The Plymouth Rock Company

2009 Annual Report

The Plymouth Rock Company
695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2010

To Our Shareholders:

This past year will be remembered in Plymouth Rock's corner of the world as neither the best nor the worst of times. For the United States economy, 2009 was a disappointing year, with overall employment left behind as some of the Wall Street leaders recovered. While the pain continues for all too many, the automobile insurance industry is somewhat sheltered by the compulsory nature of its product. Two of Plymouth Rock's three principal operating companies in fact did quite well in 2009, as did our securities portfolio, which we can hope will prove a leading indicator of real economic gains. Although Plymouth Rock Assurance Corporation, our New England underwriter, did not match New Jersey's High Point or Palisades in results for the year, the group's bottom line performance on the whole was pleasing. Net income was $51.5 million, which can be compared to a profit of $35.9 million in the previous year and represents an 18% return on equity at the start of the year. Total shareholders' equity rose by nearly 17.7% after payment of both our customary dividend to shareholders in March and an additional dividend of the same $7.8 million magnitude later in the year. Without these two dividends, equity would have risen by 23%. Book value is now $1,816 per common share. The cumulative book value return over the full twenty-six years of the Company's operations is now 18.5%, having risen a tenth of a point above last year's cumulative number.

Growth on the top line, while no match for the bottom-line gain, was our best in some years. Plymouth Rock group's total insurance premiums underwritten (those shown net of reinsurance on the income statement) and premiums managed (which are described in the footnotes) increased by 5% to $1.11 billion. The reported numbers, as always, reflect some outcomes we wish could repeat year after year and some we are glad will not be repeated. The 2009 results were enhanced by the sale at a solid profit of the Response Insurance founders' shares we have owned since 1995. Without that transaction the 2009 net income figure would have been $8.8 million less. On the other hand, Plymouth Rock reserved an amount that reduced net income by several million dollars for an anticipated industry-wide retroactive adjustment to the manner in which Massachusetts motorcycle insurance premiums have been calculated for most of the decade. In projecting the year's results forward, you may want to discount for both of these items.

As I reflect on the past year, it is not the financial performance I rank first in import. The most consequential changes in 2009 were almost certainly organizational. I believe our group has now been strengthened considerably, both in structure and in terms of top-level talent. Even before the start of the year, Hal Belodoff and I had concluded that he was pulled in too many different directions with heavy responsibilities at all of the operating companies, as the direct supervisor of our IT subsidiary's senior management, and as president of Plymouth Rock Assurance Corporation with about ten direct reports. So together we designed a structure we both feel better about, where Hal, as the Chief Operating Officer for the group, continues his oversight role in the IT area as before and now holds the chairmanship of each of the three major companies. The relief for Hal is that he no longer runs Plymouth Rock Assurance day to day. That job now belongs to Chris Olie, a new hire but an experienced hand at our kind of work. Chris has joined Hal, Gerry Wilson, Ed Fernandez, and me as a member of the informal management committee that meets for a couple of hours every Monday afternoon. It's a nice feeling, even when it is humbling, to sit in those meetings with such a strong group of operating insurance executives. Recognizing this strength, Hal and I restructured reporting lines at our smaller operating companies as well. All of their leaders will now report to, or at least interact regularly with, a company president on the management committee.

Chris Olie's shop, Plymouth Rock Assurance, needed internal strengthening as well. The team of five direct reports (note the reduction from Hal's ten reports) that Chris oversees includes a high percentage of new blood. Though the restructuring and hiring effort was a serious time consumer for Hal, Chris and me, it already has the feel of a sound investment. Like the Monday meeting, the Plymouth Rock Assurance officer ranks have never been longer on talent. This talent is a source of comfort and confidence not to be underestimated in an environment of rapidly evolving external challenges.

Progress in this past year wasn't confined to organizational change, however. Two enterprise-wide projects for which I noted special affection a year ago in this letter moved impressively forward. In both cases, as Hal and I tackled organizational chores, it was Gerry Wilson who led these efforts. The first of these projects is a Decision Support System. For twenty-six years now, I have insisted that what differentiates us from the competition must include a superior ability to analyze and employ hard data about our business. In the early days of the Company, we seemed to have that desired analytical edge, but over time I have watched that advantage erode. Gerry correctly diagnosed that a part of the problem was that our experience and policy data were accessible only to computer experts. So throughout 2009 he led a team of staffers in building us an analytical tool that every executive and aspiring rocket scientist can use to query, to explore, and to blaze new trails in the management of risk. As I write this letter, just over a year later, I am beginning my own training in how to use the new wizardry. The second such project has a much shorter provenance, but no less consequence. In recent years, it has become apparent that use of the Internet will soon be a determinant of competitive success of the same order as analytics. Gerry seized the lead there as well, and he organized and oversaw a second successful project team in this arena. None of our companies had the ability to sell and bind a policy over the Internet at the end of 2008. Thanks to the energy and competence of the Consumer Interface team, High Point is now doing so. We can see the results in their volume figures already. Plymouth Rock and Palisades, borrowing High Point's technology and modifying it to work with an independent agency model, will follow in 2010.

Since High Point is our largest company, I will keep the focus there for the moment to report on that company's operating progress. As you know well, when we bought High Point's business from Prudential half a dozen years ago, we wondered whether we had purchased a gradually wasting asset. High Point would still have been a decent enough acquisition, but real success depended on turning the declining volume around. We were all aware from the start that the Prudential life and financial products agency force, as competent and welcome as it is, would need to be supplemented as a source of long-term automobile insurance growth. The search began immediately for both acquisitions and new marketing tools to turn the annual changes in scale from negative to positive. While an acquisition was the highlight of 2008, internal growth was the story in 2009. By year-end, about 60% of High Point's new business applications were arriving from sources other than Pru agents. Automobile insurance premiums, policies in force, and vehicles covered all grew modestly for the year as a whole. This is no wasting asset. I am quite hopeful that the 2009 results mark the beginning of a new life, with a much improved franchise value, for High Point.

High Point's operational results were good, but not ideal, in 2009. The net pure loss ratio was 64%, only a point or so over the budgeted number but nowhere near the shining 2008 loss ratio result. The all-inclusive expense ratio for the insurer and its management company taken together, encompassing claim adjustment expenses as well as operating, acquisition and investment expenses, was right on budget at 35%. That latter statistic at High Point was better than the prior year's equivalent and handily at the best run rate in our entire group of companies. Due to the elevated claim costs, though, the High Point companies' ratio of net income to gross written premiums fell to 4.8%, matching neither last year's result nor my target of 7.5%. I attribute much of the loss ratio deterioration to rising claims costs for auto insurance results everywhere, but some of it is doubtlessly a cost of the growth, especially the cost of the growth in channels relatively new to our team. The long fall in national claim frequency appears now to be over, and the trends of both loss ratio and price are pretty universally upward. When this fact is combined with High Point's plan to continue its growth from the Internet and other innovative sources, loss ratio will be that company's top concern as it enters 2010. Customer service at High Point is as strong as ever. Among large New Jersey companies, High Point is confident it is (yes, yet again) among the companies at the favorable tail of the Department of Banking and Insurance's compilation of complaint records.

Ed Fernandez at Palisades, also in New Jersey, had a particularly impressive operating year. Aggregate market share for the New Jersey independent agency channel has fallen every year since the national direct response writers entered the state with banners flying. In 2003, independent agency companies wrote roughly a quarter of all New Jersey policies. By 2009, their share of the market had fallen to 18%. One might, therefore, have expected the volume at Palisades to have diminished as well. A rational person would have bet on it, but energy and talent can sometimes defy rational expectations. Palisades grew year over year in each of the last four years. In 2008, it became New Jersey's largest independent agency company, and Palisades maintained the lead in 2009. A portion of this past year's growth came from the business Ed acquired when he bought Proformance Insurance, but internal growth was strong as well. The pure loss ratio for the reciprocal insurer was 62%, about two points over budget, in keeping with the industry trend. The all-inclusive expense ratio benefited from a one-time takedown of a reserve for integration of the Proformance operations and systems, a reserve that turned out to be more conservative than Palisades' unusually effective team actually needed for the task. Removing that reserve adjustment to approximate an expense run rate, the all-inclusive expenses were 38% of premiums. The ratio of the company's net income to gross written premium was 5.9%. Like High Point, Palisades did all this at no sacrifice of customer service quality and finished again among the best New Jersey performers in consumer complaint rankings. The Palisades team deserves applause for progress on a new agency interface initiative, on the amazingly smooth integration of the Proformance acquisition, as well as for just plain good work on its existing operations.

Seasons of trial are sure to come for Palisades, as Ed has constantly reminded us. Two related future challenges to which Ed is giving particular attention are the maintenance of its growth in a shrinking agency channel and the incorporation of the Internet into the independent agency mode of marketing. Even with its complement of talent and energy, Palisades will find it tough to go against the trend indefinitely if the independent agency market share keeps contracting. There is some comfort to be taken from the hypothesis that the recent rapid shift in market shares represented a one-time adjustment for a state that had previously seen no active direct response presence. While national figures reveal a persistent trend toward direct response writers, that trend is nothing like New Jersey's rate of channel switching, so a plateau in market shares with a more gradual slope toward the direct response mode seems a realistic expectation. In the end, as long as the direct response writers have their current cost advantage and, at the same time, lead the business in the use of modern Internet technology, they will have an appeal everywhere…and a special appeal in the state with the nation's highest premiums. To overcome that force over a long time frame, Palisades will constantly need to hone its mode of operation to maintain a differentiably superior level of customer service, achieve the maximum possible cost efficiency, and pioneer in the effective sharing with its agents of today's rapidly developing Internet tools. Easy? No, but who ever said it should be easy? Talent and energy have their greatest comparative advantages when the tasks are rigorous. Palisades is well positioned to succeed.

The under-performing company in our group remains our flagship Massachusetts company, Plymouth Rock Assurance Corporation. I'd like to believe that this is not related to my offices being located on its premises. Plymouth Rock Assurance posted a combined ratio of 104% for the year, and its insured exposure volume rose by 1%. The combined ratio is good enough to remain in the black, since investment income is greater than the four points by which the sum of the claim and expense outflows exceeds premium receipts, but it makes no one happy. Perhaps more important, as of the last numbers published by our peers, our company is making too little progress at narrowing the loss ratio gap that has existed for most of this new century. This may, or may not, prove to be the century of China, as some pundits say, but I will be miserable for my allotted time within it if it proves to be the century of our Massachusetts competitors. To be fair, Plymouth Rock Assurance seems to have completely closed an expense ratio gap that accompanied the loss ratio overage for some years. Both Hal and Chris, moreover, think the New England companies may now be conservatively reserved on the loss ratio side of the house. Chris's budget for 2010 projects a combined ratio back in double digits. That result would make me feel far, far better.

Meanwhile, the ground is moving under Plymouth Rock Assurance. The phase out of its home state's socially conscious relative price regulation continues, with effects for the competitive landscape and company strategies as well as public policy. As this letter is written, a new state Insurance Commissioner is just taking office, Commissioner Burnes having recently moved on to a university teaching position, but deregulation remains the order of the day, at least for the interim. One of the former Commissioner's stated goals was to attract well-respected national direct writers into the state, and GEICO and Progressive both entered with a fanfare from the press and the Department. Neither company, however, has gone full tilt for market share as yet, perhaps reflecting an uncertainty about whether the regulatory freedoms they were granted suffice for their preferred ways of doing business or whether the changes have a likelihood of permanence on this politically volatile turf. The experience so far is nothing like New Jersey's, where GEICO won a 10% market share within eighteen months of entry. We have to assume that the direct response campaigns will intensify to some extent in 2010.

For Plymouth Rock Assurance, the deregulated environment contains an element of blessing. One of the explanations for that company having underperformed some of its Massachusetts independent agency peers recently is that it has been less restrictive than others in the acceptance of new customers with less than perfect driving records. Under the old environment, this strategy was sound for growth and agency relationships but carried a loss ratio penalty. With rating discretion now significantly expanded, Plymouth Rock Assurance will continue to take a broad spectrum of drivers but will be able going forward to fine tune their premiums more accurately to produce profitability in every subset of the business. The newly strengthened underwriting team is right on it.

I would be less than true to my history if I failed to comment on the public policy impacts of the state's anti-regulatory thrust. Whether it turns out to be a benefit or a drag on our own business, rate deregulation is already becoming punitive for that segment of the Massachusetts public who can least afford the economic pain. I have always favored competitive rates, but I believe competition is compatible with the tempering of extreme relative cost disparities. For thirty-three years (yes, since Michael Dukakis was Governor for the first time and I was Commissioner), this state has provided an incentive in the form of credits against their residual market charges for companies to lower the greatest territorial and age price differences between drivers with comparable records. Those credits, in turn, made insurance more affordable, especially to clean drivers in the cities, and aided our state in becoming about the best in the country at curbing the uninsured driver population. There were few if any complaints about the urban relief, meanwhile, from voters outside the cities. Only national insurance carriers protested the tempering of the relative premium differentials. As the competitive rate regime was introduced, both the Attorney General and the Insurance Department pledged to protect urban drivers. The Department recently called for credits larger than the industry had recommended, and the Attorney General published a less than glowing report on the impacts of deregulation to date, but it still remains very far from clear that effective tempering will be maintained. An unexpected ruling last fall would permit companies in 2010 to raise urban rates on renewal by 25%, and many are likely to do so. Three years of increases at 25% per year are sufficient to nearly double a driver's premiums. It is not too late for a strong enough state-mandated credit plan to counter the lack of territory caps. There is no cause, after all these years, to let insurance rate competition harm those most vulnerable.

There are several smaller New England companies in the Plymouth Rock group. Under our new structure, Chris and his direct reports play a major role in all of them. Both Pilgrim Insurance, the insurance services company, and Encharter, the holding company for independent agencies in which we have stakes, have come closer to Plymouth Rock Assurance for governance purposes. Though Mt. Washington, the New Hampshire writer, maintains a separate board of directors, it coordinates closely with Plymouth Rock Assurance, which reinsures its business. Bunker Hill, the New England homeowners writer, is more independent but will benefit from coordination as well. The company most changed is Pilgrim Insurance. After much soul searching in 2009, Hal and Ellen Wilcox came to the conclusion that Pilgrim could no longer thrive as a wholly independent entity, now that recent regulatory changes in Massachusetts have diminished its original value proposition. Ellen has retired from our group, with our enduring respect and affection; and Pilgrim is now smaller than before and perhaps not as well positioned for expansion, but a bit more profitable. We are saddened when a company shrinks in size or horizon, but we would eventually be all the sadder still if we ignored business realities. Encharter and its affiliated agencies will now be overseen by Chris's new vice president for marketing as well as its own president. To date, Encharter has been consistently sound and useful to its parent company, but it has not yet met the goal of showing the world how an independent agent can approach direct writer economics in an Internet era. That remains a goal in New England, as it is Ed's goal for Palisades in New Jersey, for 2010 and beyond.

Mt. Washington Assurance had a more rewarding year than in 2008. Its written premiums increased by 8.3%, and the combined ratio was under 99%. Perhaps more important, new business sales increased by 20% and the number of account customers, for whom we insure both the auto and the home, rose by 35%. Connecticut results were not as good. Written premiums there fell by 5%, and the combined ratio was well over 100%. The trend has improved, though, and the level of sophistication applied to Connecticut pricing and product management has increased markedly. The business in Connecticut is not a big money-loser in dollar terms for our group, but it continues to be a drag on the combined ratio for our New England companies. We are actively exploring ways to innovate there as an alternative to ramping down. I'd feel a bit of a patsy staying with a business model that has had so many consecutive years of losses, however small a factor in the group's results.

Bunker Hill generally performs, and performed in 2009 as well, better than the other small companies, though we all worry that its return is not commensurate with the risk of weather-related catastrophe inherent to homeowners insurance. That company returned just over $2 million in operating profits, which represents about a 10% return on equity. This is only half the return garnered by the best of the country's homeowners writers in years without extreme catastrophe losses. Bunker Hill's goals this past year included raising the percentage of its insured homes matched with a Plymouth Rock automobile insurance policy and re-underwriting a greater number of renewal policies to look for changes in circumstance. One sign of hard economic times is that roughly 20% of the homes inspected in Bunker Hill's new foreclosure monitoring program were vacant or suffering from serious lack of maintenance.

Investment results improved for just about everyone after the first quarter of 2009, as the panic, like all things, ran its course. There is accordingly less to say about investments this year than last, and that is fine. Our bond holdings, which constituted more than half of the overall investment portfolio during the year, returned about 3%. The marketable equities portfolio, still distributed among just half a dozen stocks, returned 29% including the impact of dividends, nearly making up for its 2008 deterioration in value. The Standard and Poor's 500 Index, in the same period, returned 26% including dividends. The 2009 gains move our all-time internal rate of return on marketable common stock investments back over the 17% mark. This is a number for which I have great affection, even though it's not quite the 20% I would gladly have us marry. Our hedge funds had an excellent performance year and the private equity positions had a good one, though quantifying the latter's value at any point in time is an inexact science. Only home office and investment real estate holdings, as measured by annual independent appraisals, had a down year. The appraisals marked down our two Boston buildings by 35%, a number of more theoretical than immediate practical interest. We are the most unlikely of sellers, although if properties are actually available at low prices we might become buyers again.

The income statement shows $34.9 million of 2009 investment income and capital gains, not including the $5.6 million we earned from premium finance and loans to our agents. The former number can be compared to $10.3 million on the same line on the 2008 statements. There were no OTTI (Other Than Temporarily Impaired) charges at year-end 2009 for stocks that fall more than briefly to well below their original purchase costs. Some changes in the investment portfolio's value flow directly to the balance sheet without affecting income. For example, unrealized gains on our equity positions, which grew by more than $16 million in 2009, are reflected in the balance sheet valuation of investments but not on the income statement at all. Under GAAP rules, changes in the market values of our real estate holdings are reflected on neither the income statement nor the balance sheet, causing the statements this year to look better than the underlying economic facts as we would measure them.

A stock purchase agreement was signed in 2008 by which Response Insurance Group, the direct response auto insurer we helped create in 1995, was sold to a competitor, Unitrin. The closing occurred in February of 2009. I will forever be disappointed that we ran out of time to build Response to its full potential, but I understand and accept that investors can not be as patient as entrepreneurs. Plymouth Rock and I earned something for our sweat equity and options in Response. Our financials also reflect a gain from the purchase of Response's long-held share in our 695 Atlantic Avenue headquarters building, a minority ownership interest that Unitrin understandably asked us to swap out of Response's portfolio.

Homesite Group had a year of impressive growth and disappointing profits. Its national homeowners writings grew by 25%, with no end in sight as the ramp up of the business referred by the giant national direct writers continues, supplementing the well-seasoned volume that has come over the years from its other partners. Total premium volume at Homesite Group has reached nearly $340 million on an annualized basis. Profits, only about $2.4 million for a year in which its management had predicted a considerable multiple of that number, were depressed by adverse weather in the Midwest states. It may have been an aberrational result or it may be that Homesite, and the rest of the industry as well, has underestimated the risk associated with locations subject to tornadoes and hailstorms. There may have been a moral hazard contribution to its claims as well. This was a year, unfortunately, in which some people may have been tempted to collect on insurance rather than sell a house they could no longer afford. It would be satisfying to see a few of the mortgage brokers who sold properties to folks who plainly couldn't afford them share jail cells with the arsonists, although realism says that most culprits of both varieties will remain free. Fabian Fondriest continues to be an exceptional chief executive officer at Homesite. I will simply restate the two goals I set for that company at its start: to reach a billion dollars in profitable annual volume, and to become known throughout the industry as the intellectual leader of the homeowners insurance business.

A year ago in this space, I offered some recommendations for changes in financial sector regulation in the light of the 2008 crisis. Twelve months have since gone by, and just about nothing has been done yet to curb the excesses that invited the crisis. Neither the Obama Administration nor the hardworking House Committee on Financial Services can be accused of ignoring the issue or failing to put in time on it, but there is scant reward for an incomplete effort in our politics. Voters have shown their anger, an anger that seems still waxing, at the perception that taxpayers were taken dangerously into hock to help restore Wall Street's lofty compensation without reducing an unemployment rate that remains near its post-Depression high. The true kernel of the issue that has people so upset is not to be found in ethics lectures or compensation formulas. It would be to the good now if politics forced our leaders to soberly inquire whether Wall Street's gains are simply too high for the economic value its activities provide and the systemic risks they introduce. This question is not identical to asking what caused the 2008 crisis, but it is closely related.

Sophisticated writers have pointed out that the leading Wall Street firms no longer think of themselves primarily as investment banks and commercial lenders, channeling money to growing companies and spurring free enterprise. Perhaps they learned too well from observing hedge fund expansion. The big profits have been in trading (defined broadly to include the securitization of debt and nearly simultaneous repurchasing of similar debt securitized by others), and one question ripe for this moment is whether the present level of trading activity, in addition to exacerbating America's already infelicitous relative income disparities, should be permitted to persist. The profits that economists tend to respect come from value added (a consequence of successful manufacturing and technology), or from wisely allocating capital to companies that then prosper (the source of gain for venture capitalists and fundamental investors). The trading profits that fuel Wall Street's bonuses are of many types, but provide relatively little value added or enhancement of capital allocation. Much of the trading is zero-sum, where there is an explicit loser for every winner. Given the scale of the gains on the banking side, don't the ultimate losers have to be non-financial businesses and more traditional investors? Much of the trading involves the sale of proprietary hedging instruments, which can serve to reduce risk for a commercial business but serve the client and the economy well on balance only if: (a) they are sold at fair and reasonable prices; (b) they are sold by entities that can actually meet the obligations - without taxpayer subsidies - when things go wrong; and (c) they don't create by an over-concentration of correlated instruments more systemic risk for the economy than they remove for the buyers. These tests are unmet in all too many trades.

Paul Volcker deserves support when he urges that commercial banks be prohibited from employing the large balance sheets provided by insured deposits to engage in proprietary trading. If only one change were to be made, though, I would still suggest that financial institutions of all types be forbidden to operate with the sky-high leverage that turned an inevitable cyclical turn in 2008 into an international disaster. Trading at a scale beyond comprehension and excessive leverage together constitute systemic nitroglycerine. If experts reach the conclusion that today's massive trading activity is in fact a drag on the economy rather than a spur, as I suspect may be the case, a transaction tax might also be considered, perhaps with rates that varied inversely by holding period. Finally, if all derivatives were required to be traded on exchanges, or at least cleared through clearing houses, with all the benefits of posted prices and default guarantees, excessive bonuses would begin to take care of themselves. It is the missing transparency in the various derivative markets, perhaps more than any other factor, that generates the mysterious profits on which the bonuses that threaten the current political landscape are based.

As we look to the future within our own group of companies, Hal's attention and mine are directed increasingly toward technology. Even if we could tell the fire and wind where to stop, or limit their impact on us by sound underwriting and prudent reinsurance, we would have no ability at all to slow the pace of technological change or temper its effects. I am convinced that the Internet represents a commercial revolution the likes of which has not been seen since the invention of the telephone. There is no way we or any other insurer will be able to avoid its playing a central role in the sale and servicing of our products. Along with the Internet will come an increased role in the personal lines of insurance for handheld devices such as smart phones and tablets. Some carriers already permit customers to file accident claims and pay their bills with their phones. And side by side with the expanded role of the Internet, there will arise frontiers of data mining for risk analysis beyond current imagination. I worry sometimes about the maintenance of privacy in the next generation, but worries will not stop what is being wrought. The Plymouth Rock information technology team, which we call our Shared Technology Services Group, has taken us on time and on budget, with minimal disruption of our service to agents or customers, through a transition from systems that differed company to company and depended dangerously on outside vendors to a proprietary, enterprise-wide, twenty-first century processing system. Now it must take us to a new level of excellence, where we can organize and analyze every bit of data that is useful to our strategists, change directions in pricing and underwriting approaches on a dime (or at least on a quarter), and lead our agents and customers to enjoy all the available benefits of the coming era in communications. The other choice is to be left behind.

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, 2009 and 2008, 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

February 12, 2010

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

Assets	2009	2008
Cash and cash equivalents	$ 33,597,322	$ 75,489,435
Investment securities	468,731,426	375,504,086
Accrued investment income	4,141,341	3,474,913
Premiums receivable	79,755,901	92,501,966
Deferred acquisition costs	17,080,922	16,768,018
Amounts receivable from reinsurers	24,057,166	34,884,206
Amounts due from service clients	20,033,132	26,288,931
Prepaid expenses, agent loans, and deposits	6,956,793	7,222,371
Real estate	36,997,431	24,408,165
Fixed assets	31,369,327	31,591,097
Goodwill and intangible assets	4,735,620	4,499,900
Deferred income taxes	2,680,530	12,196,750
Other assets	4,071,360	3,246,883
Total assets	$734,208,271	$708,076,721
Liabilities		
Claim and claim adjustment expense reserves	$137,406,228	$147,790,629
Unearned premium reserve	124,055,554	127,894,172
Advance premiums	6,095,573	6,574,616
Commissions payable and accrued liabilities	71,572,297	74,435,846
Amounts payable to reinsurers	12,064,234	19,115,310
Unearned service fees	43,404,378	43,777,431
Amounts due to service clients	4,368,742	3,848,040
Income tax payable	822,367	1,434,370
Other liabilities	1,803,048	605,654
Total liabilities	401,592,421	425,476,068
Stockholders' Equity		
Common stock and paid-in capital	26,823,205	26,109,963
Retained earnings	290,980,925	254,982,644
Net unrealized gain on investments	14,811,720	1,508,046
Total stockholders' equity	332,615,850	282,600,653
Total liabilities and stockholders' equity	$734,208,271	$708,076,721

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, 2009 and 2008

Revenues	2009	2008
Premiums earned in underwriting activities	$252,169,829	$236,562,266
Fees earned from service activities	219,158,746	201,181,846
Investment income and capital gains	40,522,221	16,079,697
Total revenues	511,850,796	453,823,809
Expenses		
Claims and claim adjustment expenses	189,394,144	171,730,246
Policy acquisition, underwriting, and general expenses	74,246,459	68,125,932
Service activity expenses	167,694,281	158,065,030
Total expenses	431,334,884	397,921,208
Income before income taxes	80,515,912	55,902,601
Income taxes	28,974,830	20,003,064
Net income	$ 51,541,082	$ 35,899,537

Per share data		
Weighted average common shares outstanding:		
Basic	179,965	179,936
Fully diluted	183,115	183,086
Net income per share:		
Basic	$ 286.40	$ 199.51
Fully diluted	$ 281.47	$ 196.08
Common shares outstanding at end of year	183,115	183,115
Common stockholders' equity per share	$1,816.43	$1,543.30

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, 2009 and 2008

Cash flows from operating activities	2009	2008
Gross premiums collected	$294,956,487	$301,652,898
Reinsurance premiums paid	(44,308,808)	(66,371,202)
Finance charges collected	5,280,163	5,388,645
Fees and commissions collected	227,941,946	200,542,182
Investment income and capital gains received	37,555,102	13,705,262
Gross claims and claim expenses paid	(221,735,560)	(206,679,037)
Reinsured claims and claim expenses collected	27,933,688	39,448,217
Policy acquisition, underwriting, and general expenses paid	(70,040,352)	(72,842,006)
Income taxes paid	(27,420,534)	(25,923,860)
Service activity expenses paid	(153,402,276)	(138,688,589)
Net cash provided by operating activities	76,759,856	50,232,510
Cash flows from financing activities		
Issuance of common stock	-0-	143,840
Dividends to stockholders	(15,542,801)	(15,518,326)
Change in liabilities for outstanding checks	1,200,189	(4,348,993)
Net cash used in financing activities	(14,342,612)	(19,723,479)
Net cash provided	$ 62,417,244	$ 30,509,031
Investment of net cash provided		
Change in cash and cash equivalents	$ (41,892,113)	$ 13,590,742
Net investment activity	72,188,393	(1,224,295)
Purchase of goodwill and intangible assets	372,935	1,414,677
Net real estate activity	14,161,129	2,447,838
Purchases of fixed assets	17,586,900	14,280,069
Net cash invested	$ 62,417,244	$ 30,509,031

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, 2009 and 2008

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Total Stockholders' Equity
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
Comprehensive income	-0-	51,541,082	13,303,674	64,844,756
Issuance of common stock	713,242	-0-	-0-	713,242
Dividends to stockholders	-0-	(15,542,801)	-0-	(15,542,801)
December 31, 2009	$26,823,205	$290,980,925	$14,811,720	$332,615,850

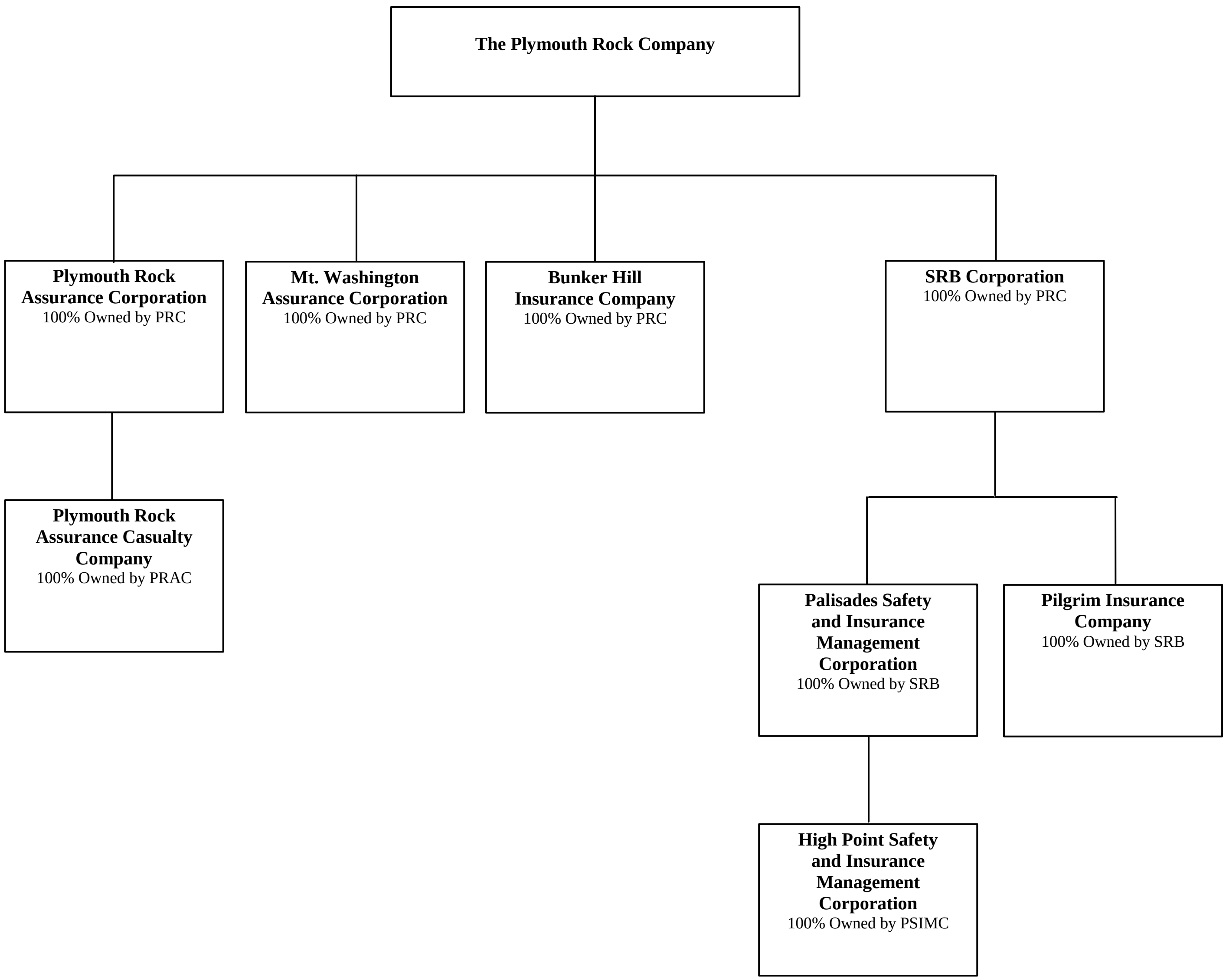
The accompanying notes are an integral
part of the financial statements.

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 non-controlling interests, including Homesite Group Incorporated, an insurance holding company. The Company's total non-controlling interests in these entities at December 31, 2009 and 2008 were $16.7 million and $35.4 million, respectively. In addition to Homesite, the December 31, 2008 financial statements reflected non-controlling interests in Direct Response Corporation, an insurance holding company, and 695 Atlantic Avenue Company, LLC, a real estate company. During 2009, the Company sold its investment in Direct Response and purchased the remaining outstanding interest in 695 Atlantic. As of December 31, 2009, the Company has accounted for 695 Atlantic as a fully consolidated entity. A new accounting standard issued in 2009 provides a new framework for the identification and assessment of "variable interest entities" and the potential need for their consolidation. This standard is effective in 2010, and the Company is presently evaluating any impact it may have on its financial reporting.

B. Measurement of Financial Assets and Liabilities

In 2008, the Company had the option to elect to measure certain financial assets and liabilities such that changes in their value would be reported through current-period income on a prospective basis. The Company believes that this approach would introduce market volatility to the income statement and reduce the comparability of its financial reporting with that of other insurance companies. It therefore elected not to adopt this measurement approach on the financial assets and liabilities it held at that time. This approach is available for the valuation of certain subsequently acquired or generated financial assets or liabilities. During 2009, the Company did not acquire or generate any additional financial assets or liabilities eligible for this accounting treatment.

C. Stock-Based Compensation

The Company records costs for stock-based employee compensation plans at Fair Value as defined in Accounting Standards Codification Topic ASC 820 based on an annual independent appraisal.

2. Summary of Significant Accounting Policies, continued

D. Use of Estimates

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

E. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. Liabilities for outstanding checks of $5.9 million and $4.7 million are included in accrued liabilities at December 31, 2009 and 2008, 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. 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 ASC 820 valuation, 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. Market data is available for one investment in non-marketable common stock, Verisk Analytics, which is measured at the ASC 820 valuation. Homesite is measured using the equity method.

F. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred as of December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of deferred commission income on ceded reinsurance. Net amortization associated with these deferred costs for 2009 and 2008 was $32.8 million and $24.2 million, respectively.

2. Summary of Significant Accounting Policies, continued

G. 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.

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 $566,827 and $1,072,285 at December 31, 2009 and 2008, respectively.

Underwriting revenue is derived from 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. Insurance related fee income is earned over the related policy periods. The balance sheet items “amounts due from (or due to) service clients” are balances with insurers for which Pilgrim Insurance Company, Palisades Safety and Insurance Management Corporation, and High Point Safety and Insurance Management Corporation provide services. The Palisades management company serves as attorney-in-fact for Palisades Safety and Insurance Association, a New Jersey reciprocal insurance exchange, and provides services to Palisades Insurance Company and Palisades Property and Casualty Insurance Company, insurers domiciled in New Jersey. The High Point management company provides services to High Point Preferred Insurance Company, High Point Safety and Insurance Company, High Point Property and Casualty Insurance Company, and Teachers Auto Insurance Company, all of which are insurers domiciled in New Jersey. Pilgrim provides services to Twin Lights Insurance Company in New Jersey, as well as to several other insurers in the Massachusetts market.

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 consolidated financial statements. Deferred income taxes arise when there are differences between reported income and taxable income.

Income taxes in the statements of income for 2009 and 2008 consist of:

	2009	2008
Current year federal income taxes	$22,740,894	$18,849,341
Current year state income taxes	4,067,637	6,177,203
Change in deferred federal taxes	1,454,052	(4,168,074)
Change in deferred state taxes	712,247	(855,406)
Total	$28,974,830	$20,003,064

Deferred income taxes in the balance sheets as of December 31, 2009 and 2008 consist of the net effects of these temporary differences:

	2009	2008
Compensation expense	$10,272,452	$ 9,704,972
Deferred income	9,110,583	9,412,819
Net unrealized gain on investments	(8,006,313)	(656,392)
Deferred acquisition expense	(5,978,323)	(5,868,806)
Depreciation	(5,976,873)	(2,570,710)
Discounting of claim reserves	3,022,743	3,020,306
Investment partnership timing differences	(2,232,363)	(2,036,913)
Stock options expense	1,088,083	1,203,127
Other	1,380,541	(11,653)
Total	$ 2,680,530	$12,196,750

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 receives deductions for state taxes and receives significant non-taxable interest from state and municipal bonds.

In 2009, the Company adopted ASC 740-10, which relates to the treatment of income taxes. The Company has taken no tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2009, the Company is no longer subject to income tax examinations for tax years prior to 2006.

2. Summary of Significant Accounting Policies, continued

J. 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 the settlement of these claims. Claim and claim adjustment expense reserves are presented before estimated recoveries for reinsurance. The actuarial methods used for making such estimates and for establishing the resulting reserves are reviewed regularly, and any adjustments to these reserves are reflected in income currently. The table below provides a reconciliation of the reserves for claims and claim adjustment expenses at the beginning and the end of the year:

	2009	2008
Balance at beginning of year	$147,790,629	$145,924,331
Claims and claim adjustment expenses incurred:		
Current year	199,996,000	181,267,000
Prior years	(6,066,456)	(4,696,652)
	193,929,544	176,570,348
Claims and claim adjustment expenses paid:		
Current year	132,583,000	117,236,000
Prior years	64,349,096	55,799,724
	196,932,096	173,035,724
Change in reinsurance recoverable on unpaid claims	(7,381,849)	(1,668,326)
Balance at end of year	$137,406,228	$147,790,629

During the year ended December 31, 2009, reserves for claims and claim adjustment expenses for prior years developed favorably by $6.1 million. This resulted primarily from favorable development of reserves for claim adjustment expenses on Massachusetts private passenger automobile business and of reserves for claims on business assumed from Commonwealth Automobile Reinsurers. During the year ended December 31, 2008, such reserves for prior years developed favorably by $4.7 million, primarily from favorable experience with respect to claim adjustment expenses on Massachusetts private passenger automobile business.

The amounts for claims and claim adjustment expenses incurred shown above include expenses for service activity clients of $4.5 million and $4.8 million reported in service activity expenses in the Company's consolidated statements of income for 2009 and 2008, respectively.

2. Summary of Significant Accounting Policies, continued

K. Reinsurance

The Company uses treaty reinsurance 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. The Company remains primarily liable as the direct insurer on all its voluntary risks.

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

	2009		2008	
	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$285,552,587	$211,501,159	$301,488,345	$208,885,335
Ceded	(37,221,376)	(22,107,015)	(50,429,836)	(37,155,089)
Net	$248,331,211	$189,394,144	$251,058,509	$171,730,246

Ceded premiums earned for 2009 and 2008 were $38.8 million and $69.6 million, respectively.

The Company has treaties for quota share reinsurance for homeowners and Massachusetts private passenger automobile. The Company presently cedes approximately $12 million of homeowners premium at a 30 percent cession rate and about $19 million of automobile premium at a cession rate of 80 percent on certain coverages. The ceding commission received under the homeowners treaty varies based upon loss ratio. Revenues and expenses are reflected net of quota share reinsurance totaling $32 million and $31 million, respectively, for 2009. For 2008, revenues and expenses were reflected net of quota share reinsurance totaling $60 million and $55 million, respectively.

The Company also has a treaty for catastrophe reinsurance, as well as treaties for excess reinsurance per risk for homeowners and umbrella coverages. During the years ended December 31, 2009 and 2008, the Company incurred costs for these programs of $4.8 million and $4.3 million, respectively.

2. Summary of Significant Accounting Policies, continued

K. Reinsurance, continued

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

Through Pilgrim, the Company acts as an intermediary for certain unrelated insurance companies in administering motor vehicle insurance programs. The Company's income statement and reinsurance activity exclude $40.4 million and $47.7 million of premiums earned related to this third-party business and $32.2 million and $30.1 million of claims and claim adjustment expenses in 2009 and 2008, respectively. In connection with these arrangements, claim reserves exclude $46.6 million and $48.7 million at December 31, 2009 and 2008, 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. This 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 pledged as collateral to the bank securities which had a market value of approximately $9.0 million as of December 31, 2009. The letter of credit is scheduled to expire together with the Statutory Capital Support Agreement on June 30, 2010.

L. Subsequent Events

The Company has evaluated subsequent events from December 31, 2009 through March 9, 2010. No material subsequent events have been identified.

3. Commitments and Contingencies

The Company's real estate rental expenses for 2009 and 2008 aggregated $8.9 million and $7.2 million, respectively. For the years 2010 through 2014, the minimum lease obligations of the Company to unrelated third parties range from $8.0 million to $8.6 million annually. Total obligations of the Company under leases are $74.6 million through 2020.

In September 2009, the Company was contacted by the Massachusetts Attorney General's Office with respect to alleged errors made by many insurers in calculating motorcycle insurance premiums. In particular, the Company was notified that Plymouth Rock Assurance and Pilgrim were alleged to have not followed their effective rating manuals in rating motorcycle policies on and after January 1, 2002. Like other insurers being investigated, Plymouth Rock Assurance and Pilgrim were required to produce information related to the insured values used for purposes of rating physical damage insurance coverage for motorcycles. While this investigation has not yet concluded, preliminary negotiations lead the Company to expect that Plymouth Rock Assurance and Pilgrim will be able reach a settlement under terms that would require them to pay several million dollars to cover premium refunds and interest to former and current motorcycle policyholders. The Company has recorded a reserve of $4.6 million as an estimate of the eventual cost of such a settlement.

4. Goodwill and Intangible Assets

Goodwill of $3.7 million and $3.5 million at December 31, 2009 and 2008, respectively, resulted from the Company's purchase of insurance agencies. The goodwill represents the excess of the purchase price over the estimated ASC 820 valuation of net assets acquired. The Company reviews goodwill annually for impairment. No impairment of goodwill was recorded in 2009 or 2008. The purchase of insurance agencies also gives rise to intangible assets in the form of expirations, noncompetition agreements, and brand names. Intangible assets are being amortized over periods ranging from three to fifteen years, and they were valued at $1.1 million and $1.0 million at December 31, 2009 and 2008, respectively. Amortization associated with these intangible assets for 2009 and 2008 was $137,215 and $111,295, respectively.

The Company purchased the stock of one insurance agency in January 2008 and the assets of another agency in May 2008. These two purchases resulted in increases to goodwill and intangible assets of $517,808 and $896,869, respectively. These two purchases resulted in additional increases to goodwill and intangible assets during 2009 of $214,793 and $158,142, 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:

	2009	2008
Net income	$51,541,082	$35,899,537
Depreciation and amortization	18,805,392	28,772,336
Deferred income taxes	2,166,299	(5,023,480)
Change in operating assets and liabilities:		
Accrued investment income	(666,428)	(48,448)
Premiums receivable	12,746,065	3,421,400
Deferred acquisition costs	(312,904)	(7,226,426)
Amounts receivable from reinsurers	10,827,040	2,168,516
Claim and claim adjustment expense reserves	(10,384,401)	1,866,298
Unearned premium reserve	(3,838,618)	14,496,243
Advance premiums	(479,043)	(735,943)
Commissions payable and accrued liabilities	(4,449,089)	(1,943,952)
Amounts payable to reinsurers	(7,051,076)	(15,952,404)
Unearned service fees	(373,053)	9,853,752
Amounts due from and to service clients	6,776,501	(14,550,358)
Prepaid expenses, agent loans, and deposits	265,578	(61,737)
Income tax payable	(612,003)	(897,316)
Other assets and other liabilities	1,798,514	194,492
Net cash provided by operating activities	$76,759,856	$50,232,510

6. Acquisitions

As noted above, the Company purchased two insurance agencies in 2008. The initial down payments at the time of purchase were $225,000 and $750,000 with future payments in both cases to be based on business retained from these purchases during the years 2008 through 2013. During 2009, the Company made payments of approximately $300,000 relating to these two purchases. The Company used the purchase accounting method to account for these transactions. The Company's net income in 2009 and 2008 includes the results of operations of these agencies. In January 2010, the Company amended its agreement with the agency from which it purchased the assets and made the remaining retention payments for those assets in one lump sum of $475,000, rather than in installments through 2013 as set forth in the original agreement.

7. Consolidated Revenues

Revenues, net of reinsurance, by company for 2009 and 2008 were:

	2009	2008
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$255,895,033	$226,743,416
Mt. Washington Assurance Corporation	76,911	98,905
Bunker Hill Insurance Company	25,458,880	23,720,306
	281,430,824	250,562,627
Management company revenues:		
The Plymouth Rock Company	48,139,109	49,708,876
SRB Corporation	74,478,508	77,125,870
BCS Holding Company, LLC	5,227,390	5,355,863
Pilgrim Insurance Company	24,442,402	24,882,063
Palisades Safety and Insurance Management Corporation	76,001,340	56,411,136
High Point Safety and Insurance Management Corporation	112,650,793	113,379,400
	340,939,542	326,863,208
Eliminations:		
Technology costs	(34,355,262)	(33,074,586)
Dividends	(60,995,340)	(75,744,490)
Other	(15,168,968)	(14,782,950)
Total revenues	$511,850,796	$453,823,809

8. Fixed Assets

The table below summarizes fixed assets at December 31, 2009 and 2008.

	Useful Lives	2009	2008
Computers and software development	3 years	$121,463,636	$107,890,250
Leasehold improvements	10 years	15,810,543	14,718,236
Furniture and fixtures	5 years	11,102,742	10,875,525
Vehicles	3 years	2,631,413	3,019,978
Total cost		151,008,334	136,503,989
Less: accumulated depreciation and amortization		119,639,007	104,912,892
Net book value		$ 31,369,327	$ 31,591,097

Depreciation and amortization expenses incurred were $17.1 million and $27.6 million during 2009 and 2008, 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 $6.6 million and $6.8 million during 2009 and 2008, respectively.

The Company has established deferred compensation plans for officers, managers, and directors other than its founding shareholders. In general, these plans provide for a rate of return on deferred compensation determined on the basis of the financial performance of the Company. The Company incurred expenses related to these plans of $3.0 million and $2.5 million during 2009 and 2008, respectively.

In 1997, the Company implemented a Stock Incentive Award plan to reward key employees. The last awards under this plan were granted in 2003, and vested in 2008 in accordance with this plan's five-year vesting period. Under the terms of this plan, the vested awards are held by the Company for a two-year maturation period, after which they are distributed to participants with accrued returns. The final distributions for this plan will be in July 2010.

On May 1, 2005, the Company granted a stock incentive award of 1,110 shares to a key officer. This officer received additional awards of 222 shares on May 1 of each of 2006 through 2009. 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 2009 and 2008, respectively, 222 awards of the 2005 grant vested and were exercised for cash. The Company recorded expenses of $134,643 and $69,952 in 2009 and 2008, 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. None of these awards vested during 2009, and an award representing 55 shares vested during 2008. The Company recorded expenses of $5,500 in 2009, and no expenses were recorded in 2008.

Effective February 2, 2004, the Company provided a long-term compensation package to a key officer. This package included a grant of 3,150 shares of restricted stock with an appraised value at the time of grant of $990 per share. This grant was accompanied by an option to purchase 200 shares of restricted stock, which 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 2009 and 2008 related to this package.

Effective June 11, 2009, the Company granted stock incentive awards to three key executives totaling 8,472 shares. These awards will vest in 2014 provided that certain performance and service requirements are met. The Company recorded an expense of $429,242 in 2009 related to these awards.

10. Investment Securities and Investment Income

A. Marketable Securities

At December 31, 2009 and 2008, 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, 2009:	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 26,636,317	$ 131,067	$ 9,693	$ 26,757,691
State and municipal securities	197,420,097	6,086,241	41,522	203,464,816
Corporate debt securities	39,581,214	1,247,365	97,454	40,731,125
Mortgage-backed securities	35,764,785	767,630	84,058	36,448,357
Common stocks	45,053,636	8,601,958	752,442	52,903,152
Total	$344,456,049	$16,834,261	$ 985,169	$360,305,141

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	4,326,056	8,249,109	42,813,426
Total	$276,992,882	$ 9,100,541	$9,084,782	$277,008,641

At December 31, 2009, maturities of marketable securities were as follows:

	Amortized Cost	Market Value
Due in 90 days or less	$ 1,601,473	$ 1,603,570
Due after 90 days and in one year or less	43,701,581	44,147,236
Due after one year and in five years or less	155,083,108	159,825,410
Due after five years and in ten years or less	36,218,427	37,081,977
Due after ten years	62,797,824	64,743,796
Common stocks	45,053,636	52,903,152
Total	$344,456,049	$360,305,141

10. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

The Company classifies these marketable securities as available for sale. At December 31, 2009 and 2008, the Company owned securities that had been in an unrealized loss position for longer than twelve months with a total market value of $4.3 million and $1.8 million, respectively. Unrealized losses related to these securities were $484,459 and $87,197 at December 31, 2009 and 2008, 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 2009.

B. Non-Marketable Securities

The Company has investments in privately held common stocks that amounted to $21.0 million and $17.5 million at December 31, 2009 and 2008, respectively. These amounts include an investment in Homesite, in which the Company's ownership interest at December 31, 2009 was 9.8 percent. This investment was valued using the equity method at $14.1 million at December 31, 2009 and $13.6 million at December 31, 2008. Homesite derives underwriting revenue from personal lines property and casualty insurance activity, primarily homeowners, throughout most of the United States.

The non-marketable securities at December 31, 2008 included an investment in Direct Response, which also derived underwriting revenue from personal lines property and casualty insurance activity throughout most of the United States. At December 31, 2008, the Company's ownership interest was 8.0 percent and was valued at $1.0 million using the equity method. Also included in the non-marketable securities at December 31, 2008 were stock options in Direct Response with an ASC 820 valuation of $763,817.

On February 13, 2009, the Company's investment in Direct Response was liquidated as a result of the acquisition of this company by Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc. The Company's share of the net purchase price relating to this sale was $15.9 million, which resulted in income of $14.9 million before taxes in 2009. The Company received an option termination payment for its stock options in Direct Response of $710,455 at closing, resulting in a 2009 realized loss of $53,362 before taxes.

The Company holds a non-marketable investment in Insurance Services Office, Inc. On October 7, 2009, ISO became a wholly owned subsidiary of Verisk Analytics, which conducted an initial public offering that converted the Company's holding in ISO to Class B common shares of Verisk. These shares are restricted and may only be traded with other Class B common share investors. They will be converted to Class A common shares at some point in the next fifteen to twenty-one months. The Verisk investment had an ASC 820 valuation of $7.0 million and $2.1 million at December 31, 2009 and 2008, respectively, and had an amortized cost of $1 at each of these dates.

10. Investment Securities and Investment Income, continued

C. Alternative Equity Investments

The Company's marketable 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 contractual rights to withdraw its funds from these entities each year. At December 31, 2009 and 2008, the Company's recorded values for these marketable alternative equity investments, which include realized and unrealized gains, were $45.0 million and $40.4 million, respectively.

The Company's non-marketable alternative equity investments include preferred stocks, surplus notes, and interests in partnership entities that invest in companies that are not publicly traded. The Company's recorded values for non-marketable alternative equity investments were $42.4 million and $40.5 million at December 31, 2009 and 2008, respectively.

Certain non-marketable alternative equity investments are valued by applying the equity method to values in their financial statements as of September 30, the most recently available statements. These investments have a carrying value of $27.5 million and $25.8 million at December 31, 2009 and 2008, respectively. Financial statements for other non-marketable alternative equity investments are available soon enough after year-end to enable the Company to carry them at December 31 values. These investments are valued at $11.7 million and $11.5 million at December 31, 2009 and 2008, respectively.

The Company has commitments presently outstanding to invest $0.4 million, $3.4 million, and $18.5 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, 2009, the Company had invested $10.2 million, $16.6 million, and $1.5 million in Fund I, Fund II, and Fund III, respectively.

D. ASC 820 Valuation Measurements

The Company's cash, cash equivalents, and investment securities totaled $502.3 million and $451.0 million at December 31, 2009 and 2008, respectively. Assets in this category valued using either the equity method or the cost method totaled $101.4 million and $95.6 million, respectively. The other assets in this category were reported at ASC 820 valuation and totaled $400.9 million and $355.4 million, respectively. The estimates of ASC 820 valuation for these assets have been derived from a variety of sources. Published market prices are used for assets that are actively traded and for which market prices are readily observable. The values of a second category of assets which are not actively traded are determined from other available market data even though trade prices are not published. The ASC 820 valuation of a third category of assets are estimated using internal and external judgments.

10. Investment Securities and Investment Income, continued

D. ASC 820 Valuation Measurements, continued

The ASC 820 valuation measurements for these assets are categorized as follows:

At December 31, 2009: (In Thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 33,597	$ -0-	$ -0-	$ 33,597
U.S. government securities	26,603	155	-0-	26,758
State and municipal securities	-0-	203,465	-0-	203,465
Corporate debt securities	-0-	40,731	-0-	40,731
Mortgage-backed securities	-0-	36,448	-0-	36,448
Marketable common stocks	52,903	-0-	-0-	52,903
Non-marketable common stocks	-0-	6,969	-0-	6,969
Total ASC 820 valuation	$113,103	$287,768	$ -0-	400,871
Assets valued using either the equity method or the cost method				101,457
Total value of cash, cash equivalents, and investment securities				$502,328

At December 31, 2008: (In Thousands)	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 stocks	42,813	-0-	-0-	42,813
Non-marketable common stocks	-0-	-0-	2,149	2,149
Equity options	-0-	-0-	764	764
Total ASC 820 valuation	$142,950	$209,548	$2,913	355,411
Assets valued using either the equity method or the cost method				95,583
Total value of cash, cash equivalents, and investment securities				$450,994

10. Investment Securities and Investment Income, continued

D. ASC 820 Valuation Measurements, continued

Investments with ASC 820 valuations which were derived using internal and external judgments at December 31, 2008 consisted of ISO, now Verisk, common stock, and the options for the purchase of shares of Direct Response common stock. The combined value of these investments at December 31, 2008 was $2.9 million. As a result of the Verisk initial public offering and the termination of the Direct Response stock options in connection with the acquisition by Unitrin, no investment is valued using internal or external judgments at December 31, 2009. There were no additional purchases by the Company of such investments during 2009.

E. Analysis of Investment Income and Capital Gains

The components of investment income and capital gains before federal income taxes during 2009 and 2008 were as follows:

	2009	2008
Interest income and dividends from securities	$ 9,615,131	$10,897,403
Earnings from non-marketable securities and alternative equity investments	5,838,041	(5,585,097)
Rental income	3,212,521	2,824,940
Finance charges on premiums receivable	5,280,163	5,388,645
Gross investment income	23,945,856	13,525,891
Rental expenses	(2,618,867)	(1,835,547)
Investment expenses	(1,290,154)	(1,081,297)
Investment income	20,036,835	10,609,047
Net realized capital gains	20,485,386	5,470,650
Investment income and capital gains	$40,522,221	$16,079,697

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 $6.4 million. No Other Than Temporarily Impaired losses were recorded in 2009.

10. Investment Securities and Investment Income, continued

F. Investment Activity

Activity in investment securities during 2009 and 2008 was as follows:

	2009	2008
Balance at beginning of year	$375,504,086	$400,148,774
Change in marketable securities:		
Proceeds from maturities	(36,080,539)	(26,870,500)
Proceeds from sales	(28,437,250)	(117,763,866)
Purchases	132,797,427	135,797,224
Net change in marketable securities	68,279,638	(8,837,142)
Net change in non-marketable securities	(2,522,772)	(128,341)
Net change in alternative equity investments	6,431,527	7,741,188
Net investment activity	72,188,393	(1,224,295)
Net change in purchases in process	385,352	801,985
Net change in unrealized gain on securities and alternative equity investments	20,653,595	(24,222,378)
Balance at end of year	$468,731,426	$375,504,086

Comprehensive income is defined as net income plus the change in net unrealized gain or loss on investments. The net unrealized gain on investments was increased during 2009 by realized losses of $1.1 million previously included as unrealized in comprehensive income at December 31, 2008, while the net unrealized gain was reduced during 2008 by realized gains of $8.1 million previously included as unrealized in comprehensive income at December 31, 2007.

11. Real Estate

As of December 31, 2009, the Company owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

At December 31, 2008, the Company held a 66.7 percent interest in 695 Atlantic, with Direct Response owning the remaining 33.3 percent. The Company's interest in 695 Atlantic was carried at its equity of $17.4 million. In February 2009, Direct Response sold its interest in the property to its investors in proportion to their ownership share, which increased the Company's ownership from 66.7 percent to 69.3 percent. On September 30, 2009, the Company purchased the remaining 30.7 percent ownership interest from the other Direct Response investors for $11.0 million. This purchase resulted in an increase in the valuation of land and building totaling $8.2 million. Effective October 1, 2009, the Company began accounting for 695 Atlantic as a fully consolidated entity.

Building improvement costs of $0.6 million and $1.3 million were incurred on these properties in 2009 and 2008, respectively. The table below summarizes the Company's real estate costs and carrying values at December 31, 2009 and 2008:

	2009	2008
Land	$ 7,449,260	$ 4,523,650
Buildings, improvements, and other	40,015,224	28,779,705
Total cost	47,464,484	33,303,355
Less: accumulated depreciation	10,467,053	8,895,190
Net book value	$36,997,431	$24,408,165

Rental income from lessees other than Plymouth Rock Companies totaled $3.2 million and $2.8 million in 2009 and 2008, respectively. For each of the years 2010 through 2014, minimum annual rent receivable by the Company is $1.1 million. Total obligations to the Company from non-affiliated lessees through 2014 are $12.4 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 of December 1, 2009, as determined by an independent appraiser using the income and sales comparison approaches, was $36.3 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.

12. Stockholders' Equity

A. Common Stock

Common stock at December 31, 2009 and 2008 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 118,273 and 117,985 were issued and outstanding on December 31, 2009 and 2008, respectively.

There are 90,000 Class B shares authorized, of which 64,842 and 65,130 were issued and outstanding on December 31, 2009 and 2008, 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 totaled $167.3 million and $139.7 million at December 31, 2009 and 2008, respectively. The combined net income on a statutory accounting basis of these insurance subsidiaries was $4.4 million and $13.4 million in 2009 and 2008, 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 compensation plans presently in effect.

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

Colleen M. Granahan
Vice President

Gerald I. Wilson
Vice President

Directors and Officers of the Principal Plymouth Rock Companies

Non-Management Directors

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

Management Directors and Corporate Officers

Richard F. Adam
James N. Bailey
Hal Belodoff
Mary L. Biernbaum
Marc V. Buro
Michael J. Cesinger
Frederick C. Childs
Thomas A. Cranley
William E. Emmons
Edward J. Fernandez
Carroll M. Foley
Colleen M. Granahan
William D. Hartranft
Keith R. Jensen
Eric L. Kramer
Lisa K. Lasky
Michael A. Luciani
Paul D. Luongo
Richard J. Mariani
Karen A. Murdock
Thomas G. Myers
Thomas E. Newgarden
Christopher B. Olie
Kenneth F. Petersen
Carl A. Peterson
Anne M. Petruff
Joseph Scaturro
Linda D. Schwabenbauer
Ankur Sharma
Karen L. Stickel
James M. Stone
James A. Tignanelli
Courtland J. Troutman
Basilios E. Tsingos
Gerald I. Wilson

Counsel:
Ropes & Gray LLP

Independent Auditors:
PricewaterhouseCoopers LLP