aggregated $2.8 million and $2.7 million in 2008 and 2007, respectively. For each of the years 2009 through 2013, minimum annual rent receivable by the Company is $1.6 million. Total obligations to the Company of non-affiliated lessees through 2013 are $13.2 million. 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 an independent appraiser during 2008 using the income and sales comparison approaches, was $42.1 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 their appraised values.

11. 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 were scheduled to be made in ten equal annual installments of $968,340. The Company had the right to prepay this note at any time. During 2007, the outstanding principal of $1,936,680 and all accrued interest were paid in full. Interest expense on this note totaled $61,000 during 2007.

12. Investment Securities and Investment Income

A. Marketable Securities

At December 31, 2008 and 2007, 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, 2008:	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 24,631,704	$ 334,956	$ 136,617	$ 24,830,043
State and municipal securities	165,436,640	3,586,640	74,777	168,948,503
Corporate debt securities	19,607,609	213,326	519,056	19,301,879
Mortgage-backed securities	20,580,450	639,563	105,223	21,114,790
Common stocks	46,736,479	3,479,268	7,402,321	42,813,426
Total	$276,992,882	$8,253,753	$8,237,994	$277,008,641

At December 31, 2007:	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 17,454,110	$ 189,836	$ 2,910	$ 17,641,036
State and municipal securities	169,864,783	1,409,641	192,752	171,081,672
Corporate debt securities	28,529,924	20,643	249,288	28,301,279
Mortgage-backed securities	16,955,634	195,402	215,852	16,935,184
Common stocks	52,223,588	23,533,020	601,502	75,155,106
Total	$285,028,039	$25,348,542	$1,262,304	$309,114,277

At December 31, 2008, maturities of marketable securities were as follows:

	Amortized Cost	Market Value
Due in 90 days or less	$ 19,760,911	$ 19,764,882
Due after 90 days and in one year or less	16,894,795	16,873,441
Due after one year and in five years or less	117,188,734	118,983,460
Due after five years and in ten years or less	17,864,367	18,425,082
Due after ten years	58,547,596	60,148,350
Common stocks	46,736,479	42,813,426
Total	$276,992,882	$277,008,641

The common stock values above exclude nonmarketable Insurance Service Offices, Inc. (ISO) common stock, which had values of $2,148,680 and $2,300,579 at December 31, 2008 and 2007, respectively. Amortized cost of this investment was $1 at each of these dates.

12. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

The Company classifies these marketable securities as available for sale. At December 31, 2008 and 2007, the Company owned securities that had been in an unrealized loss position for longer than twelve months with a total market value of $1.8 million and $42.0 million, respectively. Unrealized losses related to these securities were $0.1 million and $0.7 million at December 31, 2008 and 2007, respectively. The Company views these losses as resulting from market conditions and believes them to be temporary. During 2008, the Company recorded a loss of $915,886 on three securities for which it believed the value it previously recorded to be "other than temporarily impaired." No such losses were recorded in 2007.

B. Alternative Equity Investments

Marketable alternative 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 contractual rights to withdraw its funds from these entities each year. At December 31, 2008 and 2007, the Company's recorded equity in these marketable alternative investments, which includes realized and unrealized gains, was $40,424,485 and $39,208,336, respectively.

Nonmarketable alternative investments include privately held common stocks, preferred stocks, surplus notes, and partnership entities investing in companies that are not publicly traded. The Company's nonmarketable investments amounted to $55,922,280 and $49,525,582 at December 31, 2008 and 2007, respectively. These amounts include investments in Direct Response Corporation and Homesite Group Incorporated, in which the Company's ownership interests at December 31, 2008 were 8.0 percent and 9.8 percent, respectively. These investments totaled $14.6 million at December 31, 2008 and $14.5 million at December 31, 2007. Also included in these amounts are stock options in Direct Response Corporation valued at $763,817 and $975,468 at December 31, 2008 and 2007, respectively. Direct Response Corporation and Homesite Group Incorporated derive underwriting revenue from personal lines property and casualty insurance activity throughout most of the United States. The Company has outstanding commitments to invest $0.4 million, $5.4 million, and $19.8 million in three private equity funds, Lindsay Goldberg & Bessemer L.P. I (Fund I), Lindsay Goldberg & Bessemer L.P. II (Fund II), and Lindsay Goldberg & Bessemer L.P. III (Fund III), respectively. The Company is a limited partner of each of Fund I, Fund II, and Fund III. The Chairman of the Company is a member of the general partner of each of Fund I, Fund II, and Fund III. At December 31, 2008, the Company had invested $9.6 million, $14.6 million, and $0.2 million in Fund I, Fund II, and Fund III, respectively.

12. Investment Securities and Investment Income, continued

B. Alternative Equity Investments, continued

As of December 31, 2008, certain nonmarketable alternative investments are valued by applying the equity method to their September 30, 2008 financial statements, the most recently available statements. The Company estimates that these investments, with a carrying value of $25,847,860, experienced declines in value of $1,318,917 before taxes during the fourth quarter of 2008, which will be reflected in 2009 income.

Alternative investments previously reported on a one-quarter lag that are now valued by their managers more quickly are treated differently. Year-end 2008 financial information became available for certain nonmarketable alternative investments that had been valued using third-quarter information in prior years, and the Company expects to value these investments using year-end financial information going forward. As a result, losses of $1,007,567 before taxes were recognized by the Company in the fourth quarter of 2008 that would have been recognized in the first quarter of 2009 based on the prior reporting lag. The aggregate carrying value of these investments is $11,480,926 at December 31, 2008.

C. Subsequent Investment Event

On February 13, 2009, the Company's investment in Direct Response Corporation was liquidated as a result of the acquisition of this company by Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc. (Unitrin). This investment was valued at $1,015,204 at December 31, 2008, as the Company's original investment of $5,000,320 had been reduced by its share of Direct Response's subsequent recorded net losses under the equity method of accounting. The Company's share of the net purchase price relating to this sale was $15,929,496, which will result in income of $14,914,292 before taxes in 2009.

The Company also held options to purchase common stock of Direct Response, which were carried at a value of $763,817 at December 31, 2008. The Company received an option termination payment of $710,455 at closing, resulting in a 2009 loss of $53,362 before taxes.

The Company held a two-thirds interest in 695 Atlantic Avenue Company, LLC at December 31, 2008, which was carried at its equity of $17.4 million. Direct Response owned the remaining one-third interest, which Unitrin required to be divested as a condition of the acquisition. The Direct Response investors purchased that interest in proportion to their ownership share of Direct Response, causing the Company's ownership of 695 Atlantic to increase from 66.7 percent to 69.3 percent.

12. Investment Securities and Investment Income, continued

D. FAS 157 Fair Value Measurements

The Company's cash, cash equivalents, and investment securities totaled $451.0 million at December 31, 2008. Assets valued using either the equity or cost method totaled $95.6 million, while the remaining assets totaling $355.4 million were recorded at FAS 157 Fair Value. The estimates of FAS 157 Fair Value for these assets are derived from a variety of sources. Published market prices are used when assets are actively traded and market prices are readily observable. The values of some other assets, which are not as actively traded, can be approximated from external sources and market data even though trade prices are not routinely published. The FAS 157 Fair Value of a third category of assets is estimated using internal and external judgments. The FAS 157 Fair Value measurements on a recurring basis for these assets are categorized as follows:

(in thousands) At December 31, 2008:	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 75,489	$ -0-	$ -0-	$ 75,489
U.S. government securities	24,648	182	-0-	24,830
State and municipal securities	-0-	168,949	-0-	168,949
Corporate debt securities	-0-	19,302	-0-	19,302
Mortgage-backed securities	-0-	21,115	-0-	21,115
Marketable common stock	42,813	-0-	-0-	42,813
Nonmarketable common stock	-0-	-0-	2,149	2,149
Equity options	-0-	-0-	764	764
Total FAS 157 Fair Value	$142,950	$209,548	$2,913	$355,411
Assets valued using either the equity or cost method				95,583
Total cash, cash equivalents, and investment securities				$450,994

Investments with FAS 157 Fair Values which were derived using internal and external judgments consist of ISO common stock and options for the purchase of Direct Response Corporation common stock. The combined value of these investments declined from $3.3 million at December 31, 2007 to $2.9 million at December 31, 2008. There were no purchases or sales of these investments during 2008. The FAS 157 Fair Value of the ISO common stock declined by approximately $150,000 in 2008. This change directly reduced equity, and was not included in net income. The FAS 157 Fair Value of the Direct Response Corporation options declined by approximately $210,000 in 2008; this change was included in net income.

12. Investment Securities and Investment Income, continued

E. Analysis of Investment Income and Capital Gains

The components of investment income and capital gains before federal income taxes during 2008 and 2007 were as follows:

	2008	2007
Interest income and dividends from securities	$10,897,403	$12,495,609
Earnings from alternative equity investments	(5,585,097)	12,840,462
Rental income	2,824,940	2,738,255
Finance charges from premiums receivable	5,388,645	5,368,060
Gross investment income	13,525,891	33,442,386
Rental expenses	(1,835,547)	(1,828,159)
Investment expenses	(1,081,297)	(1,282,709)
Investment income	10,609,047	30,331,518
Net realized capital gains	5,470,650	3,946,278
Investment income and capital gains	$16,079,697	$34,277,796

Net realized capital gains in 2008 included a loss of $915,886 on three securities deemed “other than temporarily impaired”. Excluding this amount, net realized capital gains in 2008 were $6,386,536.

F. Investment Activity

Activity in investment securities during 2008 and 2007 was as follows:

	2008	2007
Balance at beginning of year	$400,148,774	$378,822,101
Change in marketable securities:		
Proceeds from maturities	(26,870,500)	(32,162,147)
Proceeds from sales	(117,763,866)	(27,918,726)
Purchases	135,797,224	59,647,525
Net change in marketable securities	(8,837,142)	(433,348)
Net change in investments in alternative equities	7,612,847	13,905,480
Net investment activity	(1,224,295)	13,472,132
Net change in purchases in process	801,985	(14,487)
Net change in unrealized gain on marketable securities and alternative equities	(24,222,378)	7,869,028
Balance at end of year	$375,504,086	$400,148,774

12. Investment Securities and Investment Income, continued

F. Investment Activity, continued

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 $8,100,000 and $5,200,000 in 2008 and 2007, respectively.

13. Stockholders' Equity

A. Common Stock

Common stock at December 31, 2008 and 2007 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 117,985 and 117,625 were issued and outstanding on December 31, 2008 and 2007, respectively.

There are 90,000 Class B shares authorized, of which 65,130 and 65,432 were issued and outstanding on December 31, 2008 and 2007, 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 other Directors are elected by the Class A shareholders.

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 $139.7 million and $155.8 million at December 31, 2008 and 2007, 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.

C. Earnings Per Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding throughout the year. Diluted earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding plus the number of additional outstanding restricted shares scheduled to vest in the future under the terms of a compensation plan.

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

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

Paula W. Gold
Vice President

Colleen M. Granahan
Vice President

Directors and Officers of the Plymouth Rock Group of Companies

Non-Management Directors

Dennis A. DiMarzio
Kerry A. Emanuel
Samuel F. Fortunato
Michael J. Johnston
William M. Kelley
Wilmot H. Kidd, III
Eugene J. Meyung
Norman L. Rosenthal
Donald J. Southwick
Sandra A. Urie
Peter J. Wood

Management Directors and Officers

Richard F. Adam
James N. Bailey
Hal Belodoff
Mary L. Biernbaum
Marc V. Buro
Michael J. Cesinger
Edmond E. Charrette
Frederick C. Childs
Thomas A. Cranley
William E. Emmons
Edward J. Fernandez
Carroll M. Foley
Paula W. Gold
Colleen M. Granahan
William D. Hartranft
Eric L. Kramer
Lisa K. Lasky
Michael A. Luciani
Paul D. Luongo
Richard J. Mariani
Karen A. Murdock
Thomas G. Myers
Louis C. Palomeque
Kenneth F. Petersen
Carl A. Peterson
Anne M. Petruff
Joseph Scaturro
Linda D. Schwabenbauer
Ankur Sharma
Karen L. Stickel
James M. Stone
Mark A. Sweeney
Barry O. Tagen
James A. Tignanelli
Courtland J. Troutman
Basilios E. Tsingos
Ellen S. Wilcox
Gerald I. Wilson

Counsel:
Ropes & Gray LLP

Independent Auditors:
PricewaterhouseCoopers LLP