The Plymouth Rock Company

2010 Annual Report

The Plymouth Rock Company
695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2011

To Our Shareholders:

The year 2010 was the worst in Plymouth Rock's history. There is no sugarcoating that fact. Not since Plymouth Rock's first year in business has the net income for our owned and managed companies, taken together on a combined basis, been less than 1% of their gross premiums. Our planning for 1984 had assumed a start-up operating loss; the poor bottom line results this past year were unanticipated. They cannot be blamed, moreover, on the financial market crash of 2008 or the state of the general economy. The cause was not in our stars but in a series of reserving and pricing misjudgments at Palisades, the reciprocal insurer we have managed for eighteen years in New Jersey.

Due to our reciprocal management structure in New Jersey, the results of the Palisades insurer are not reflected in the net income of The Plymouth Rock Company. Net income in 2010 for the company you own was $44.0 million, representing a 13% return on shareholders' equity. Please do not be comforted. We run our group of companies as though all were shareholder-owned, and it is only a matter of time before unsatisfactory results in any one company, owned or managed, are felt by all. You will see the overall results in a new format on our financial statements for this year. A change in financial accounting standards requires us to combine both owned and managed companies into a single set of statements for the first time in 2010. This may confuse some readers who don't appreciate the distinction between the owned and managed companies, but it presents the numbers more as we experience them – especially this year. In that sense, the coincidental timing of the accounting change seems almost karmic.

Most of this letter will be devoted to perspective on all the companies taken together, but a few more words on the shareholder-owned subset of the total are required for consistency of our presentations over the years. The consolidated net income of The Plymouth Rock Company for the year fell below 2009's $51.5 million, but you will probably recall that $12 million of the 2009 after-tax profit came from shareholder and real estate gains related to the sale of our ownership stake in Response Insurance. Continuing income in 2009 was more like $39 million. The 2010 number, absent the sale of Response, represents a modest improvement. Neither year's profit number is truly satisfactory, though, and neither matches our five-year plan goals or our long-run profitability targets. Those higher standards would have required a net income in 2010 that rounds to $60 million. Still, our book value is now $1,951 per common share, up 7.4%. The cumulative book value rate of return over the full twenty-seven years of the

Company’s history, which takes account of shareholder dividends as well as equity, is 18.4%, a tenth of a point below last year’s number.

Palisades is the right place to begin the longer, and more meaningful, version of the 2010 story. The numbers themselves are stark. The contributing causes are more complex and numerous. In the years from 2001 through 2005, Palisades prided itself on having the lowest loss ratio of all the major automobile insurance writers in New Jersey. Enough time has now gone by to be sure this was not just self-delusion. Palisades’ results were just plain good, presumably reflecting skilled selection and care of agents, sound reserving and pricing, and professional claims practices. New Jersey results for the automobile insurance industry as a whole were quite attractive by national standards during the same period. To be the best performing competitor in a solidly profitable environment is an insurer’s dream. During the early years of the decade, Palisades’ underlying claims cost per vehicle insured (called, confusingly, in our industry “pure premium” and computed by multiplying the average frequency of claims by their average cost, or severity) was falling while the average premium charged to customers rose gradually. As a consequence, both recorded profits and reserve redundancies were on the increase, another element of a dream scenario.

Then, around 2006, there came an inflection point. The industry’s pure premium cost, or claims cost per car, turned sharply upward in New Jersey. In the second half of the decade, the pure premium costs at Palisades rose 24%, even faster than those for the industry as a whole. Palisades’ average premium charged per automobile exposure, a standard measure of revenue per unit, during the same period fell by nearly 10% instead of accompanying the costs upward. This gap, experienced over an expanding Palisades book of business, explains the painful outcome. The worsening problem wasn’t remedied until now because Palisades’ management, for a variety of reasons, failed to diagnose it properly until 2010. Neither, I must add, did any of us at the Plymouth Rock enterprise level. Reallocating profit and loss by year with the benefit of hindsight, we can now see that 2006 was a year with $7 million in profits for the Palisades insurer and manager combined, not nearly the $15 million booked at the time. By 2009, the actual combined result was a loss of $3 million while the company thought it was earning over $17 million. The booked result for 2010 must now aggregate all of the previously unreported losses, so you should expect to see a $39 million statutory loss for the year in our filed statements. Of this total, about $6 million in losses actually belong to 2010 results and the rest corrects the inadvertent over-reporting of income in years past.

Palisades was not, of course, the only New Jersey carrier to be taken by surprise. In fact, 2009 loss ratios for the best known carriers were almost all terrible, and sharply spiking bills from 2010 rate increases will almost certainly shock New Jersey policyholders in 2011. In 2009, for which data is freely available now, the five largest New Jersey automobile carriers, excluding those we manage, had an average pure loss ratio of 77%. That ratio, which the industry usually hopes to keep in the low 60’s, was over 80% for State Farm, Amica, GEICO, and Travelers. Palisades can take only a pinch of solace from having such esteemed company in its discomfort. Palisades, like those companies listed above, did worse than the industry averages for the two recent years taken together. Palisades, however, is a New Jersey-only company so it can't subsidize its poor performance in that state with decent results in 49 others. Precisely because it is a one-state domestic company, we expected that Palisades would be more in tune with the trends in that state and less likely to make errors than the national companies. So what went wrong? And what can we learn from this series of events? One observation is that success tends to breed over-confidence. The excellent results earlier in the decade probably delayed recognition of the problems and created an illusion that Palisades might be less vulnerable to industry adversities than its competitors. At the same time and more generally, there was perhaps an insufficiency of numerate skepticism on the part of some Palisades managers, resulting in too little emphasis on the fundamentals of the business. Third, Palisades may have grown too quickly to maintain its unusually high standards. The rapid absorption of over $100 million in premiums from the Proformance acquisition in 2008, in particular, introduced many untested agency relationships and magnified the consequences of the wider rating errors that originated with inadequate reserve estimates.

These three observations specifically apply to Palisades. A fourth applies industry-wide. When the big national direct response writers entered the state of New Jersey about five years ago, they had multiple motives for stretching toward the lowest possible rates. They wanted to secure handsome market shares in the explosion of deregulation-induced shopping; they wanted to imprint first-time shoppers with an association of their names with bargain prices; and profitability conditions looked pretty rich to begin with, so they thought they could afford the low rates. Oblivious to the incipient turn upward in underlying cost trends occurring in the background, the traditional New Jersey carriers followed the new entrants' lead and cut their prices. It now seems they all went too far. To correct its excesses, GEICO, the most aggressive of the entrants, has filed for 25% in increased premiums since 2008. The average New Jersey auto insurance carrier has taken rate increases in excess of 19% over the same three years. I deeply doubt that the direct response writers intended to lose as much money as they did, in part because that would define their pricing strategies as predatory. Nonetheless, they probably ended up with a winning outcome from the mistakes. The harsh truth for the rest of us is that in any price shock situation, and virtually regardless of which carriers raise their rates the most, the direct response writers will tend to gain market share as shopping accelerates and relationship-grounded retention falls off. Branding oneself as a money-saver really matters during periods of rapid premium increases. So, too, does Internet presence.

The events at Palisades catalyzed a major change in organizational structure for our New Jersey operations. After much consultation with our Board members, Hal and I decided to combine the management companies that oversee the Palisades and High Point insurers, and we have renamed the combined business Plymouth Rock Management Company of New Jersey. Gerry Wilson, whose focus was solely on High Point in recent years, will now be more of a New Jersey czar, with all of that state's actuarial, claims, and finance staffs reporting directly to him. Ed Fernandez will continue as president of the Palisades independent agency business, reporting to Gerry. The new structure will save the group money, making both High Point and Palisades more competitive, and should help with future branding efforts. For these reasons, the combination was probably an inevitability that the 2010 financial results only served to accelerate. The imposition of High Point's disciplined and analytical style on the entire New Jersey team should increase the accuracy of future reserves and rates. Recognizing that some of us received bonuses over the last few years that reflected mistaken views of profitability, Jim Bailey, Hal and I have cut our salaries for 2011 to adjust our cumulative pay to what it would have been had the correct numbers been used in the calculations. Ed, always a pro, asked to join us in taking a pay cut for a similar reason.

While there is no silver lining to the cloud that surrounds Palisades' 2010 results, there is no sense of panic either. A few facts may help explain why. Most important is that our newly combined New Jersey operation, already long viewed by the regulators and rating agencies as a unified whole, is quite solvent. The ratio of premiums to surplus for the Palisades and High Point insurers at year-end 2010 is actually below the average level of that important metric over the last decade. Only the sizable cushion we thought we were building is gone. Palisades' 2010 losses, as unpleasant as they are, should be taken in the context of an overall enterprise with revenues owned or managed of over $1.1 billion (a total almost identical to the prior year's scale metric) with net income in the other segments of close to $45 million. Second, the long-term track record of building value for the Palisades reciprocal and its policyholders remains hard to fault. The statutory surplus of Palisades in 2001 was $17 million; at the close of 2010, it stands at $314 million. That is an average compound rate of increase in excess of 30% in the capital belonging to the New Jersey reciprocal and managed by our companies. Similarly untarnished by this event is Palisades' standing with agents and reputation for superior customer service. It remains effectively tied with Travelers for the honor of being the largest independent agency writer in the state, and it is unbeatable on the Insurance Department's ranking of companies by valid complaint ratios. And finally, although the rate increases that Palisades has recently needed are hefty, its filings do not place it in the top half dozen companies sorted by their cumulative filed increases over the past few years. A nice feature of the business of automobile insurance is that, absent permanent scarring of a company's reputation or harm to its regulatory standing, a bruised insurer can reset its rates and reserves completely within a couple of years. We have no reason to think that Palisades has anything less than a healthy reserve position already, and our team anticipates a return to profitability in 2011.

High Point's year was nothing like that at Palisades, but it was nothing like the good old days either. Most of the New Jersey auto insurers sustained what I call a windless hurricane, partly of their own making, and High Point was not unscathed. The High Point insurer did little better than to break even for the year, a result you can compare with profits averaging over $15 million annually for its five prior years within our New Jersey group. The combined ratio for the insurer and the management company together was 101%, and the insurer's filed rate increases for 2009 and 2010 have approached 13% with pure premiums still on the upswing. You may reasonably wonder whether there could be hidden under-reserving there as well, just as there was at Palisades. This is a question only the passage of time will answer with certainty. Reserves are, after all, predictions, and the most robust canon of prediction is that arrogant predictions flag likely losers. You can rest assured of this much. High Point's claim reserves have been reviewed and reconsidered with that concern as a spotlight; its past reserves have held up well; and its actuary, Tom Myers, a former president of the Casualty Actuarial Society, has always leaned toward caution.

High Point's premiums written were up about 4% for the year, reflecting a small decline in unit volume offset by an increase in average premiums per unit. High Point's level of customer service remains stellar, with no valid complaints at all showing on the New Jersey Insurance Department's annual survey. Additional congratulations are due, moreover, to High Point's claims department. The New Jersey Insurance Fraud Prosecutor named High Point's Special Investigations Unit as "The Outstanding SIU Staff" in the state; and Rick Adam, who runs High Point claims, was selected for its top "Claims Executive Award" by the New Jersey Special Investigators Association. High Point's principal challenge remains just as it was when I wrote to you a year ago: it must keep the loss ratio under control as it adds new business from new sources. In the face of statewide headwinds, this will be no trivial task.

Last year's letter described Plymouth Rock Assurance Corporation, our New England carrier, as the most under-performing company in our group. That it is no longer a problem child relative to Palisades in 2010 provides scant consolation. But Plymouth Rock Assurance is also looking better in absolute terms and relative to its local peers, a combination that provides considerable relief. Plymouth Rock Assurance posted a combined ratio just under 101% for the year, a marked improvement over the prior year's 104%. Equally important, the gap between Plymouth Rock's statutory combined ratio and that of the average of its four most comparable peers, once as much as six points to our disadvantage, is now negligible. The pace of change in the Massachusetts regulatory environment has, meanwhile, slowed a bit. While not everyone is as worried as I am about disparities between rates in the wealthiest neighborhoods and those in the poorest, the Attorney General has picked up on a related issue and is proposing to limit the use of rating variables that are proxies for credit score. With these uncertainties at play, the recent national entrants remain cautious about investing in Massachusetts growth, and it appears that the new owners of the state's largest personal lines carrier, Commerce, may be looking for geographic diversification.

We look to Chris Olie for leadership at the smaller New England companies in the Plymouth Rock group as well as at Plymouth Rock Assurance. Pilgrim Insurance, the insurance services company, and Encharter, the holding company for independent agencies we have invested in, report directly to Plymouth Rock Assurance officers. Pilgrim lost some business this past year, but continues to produce a seven-figure profit for our group. Encharter has operated with paltry profits for some years now, but it impressed all of us in 2010 with innovative advances in the use of social media and the Internet to sell insurance. If you read my report last year, you know that I believe these are indispensable elements to our success, and that of Plymouth Rock's independent agents, in the near future. Encharter's pioneering use of the new tools, which we will make available to all of our independent agencies over time, earned it five significant awards during 2010, including the "Excellence in Social Media Award" from the National Association of Professional Insurance Agents. Encharter has yet to turn this creative progress into meaningful increases in volume, but I'll wager that they will do so going forward. No parent of teenage twins could fail to appreciate the importance of this modern communications revolution.

Connecticut automobile insurance results, once again, were unsatisfactory, but they have improved noticeably over past performance levels. Written premiums in the automobile line fell by 12%, and the combined ratio was 105%. On the other hand, homeowners insurance in that state did well for Bunker Hill, and the result was that Connecticut business returned an overall profit for the group in 2010. I am surrounded by persuasive optimists who think Connecticut will do better still next year. Mt. Washington Assurance, writing in New Hampshire, and Bunker Hill, the homeowners insurer, maintain boards of directors separate from those of Plymouth Rock Assurance but Chris plays a role in these subsidiaries as well. Mt. Washington continues an upward progression and earned a small profit in 2010, with written premiums having increased by 5% and a combined ratio under 99% for the second consecutive year. Bunker Hill turned in a particularly good year. Operating profits were almost $3 million, a record contribution to our group, and represented a 10% return on equity. I'd like to see better given the intrinsic catastrophe risk in writing homeowners insurance, but I recognize that substantial benefits to our group in excess of the direct profits arise from offering homeowners coverage. It seems beyond dispute that our agents prefer a full service personal lines carrier and that customer retention is improved when related companies provide both automobile and home insurance.

Investment results for Plymouth Rock look like those of many institutional investors in 2010. Cash basis returns on fixed income investments were between skimpy and non-existent, as even the modest upward interest rate adjustment during the year was sufficient to wipe out the bond market's paltry yields. Though 2010 provided a lower yield than 2009, and the overall bond yield may decline further as older holdings are replaced with new ones, we resist the temptation to reach for higher returns by taking more interest rate or credit risk. The bond portfolio is not where we satisfy our appetite for risk, and we simply have no confidence at all in our ability to outguess other fixed income investors on the future direction of interest rates or issuer credit premiums. Our perpetually undiversified marketable equities portfolio returned 15% after dividends in a year that the Standard & Poor's 500 Index also returned 15%. A mild reversal of the flight to quality in a strengthening market explains why stocks we still believe to be superior to the market as a whole performed only as well as the indices last year. This is hardly a cause for concern. The 2010 results lowered our all-time internal rate of return on marketable common stock investments to 16.6%, which you may compare to the 10.6% annual return on the S&P for the same period. The lower number is just about all we could have achieved had we invested in a thoroughly diversified portfolio of common stocks, so you can easily see why we remain committed to the undiversified approach. Six extra points on a fixed investment compounded over a couple of decades is enough to nearly triple the overall return for the period. In the common stock arena, we have consciously bet against the market's wisdom and, so far, we have come out well ahead.

Our hedge fund holdings returned 9% and private equity positions gave us a 15% return in 2010, both quite satisfactory against the backdrop of a continuing becalmed market for both initial public offerings and acquisitions. Excluding earnings from agency loans and premium finance, the income statement shows $14.7 million of investment income and realized capital gains for 2010. This is unsurprisingly down from the $35 million on the same line in the 2009 statements when the profits on our Response shares were realized. Some of the changes in the investment portfolio's value, as always, flowed directly to the balance sheet without affecting income. Unrealized gains on our equity positions, which grew by just under $10 million in 2010, are reflected only on the balance sheet. Real estate, considering both operations and the annual appraisal, gave us a 17% return, as Boston commercial real estate activity showed signs of recovery. Changes in the market values of our real estate holdings are reflected on neither the income statement nor the balance sheet but they are part of our economic return nonetheless.

Our position in Homesite Group, where we remain a shareholder, is carried for 2010 at close to $1 million less than it was in the year prior. That is because our valuation moves up or down with Homesite's profits, and not necessarily with that company's economic value. Homesite saw yet another year of impressive growth and poor returns. This past year, its top line grew by over 20% to $412 million in written premiums as Homesite further solidified its position as the national homeowners partner of choice for giant automobile insurers who find writing homeowners insurance not worth the risk or diversion of talent. This is a wonderful accomplishment for Fabian Fondriest and his team. The bottom line, however, showed a $4 million net loss. Once again, Western and Midwestern hailstorms cost more than the policyholders provided Homesite to cover them. Higher premiums and regression to the mean in hailstorm activity should both contribute to easing this imbalance in the future. And, of course, there is an up-front cost to growth that should be recouped as the business seasons and lower renewal expenses replace high first-year charges. Nonetheless, unless a solid profit picture emerges, the shareholders of Homesite will be faced, not soon but inevitably, with a Hobson's choice between curtailing its growth and raising money on poor operating numbers.

The overall economic and employment picture looks better than it did a year ago, but not by as much as most of us had hoped. It is easy to understand the widespread sentiment that nearly everyone has paid for the excesses that spurred the financial crisis except the instigators. While their shareholders, in fact, suffered whopping losses in some cases, most of the titanic institutions bailed out at taxpayer risk are making strong profits again, and the banking sector is ever more concentrated. I continue to hold that the menacing overhang of public debt and entitlements represent no greater threat to our national economic future than does the supersizing of the financial sector. Investment banking, fundamental investing, and commercial lending are essential in a free market economy. While trading can be useful as a lubricant as well, if carefully applied by the drop, dumping oil by the barrel into the machinery isn't. Today's financial sector, engorged with trading and leverage, is draining talent from productive enterprise, increasing disparities in wealth and income, and drawing unhealthy levels of rent from the non-financial businesses it exists to serve. Tax policy and regulation should be used to reduce the prevalence of short-term speculative trading, debt-driven financial engineering, opaque instruments traded at undisclosed prices, and systemically risky leverage. Yet, tellingly, the realities of political campaign finance seem to have eclipsed a multi-trillion dollar lesson, and it takes a Pollyanna to expect much will be done soon about the root causes of the current distress. We will endeavor here at Plymouth Rock not to rely on any capital structure, or make portfolio investments dependent on capital structures, that cannot withstand another financial dislocation of similar origin.

The most realistic hope for reform may lie with bipartisan promises to re-think the well-intentioned but malfunctioning incentives for home ownership embodied in the government-sponsored mortgage companies. Fannie and Freddie will be the jumbo sinkholes when the bailouts have all played through. Here are a few facts. In 1890, the percentage of Americans owning homes was 48%. In 1930, it was still the same 48%. The percentage fell in the Depression, and then grew over 20 points in the 30 years that followed until it reached 64% in 1970. This occurred in a marketplace without the benefit of securitization. In 1970, Ginnie Mae, Fannie Mae and Freddie Mac began securitizing mortgages. Over the next 30 years, as securitization caught fire, the home ownership percentage rose by a modest total of 2.6 points. Growth spurted briefly in the new millennium, as mortgages were extended with underwriting standards that we now understand were at best negligent, and the home ownership percentage peaked at just short of 70% in 2004. By 2009, the percentage of homeowners had retreated to its 2000 level of 67%, and foreclosures are now pushing it lower. Economic historians will someday write that the principal impact of the securitization craze was not on the level of home ownership but on the prevalence in the U.S. of the otherwise unrealistic thirty-year fixed mortgage and, of course, on the Crash of 2008. I am unsure just how much of the blame for the crash lies with mortgage securitization. I am not sure there isn't a place for a useful, well-regulated and constrained mortgage securities market, or a sensible government reinsurance program. I am dead sure, however, that the societal benefits of a multi-trillion dollar securitization market, and the supposed public interest case for keeping regulation in the field to a minimum, are oft wildly overstated.

While this was a bummer of a year for The Plymouth Rock Company, I can still close on a positive note. Financially sound and unsullied, our New Jersey companies will soon get a fresh start. Ideally, they will prove Nietzsche's not-so-reliable rule: "That which does not kill us makes us stronger". At a minimum, the order of the day can be the more dependable epigram: "This, too, shall pass". This tough year, in fact, ended with all the winds blowing in the right direction. Plymouth Rock Assurance in New England has strengthened noticeably. The revised New Jersey structure should pay off relatively quickly in pricing and claims effectiveness as well as reduced expenses. We are in the process of adding substantive peer review processes and controls at the enterprise level as further protection against errors in the future. While we are still seeking a Chief Underwriting Officer to enforce best practices throughout our businesses and to spur our pace of analytical innovation, our leadership lineup is assuringly deep. Nobody ever said it was supposed to be easy to build an admirable and profitable billion-dollar business. Nobody said there wouldn't be bumps along the way. This past year, as our parents used to say, was character building. There were surely some disappointing moments as 2010's events unfolded, but I can speak for the whole senior management in assuring you that, thanks to strengths our companies have accumulated over many better years, there was never an instant of disarray, a shadow of disheartenment, or a hint of defeatism. We look forward cheerfully, if somewhat humbled, to a brighter 2011.

James M. Stone

pwc

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 equity present fairly, in all material respects, the financial position of The Plymouth Rock Company, (the "Company") at December 31, 2010 and 2009, 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 consolidated 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.

As discussed in Note 1 to the consolidated financial statements, the Company consolidated the Palisades Reciprocal Group, a variable interest entity, effective January 1, 2010.

PricewaterhouseCoopers LLP

March 22, 2011

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009
(dollars in thousands)

Assets	2010	2009
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 31,076	$ 33,597
Investment securities	474,466	468,731
Accrued investment income	3,716	4,141
Premiums receivable	84,415	79,756
Deferred acquisition costs	19,743	17,081
Amounts receivable from reinsurers	12,393	25,073
Amounts due from service clients	1,120	20,033
Prepaid expenses, agent loans, and deposits	7,248	6,957
Real estate	36,411	36,998
Fixed assets	30,934	31,369
Goodwill and intangible assets	4,697	4,819
Income tax recoverable	4,315	-0-
Deferred income taxes	-0-	2,681
Other assets	1,352	3,845
Subtotal	711,886	735,081
Palisades Reciprocal Group		
Cash and cash equivalents	57,749	
Investment securities	1,122,682	
Accrued investment income	7,720	
Premiums receivable	120,515	
Deferred acquisition costs	9,657	
Amounts receivable from reinsurers	98,674	
Amounts due from service clients	33	
Prepaid expenses, agent loans, and deposits	875	
Fixed assets	690	
Goodwill and intangible assets	19,874	
Income tax recoverable	10,292	
Deferred income taxes	5,429	
Other assets	17,379	
Subtotal	1,471,569	
Total assets	$2,183,455	$ 735,081

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009
(dollars in thousands)

Liabilities	2010	2009
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 126,313	$ 137,406
Unearned premium reserve	129,509	124,056
Advance premiums	5,737	6,096
Commissions payable and accrued liabilities	61,749	71,430
Amounts payable to reinsurers	267	13,080
Unearned service fees	4,521	43,404
Amounts due to service clients	4,027	4,369
Income tax payable	-0-	822
Deferred income taxes	6,130	-0-
Other liabilities	2,325	1,802
Subtotal	340,578	402,465
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	751,561	
Unearned premium reserve	242,978	
Advance premiums	9,335	
Commissions payable and accrued liabilities	78,724	
Amounts payable to reinsurers	7,368	
Surplus notes	25,000	
Other liabilities	13,255	
Subtotal	1,128,221	
Total liabilities	1,468,799	402,465
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	27,742	26,823
Retained earnings	310,056	290,981
Net unrealized gain on investments	19,397	14,812
The Plymouth Rock Company stockholders' equity	357,195	332,616
Palisades Reciprocal Group	357,461	
Total liabilities and equity	$2,183,455	$ 735,081

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, 2010 and 2009
(dollars in thousands)

Revenues	2010	2009
The Plymouth Rock Company and Subsidiaries		
Premiums earned in underwriting activities	$ 256,483	$ 252,170
Fees earned from service activities	210,981	217,489
Investment income and capital gains	19,819	40,522
Subtotal	487,283	510,181
Palisades Reciprocal Group		
Premiums earned in underwriting activities	661,511	
Fees earned from service activities	308	
Investment income and capital gains	45,766	
Subtotal	707,585	
Less: Intra-group transactions	183,318	
Total revenues	1,011,550	510,181
Expenses		
The Plymouth Rock Company and Subsidiaries		
Claims and claim adjustment expenses	183,622	189,394
Policy acquisition, underwriting, and general expenses	76,374	74,246
Service activity expenses	157,570	166,025
Subtotal	417,566	429,665
Palisades Reciprocal Group		
Claims and claim adjustment expenses	575,836	
Policy acquisition, underwriting, and general expenses	188,047	
Service activity expenses	283	
Subtotal	764,166	
Less: Intra-group transactions	183,318	
Total expenses	998,414	429,665
Income before income taxes	13,136	80,516
Income taxes	4,743	28,975
Fully consolidated net income	8,393	51,541
Less: Net loss of Palisades Reciprocal Group	(35,608)	
Net income of The Plymouth Rock Company and Subsidiaries	$ 44,001	$ 51,541

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2010 and 2009
(dollars in thousands, except per share data)

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Total Stockholders' Equity	Palisades Reciprocal Group	Total Equity
December 31, 2008	$26,110	$254,983	$ 1,508	$282,601		$282,601
Comprehensive income	-0-	51,541	13,304	64,845		64,845
Issuance of common stock	713	-0-	-0-	713		713
Dividends to stockholders	-0-	(15,543)	-0-	(15,543)		(15,543)
December 31, 2009	26,823	290,981	14,812	332,616	-0-	332,616
Cumulative adjustment	-0-	-0-	-0-	-0-	384,215	384,215
Comprehensive income	-0-	44,001	4,585	48,586	(26,754)	21,832
Issuance of common stock	919	-0-	-0-	919	-0-	919
Dividends to stockholders	-0-	(24,926)	-0-	(24,926)	-0-	(24,926)
December 31, 2010	$27,742	$310,056	$19,397	$357,195	$357,461	$714,656

The Plymouth Rock Company and Subsidiaries - Per share data	2010	2009
Weighted average common shares outstanding:		
Basic	183,015	179,965
Fully diluted	183,115	183,115
Net income per share:		
Basic	$ 240.42	$ 286.40
Fully diluted	$ 240.29	$ 281.47
Common shares outstanding at end of year	183,115	183,115
Common stockholders' equity per share	$1,950.66	$1,816.43

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, 2010 and 2009
(dollars in thousands)

Cash flows from operating activities	2010	2009
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 270,364	$ 294,956
Reinsurance premiums paid	(26,844)	(44,309)
Finance charges collected	4,988	5,280
Fees and commissions collected	208,322	226,272
Investment income and capital gains received	16,423	35,937
Gross claims and claim expenses paid	(203,752)	(221,736)
Reinsured claims and claim expenses collected	15,370	27,934
Policy acquisition, underwriting, and general expenses paid	(71,992)	(70,212)
Income taxes paid	(24,498)	(27,421)
Service activity expenses paid	(148,712)	(148,741)
Net cash provided by operating activities	39,669	77,960
Palisades Reciprocal Group		
Gross premiums collected	805,332	
Reinsurance premiums paid	(168,096)	
Finance charges collected	5,061	
Fees and commissions collected	318	
Investment income and capital gains received	44,774	
Gross claims and claim expenses paid	(630,179)	
Reinsured claims and claim expenses collected	118,495	
Policy acquisition, underwriting, and general expenses paid	(190,328)	
Income taxes recovered	22,987	
Service activity expenses paid	(283)	
Net cash provided by operating activities	8,081	
Total net cash provided by operating activities	$ 47,750	$ 77,960

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, 2010 and 2009
(dollars in thousands)

Cash flows from financing activities	2010	2009
The Plymouth Rock Company and Subsidiaries		
Dividends to stockholders	$ (24,926)	$ (15,543)
Net cash used in financing activities	(24,926)	(15,543)
Palisades Reciprocal Group		
Net cash used in financing activities	-0-	
Total net cash used in financing activities	(24,926)	
Net cash provided		
The Plymouth Rock Company and Subsidiaries	$ 14,743	$ 62,417
Palisades Reciprocal Group	$ 8,081	
Total	$ 22,824	$ 62,417
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ (2,521)	$ (41,892)
Net investment activity	111	72,188
Purchase of goodwill and intangible assets	35	373
Net real estate activity	1,206	14,161
Purchases of fixed assets	15,912	17,587
Net cash invested	$ 14,743	$ 62,417
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ 41,166	
Net investment activity	(33,094)	
Purchases of fixed assets	9	
Net cash invested	$ 8,081	
Total net cash invested	$ 22,824	$ 62,417

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

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

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

1. Nature of Operations, continued

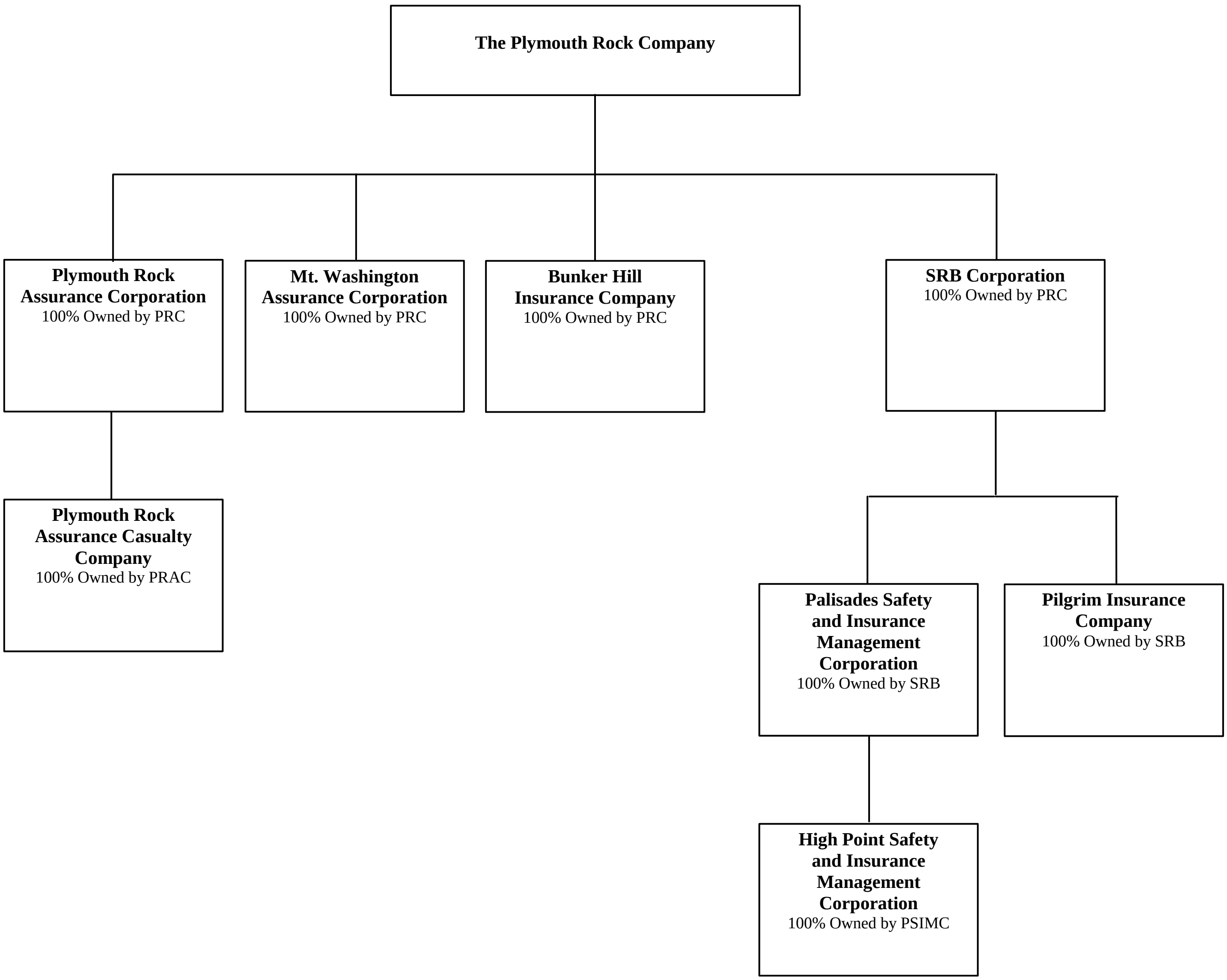
In accordance with Accounting Standards Codification Topic 810, The Plymouth Rock Company's financial statements consolidate the results of the members of the Palisades Reciprocal Group effective January 1, 2010. Prior to the publication of ASC Topic 810, the standard for assessing the appropriateness of consolidation was whether the reporting entity bore significant financial risk or earned significant reward based directly on the financial performance of a "variable interest entity" related to the reporting company. The Plymouth Rock Company and Subsidiaries have in the past provided capital to the Palisades Reciprocal Group in the form of surplus notes and preferred stock that account for $18.6 million, or 5.2 percent, of the equity of the Palisades Reciprocal Group at December 31, 2010. The Plymouth Rock Company and Subsidiaries do not bear direct risk or earn direct rewards on the basis of the performance of the Palisades Reciprocal Group. Under the new standard, a service provider is required to consolidate variable interest entities that it services if the fees paid for those services are significant relative to the service recipient's overall economic performance. The servicing fees received by The Plymouth Rock Company and Subsidiaries are significant relative to the financial results of the Palisades Reciprocal Group, and thus the results are presented in a consolidated manner despite fundamental legal and regulatory distinctions between The Plymouth Rock Company and Subsidiaries on one hand and the Palisades Reciprocal Group on the other.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Organization of the Plymouth Rock Company and Subsidiaries

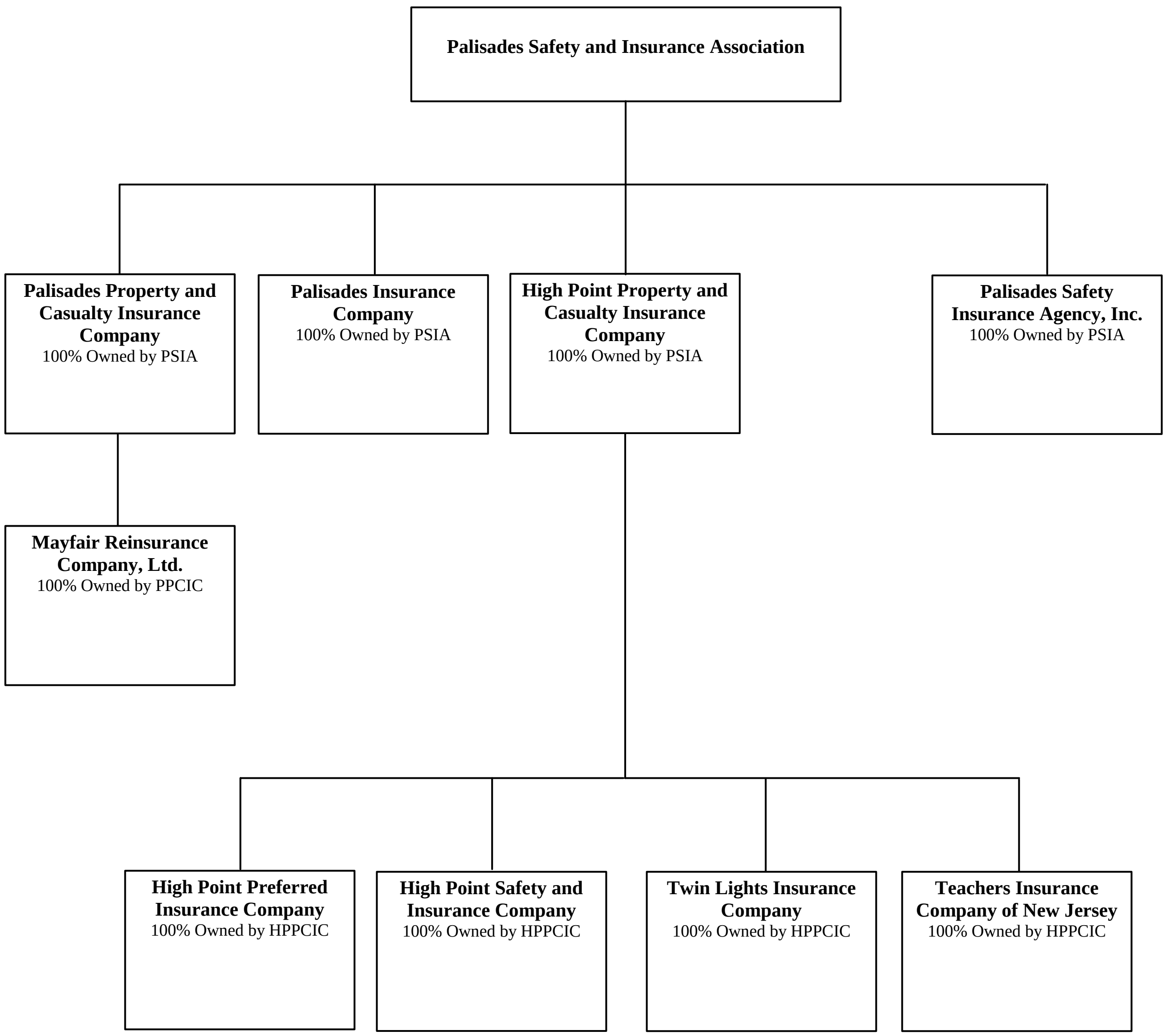
The corporate and ownership structure of The Plymouth Rock Company and principal subsidiaries is shown in the following chart:



Other subsidiaries include 99 Bedford Corporation and 695 Atlantic Avenue Company, LLC, which own real estate; Shared Technology Services Group Inc. and BCS Holding Company, LLC, which are wholly owned subsidiaries of SRB Corporation; and High Point Brokerage, Inc., which is a wholly owned subsidiary of High Point Safety and Insurance Management Corporation.

3. Organization of the Palisades Reciprocal Group

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



4. Summary of Significant Accounting Policies

A. Principles of Consolidation

The 2010 consolidated financial statements include the accounts of The Plymouth Rock Company and Subsidiaries as well as those of the Palisades Reciprocal Group. Significant accounts and transactions among companies within each of the two groups, as well as those between the groups, have been eliminated upon consolidation. The assets of The Plymouth Rock Company and Subsidiaries have been reduced by amounts due for services provided to the Palisades Reciprocal Group and by the value of certain surplus note and preferred stock investments in the Palisades Reciprocal Group. The liabilities of The Plymouth Rock Company and Subsidiaries have been reduced by the amount of service fees that have not yet been earned as of the balance sheet date. Each of the reductions to the balance sheet of The Plymouth Rock Company and Subsidiaries requires a corresponding reduction on the Palisades Reciprocal Group balance sheet. Therefore, while total assets equal the sum of total liabilities and equity, this equation will not hold within the separate groups presented in the balance sheet. No gain or loss was recorded by The Plymouth Rock Company and Subsidiaries upon the initial consolidation of the Palisades Reciprocal Group.

B. Stock-Based Compensation

Costs for stock-based employee compensation plans are recorded at their fair value on the basis of an annual independent appraisal. The term “fair value” used here and throughout the notes to the financial statements is consistent with the definition in Accounting Standards Codification Topic 820.

C. Use of Estimates

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

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. Liabilities for outstanding checks for The Plymouth Rock Company and Subsidiaries of \$8.1 million and \$5.9 million are included in accrued liabilities at December 31, 2010 and 2009, respectively. There were no liabilities for outstanding checks included in accrued liabilities for the Palisades Reciprocal Group at December 31, 2010. 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 a decline in the value of marketable securities is deemed other than temporary, the security is 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 equity. Alternative equity investments are measured using the equity method, which approximates fair value, with all changes in value included in net income. The values of these holdings are generally determined by the managers of the investment vehicles on the basis of information reported to them as well as their assessments of the underlying investments. Market data is available for two investments in non-marketable common stock, which are measured at fair value. Investments in Homesite Group Incorporated, which derives underwriting revenue from personal lines property and casualty insurance, primarily homeowners, throughout most of the United States, are valued using the equity method.

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 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 2010 and 2009 for The Plymouth Rock Company and Subsidiaries was \$36.4 million and \$32.8 million, respectively, while the 2010 net amortization for the Palisades Reciprocal Group was \$1.9 million.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Summary of Significant Accounting Policies, continued

F. Real Estate and Fixed Assets

Real estate and fixed assets are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are principally provided for on the straight-line method over the estimated useful lives or the applicable lease terms. The values of real estate holdings are independently appraised annually.

G. Recognition of Premium Revenues

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

Premiums receivable are net of reserves for doubtful collections. At December 31, 2010 and 2009, the reserves for doubtful collections for The Plymouth Rock Companies and Subsidiaries were $1.1 million and $566,000, respectively. The reserves for doubtful accounts of the Palisades Reciprocal Group at December 31, 2010 were $2.0 million.

H. Recognition of Fees Earned From Service Activities

The Plymouth Rock Company and Subsidiaries earn management fees from the Palisades Reciprocal Group and other unaffiliated companies for providing sales, underwriting, policy issuance, and customer service. Fees earned from service activities are earned over the policy term. The balance sheet item "amounts due from (or to) service clients" consists of balances with insurers for which Pilgrim Insurance Company provides services. In 2010, fees of $183.3 million earned from the Palisades Reciprocal Group are eliminated upon consolidation.

I. Income Taxes

Income taxes in the statements of income for 2010 and 2009 consist of:

(dollars in thousands)	2010	2009
The Plymouth Rock Company and Subsidiaries	$ 25,715	$28,975
Palisades Reciprocal Group	(20,972)	
Total	$ 4,743	$28,975

The Plymouth Rock Company and the Palisades Reciprocal Group file separate federal income tax returns. The provisions for income taxes are based on income reported in the financial statements. Deferred income taxes arise when there are differences between reported income and taxable income.

4. Summary of Significant Accounting Policies, continued

I. Income Taxes, continued

Net unrealized gain on investments is presented in equity, net of an estimate of applicable deferred income taxes. The 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 of deductions for state taxes, where applicable, and significant non-taxable interest from state and municipal bonds.

ASC 740-10, relating to the treatment of income taxes, was adopted in 2009. No tax positions of questionable merit require a reserve for potential disallowance. As of December 31, 2010, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group is subject to examinations for tax years prior to 2007.

<u>The Plymouth Rock Company and Subsidiaries</u>

Income taxes in the statements of income for 2010 and 2009 consist of:

(dollars in thousands)	2010	2009
Current year federal income taxes	$15,127	$22,741
Current year state income taxes	4,233	4,068
Change in deferred federal taxes	5,852	1,454
Change in deferred state taxes	503	712
Total	$25,715	$28,975

Deferred income taxes in the balance sheets as of December 31, 2010 and 2009 consist of the net effects of these temporary differences:

(dollars in thousands)	2010	2009
Net unrealized gain on investments	$(10,462)	$(8,006)
Unearned premiums	9,467	9,111
Compensation expense	8,795	10,272
Depreciation	(8,023)	(5,977)
Deferred acquisition expense	(6,910)	(5,978)
Investment and partnership timing differences	(3,348)	(2,232)
Discounting of claim reserves	2,936	3,023
Stock options expense	715	1,088
Other	700	1,380
Total	$ (6,130)	$ 2,681

4. Summary of Significant Accounting Policies, continued

I. Income Taxes, continued

<u>Palisades Reciprocal Group</u>

Income taxes in the statement of income for 2010 consist of:

(dollars in thousands)	2010	2009
Current year federal income taxes	$ (7,848)	
Current year state income taxes	10	
Change in deferred federal taxes	(13,134)	
Change in deferred state taxes	-0-	
Total	$(20,972)	

Deferred income taxes in the balance sheet as of December 31, 2010 consist of the net effects of these temporary differences:

(dollars in thousands)	2010	2009
Deferred acquisition expense	$(17,818)	
Unearned premiums	17,539	
Net unrealized gain on investments	(17,154)	
Net operating loss carryforward	16,888	
Discounting of claim reserves	15,413	
Deferred income	(14,682)	
Intangibles	2,808	
Investment and partnership timing differences	1,152	
Depreciation	260	
Other	1,023	
Total	$ 5,429	

Net operating loss carryforwards will expire in 2030. The Palisades Reciprocal Group also has alternative minimum tax credit carryforwards of $673,000 that do not expire.

J. Claim and Claim Adjustment Expense Reserves

Claim reserves represent the estimated liabilities for claims reported 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.

4. Summary of Significant Accounting Policies, continued

J. Claim and Claim Adjustment Expense Reserves, continued

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

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	2010	2009
Balance at beginning of year	$137,406	$147,791
Claims and claim adjustment expenses incurred:		
Current year	196,030	199,996
Prior years	(7,478)	(6,067)
	188,552	193,929
Claims and claim adjustment expenses paid:		
Current year	135,759	132,583
Prior years	57,705	64,349
	193,464	196,932
Change in reinsurance recoverable on unpaid claims	(6,181)	(7,382)
Balance at end of year	$126,313	$137,406

During the year ended December 31, 2010, reserves for claims and claim adjustment expenses for prior years developed favorably by $7.5 million. The favorable development from prior years was from the Massachusetts and Connecticut private passenger automobile business and the continued runoff of business assumed from Commonwealth Automobile Reinsurers. During the year ended December 31, 2009, reserves for claims and claim adjustment expenses for prior years developed favorably by $6.1 million. This outcome 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.

The amounts for claims and claim adjustment expenses incurred shown above include expenses for service activity clients of $4.9 million and $4.5 million reported in service activity expenses in the consolidated statements of income for 2010 and 2009, respectively.

4. Summary of Significant Accounting Policies, continued

J. Claim and Claim Adjustment Expense Reserves, continued

<u>Palisades Reciprocal Group</u>

(dollars in thousands)	2010	2009
Balance at beginning of year	$713,905	
Claims and claim adjustment expenses incurred:		
Current year	553,364	
Prior years	22,472	
	575,836	
Claims and claim adjustment expenses paid:		
Current year	275,995	
Prior years	280,229	
	556,224	
Change in reinsurance recoverable on unpaid claims	18,044	
Balance at end of year	$751,561	

During the year ended December 31, 2010, reserves for claims and claim adjustment expenses for prior years developed unfavorably by $22.5 million. This resulted primarily from unfavorable development of $28.1 million in the personal automobile lines of business, which was partially offset by favorable development in other liability lines of business.

K. Reinsurance

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

4. Summary of Significant Accounting Policies, continued

K. Reinsurance, continued

The Plymouth Rock Company and Subsidiaries

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

	2010		2009	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$275,848	$192,714	$285,553	$211,501
Ceded	(13,912)	(9,092)	(37,222)	(22,107)
Net	$261,936	$183,622	$248,331	$189,394

Ceded premiums earned for 2010 and 2009 were $23.3 million and $38.8 million, respectively.

The Plymouth Rock Company and Subsidiaries have treaties for quota share reinsurance for homeowners and Massachusetts private passenger automobile. Approximately $11 million of homeowners premiums are ceded at a 30 percent cession rate. The ceding commission received under the homeowners treaty varies on the basis of loss ratio. The Massachusetts private passenger automobile quota share treaty was not renewed when it expired on May 1, 2010. All unearned premiums, net of ceding commission, were returned by the reinsurer. For the two years prior to that date, approximately $19 million of automobile premiums were ceded annually at a cession rate of 80 percent on certain physical damage coverages. Revenues and expenses are reflected net of quota share reinsurance totaling $18 million and $16 million, respectively, for 2010. For 2009, revenues and expenses are reflected net of quota share reinsurance totaling $32 million and $31 million, respectively.

There is also in place 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, 2010 and 2009, the costs incurred for these treaties were $3.2 million and $4.8 million, respectively.

4. Summary of Significant Accounting Policies, continued

K. Reinsurance, continued

Two subsidiaries of The Plymouth Rock Company, Plymouth Rock Assurance Corporation and Pilgrim Insurance Company, are members of Commonwealth Automobile Reinsurers (CAR) and record their estimated share of this activity on the basis of information provided by CAR. CAR manages the residual market pools for both private passenger and commercial auto in Massachusetts. The private passenger auto pool is now in run-off, as Massachusetts transitioned to an assigned risk structure in 2009.

Pilgrim provides services on motor vehicle insurance programs to certain unrelated insurance companies. The income statement and reinsurance activity for The Plymouth Rock Company and Subsidiaries exclude $31.9 million and $40.4 million of premiums earned and $25.1 million and $32.2 million of claims and claim adjustment expenses in 2010 and 2009, respectively, related to this third-party business. In connection with these arrangements, claim reserves exclude $39.9 million and $46.6 million at December 31, 2010 and 2009, respectively.

To achieve a better balance of reinsurance cost and risk retention at Bunker Hill Insurance Company, The Plymouth Rock 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, serves as security for a Statutory Capital Support Agreement between The Plymouth Rock Company and Bunker Hill. This agreement states that The Plymouth Rock Company will make a capital contribution if Bunker Hill's surplus falls below a certain threshold. As security for its repayment obligations, The Plymouth Rock Company has pledged to the bank as collateral securities it owns which had a market value of approximately $9.1 million as of December 31, 2010. This letter of credit is scheduled to expire together with the Statutory Capital Support Agreement on June 30, 2011, although The Plymouth Rock Company and Bunker Hill expect to renew both instruments at that time.

4. Summary of Significant Accounting Policies, continued

K. Reinsurance, continued

Palisades Reciprocal Group

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

(dollars in thousands)	2010 Premiums Written	2010 Claims and Claim Adjustment Expenses Incurred	2009 Premiums Written	2009 Claims and Claim Adjustment Expenses Incurred
Gross	$807,222	$667,834		
Ceded	(168,050)	(91,998)		
Net	$639,172	$575,836		

Ceded premiums earned for 2010 were $145.7 million.

The Palisades Reciprocal Group has multiple homeowners and personal auto quota share treaties in place. High Point Preferred Insurance Company ceded $43.9 million of homeowners premiums in 2010 at a 45 percent cession rate. Palisades Safety and Insurance Association cedes between 20 and 30 percent of its personal auto liability and personal auto physical damage premiums through a quota share treaty. The premiums ceded under this treaty in 2010 were $53.8 million. Effective June 1, 2010, High Point Safety and Insurance Company entered into a quota share reinsurance treaty to cede 30 percent of its personal auto liability and physical damage premiums. The premiums ceded under this treaty in 2010 were $43.1 million.

The ceding commissions received under all the auto reinsurance treaties described above vary on the basis of loss ratio and range from 27.5 to 35.25 percent of premiums ceded.

Total revenues and expenses are reflected net of quota share reinsurance totaling $122.4 million and $129.8 million, respectively, for 2010.

The Palisades Reciprocal Group also has in place catastrophe reinsurance treaties, as well as treaties for excess reinsurance on homeowners, commercial auto, and umbrella coverages. During the year ended December 31, 2010, the Palisades Reciprocal Group incurred costs of $17.1 million for these treaties.

4. Summary of Significant Accounting Policies, continued

L. Subsequent Events

Subsequent events have been evaluated from December 31, 2010 through March 22, 2011. No material subsequent events have been identified.

5. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries had real estate rental expenses for both 2010 and 2009 totaling $8.9 million. For the years 2011 through 2015, the minimum lease obligations to unrelated third parties range from $7.7 million to $8.6 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under leases are $66.2 million through 2020.

During 2010, Pilgrim entered into an agreement to sublease office space that it formerly occupied for the remaining period of its lease. Since the sublease rental income will be less than Pilgrim's rental expense obligation for the remainder of the lease term through September 30, 2015, a charge of approximately $1.4 million was recorded in 2010 to reflect the expected unrecoverable amount of this lease obligation.

In September 2009, Plymouth Rock Assurance and Pilgrim were contacted by the Office of the Massachusetts Attorney General with respect to errors allegedly made by many insurers in calculating motorcycle insurance premiums. In particular, Plymouth Rock Assurance and Pilgrim were notified that they 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. In early 2010, both companies reached settlements with the Massachusetts Attorney General to resolve this matter. The companies paid in 2010 a total of approximately $4.4 million to cover premium refunds and interest to former and current motorcycle policyholders and administrative costs, as compared with the $4.6 million reserve that they had established in December 2009.

6. Goodwill and Intangible Assets

<u>The Plymouth Rock Company and Subsidiaries</u>

One subsidiary, BCS Holding Company, LLC, has purchased insurance agencies that resulted in goodwill of $3.3 million and $3.7 million at December 31, 2010 and 2009, respectively. This goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired. Goodwill is reviewed annually for impairment, and no impairment was recorded in 2010 or 2009.

6. Goodwill and Intangible Assets, continued

The stock of one insurance agency was purchased in January 2008, and the assets of another agency were purchased in May 2008. In both cases, there were initial down payments made at the time of purchase with future payments to be based on the volume of business retained from the purchased agencies during the years 2008 through 2013. In 2010, both purchase agreements were amended so that the remaining payments would be made in one lump sum. These two purchases resulted in increases to goodwill of $517,000 and $215,000, respectively, in 2010 and 2009. In September 2010, a portion of a customer list that was purchased from one of the agencies was sold, which reduced goodwill by $863,000.

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 15 years, and they were valued at $1.3 million and $1.1 million at December 31, 2010 and 2009, respectively. The two agency purchases described above resulted in increases to intangible assets of $349,000 and $158,000, respectively, in 2010 and 2009. Amortization associated with these intangible assets for 2010 and 2009 was $158,000 and $137,000, respectively. The annual amortization is expected to decrease from $158,000 in 2011 to $90,000 by 2015, resulting in a balance of $717,000 at December 31, 2015.

<u>Palisades Reciprocal Group</u>

The Palisades Reciprocal Group's purchase of Teachers Auto Insurance Company of New Jersey in 2007 resulted in goodwill of $3.3 million at December 31, 2010. This goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired. Goodwill is reviewed annually for impairment, and no impairment was recorded in 2010. The purchases in 2007 of the Teachers Auto Insurance Company and of renewals from National General Insurance Company also resulted in intangible assets. Intangible assets are in the form of trademarks, renewal rights and a corporate noncompete agreement. Trademarks, totaling $2.4 million and state licenses of $150,000 at December 31, 2010 are reviewed annually for impairment and no impairment was recorded in 2010. The remaining intangible assets are being amortized over periods ranging from five to 20 years, and were valued at $14.0 million at December 31, 2010. Amortization associated with these intangible assets was $2.1 million in 2010. Amortization is expected to range from $1.9 million to $1.1 million annually in years 2011 through 2015, resulting in a balance of $6.8 million at December 31, 2015.

7. Reconciliation of Net Income to Net Cash Provided by Operating Activities

The following items account for the differences between net income and net cash provided by operating activities:

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	2010	2009
Net income	$ 44,001	$ 51,541
Depreciation and amortization	17,703	18,805
Deferred income taxes	6,355	2,166
Change in operating assets and liabilities:		
Accrued investment income	425	(666)
Premiums receivable	(4,659)	12,746
Deferred acquisition costs	(2,662)	(313)
Amounts receivable from reinsurers	12,680	10,713
Claim and claim adjustment expense reserves	(11,093)	(10,384)
Unearned premium reserve	5,453	(3,839)
Advance premiums	(359)	(479)
Commissions payable and accrued liabilities	(11,025)	(3,250)
Amounts payable to reinsurers	(12,813)	(6,937)
Unearned service fees	121	(373)
Amounts due from and to service clients	(3,690)	6,777
Prepaid expenses, agent loans, and deposits	(291)	266
Income tax payable	(5,137)	(612)
Other assets and other liabilities	4,660	1,799
Net cash provided by operating activities	$ 39,669	$ 77,960

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

<u>Palisades Reciprocal Group</u>

(dollars in thousands)	2010	2009
Net income	$(35,608)	
Depreciation and amortization	2,640	
Deferred income taxes	(13,134)	
Change in operating assets and liabilities:		
Accrued investment income	1,625	
Premiums receivable	(1,635)	
Deferred acquisition costs	6,499	
Amounts receivable from reinsurers	(11,674)	
Claim and claim adjustment expense reserves	37,656	
Unearned premium reserve	(22,339)	
Advance premiums	(255)	
Commissions payable and accrued liabilities	34,081	
Amounts payable to reinsurers	(46)	
Unearned service fees	(675)	
Amounts due from and to service clients	2,519	
Prepaid expenses, agent loans, and deposits	313	
Income tax payable	15,219	
Other assets and other liabilities	(7,105)	
Net cash provided by operating activities	$ 8,081	

8. Consolidated Revenues

Revenues, net of reinsurance, by company for 2010 and 2009 were:

(dollars in thousands)	2010	2009
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$ 252,229	$ 255,895
Mt. Washington Assurance Corporation	75	77
Bunker Hill Insurance Company	25,251	25,459
Palisades Reciprocal Group	707,585	
	985,140	281,431
Management company revenues:		
The Plymouth Rock Company	35,950	48,139
SRB Corporation	69,518	74,479
BCS Holding Company, LLC	4,721	5,227
Pilgrim Insurance Company	20,684	24,442
Palisades Safety and Insurance Management Corporation	62,695	76,001
High Point Safety and Insurance Management Corporation	122,323	112,651
	315,891	340,939
Eliminations with The Plymouth Rock Company subsidiaries:		
Technology costs	(34,796)	(34,355)
Dividends	(55,752)	(60,995)
Other	(15,615)	(16,839)
	(106,163)	(112,189)
Elimination of intra-group transactions	(183,318)	
Total revenues	$1,011,550	$ 510,181

9. Fixed Assets

The table below summarizes fixed assets at December 31, 2010 and 2009.

<u>The Plymouth Rock Company and Subsidiaries</u>

(dollars in thousands)	Useful Lives	2010	2009
Computers and software development	3 years	$130,790	$121,088
Leasehold improvements	10 years	16,152	15,811
Furniture and fixtures	5 years	11,313	11,338
Vehicles	3 years	1,976	2,658
Total cost		160,231	150,895
Less: accumulated depreciation and amortization		129,297	119,526
Net book value		$ 30,934	$ 31,369

Depreciation and amortization expenses incurred were $15.8 million and $17.1 million during 2010 and 2009, respectively.

<u>Palisades Reciprocal Group</u>

(dollars in thousands)	Useful Lives	2010	2009
Computers and software development	3 years	$1,561	
Less: accumulated depreciation and amortization		871	
Net book value		$ 690	

Depreciation and amortization expenses incurred were $510,000 during 2010.

10. Compensation Plans

The Plymouth Rock Company and Subsidiaries maintain two plans under Section 401(k) of the Internal Revenue Code. These plans are defined contribution plans that together cover all employees. Expenses of $6.1 million and $6.6 million were incurred related to these plans during 2010 and 2009, respectively. Deferred compensation plans have been established for officers, managers, and directors other than the 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 Plymouth Rock Company and Subsidiaries. Incurred expenses related to these plans were $2.7 million and $3.0 million during 2010 and 2009, respectively.

10. Compensation Plans, continued

In 1997, a stock incentive award plan was implemented to reward key employees. The last awards under this plan were granted in 2003. They vested in 2008 in accordance with this plan's five-year vesting period. Under the terms of this plan, the vested awards were held in notional accounts for a two-year maturation period, after which they were distributed to participants with accrued returns. Final distributions for this plan occurred in July 2010, with the exception of one participant who will receive a final distribution in December 2011.

On May 1, 2005, a stock incentive award of 1,110 shares was granted to a key officer. This officer received additional awards of 222 shares on May 1 of each 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 financial performance and service requirements are met. During each of 2010 and 2009, 222 awards granted in 2005 vested and were exercised for cash. The cost of these awards is based on an annual appraisal of the shares of common stock of The Plymouth Rock Company. Expenses of $243,000 and $135,000 were recorded in 2010 and 2009, respectively, related to these awards with the expectation that financial performance and service requirements will be met.

Another key officer received a stock incentive award totaling 625 shares effective May 1, 2007. This award is eligible for vesting and subsequent cash payment at different times during a period that started in 2008 and will end in 2012, provided that certain financial performance and service requirements are met. None of these awards vested during 2010 and 2009. Expenses of $98,000 and $6,000 were recorded in 2010 and 2009, respectively, related to these awards on the basis of financial performance during the vesting period.

Effective February 2, 2004, a long-term compensation package was provided 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. During 2010, 3,250 restricted shares vested. The remaining 100 shares are expected to vest in 2011. Expenses of $284,000 were recorded in each of 2010 and 2009 related to this package with the expectation that all financial performance and service requirements will be met.

Effective June 11, 2009, stock incentive awards were granted to three key executives totaling 8,472 shares. These share awards will vest in 2014 provided that certain financial performance and service requirements are met. Expenses of $635,000 and $429,000 were recorded in 2010 and 2009, respectively, related to these awards on the basis of financial performance for those years.

11. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2010 and 2009, 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, 2010: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 17,877	$ 55	$ 0	$ 17,932
State and municipal securities	186,978	3,077	814	189,241
Corporate debt securities	41,146	1,851	51	42,946
Mortgage-backed securities	26,843	519	179	27,183
Common stocks	71,201	17,500	103	88,598
Total	$344,045	$23,002	$1,147	$365,900

At December 31, 2009: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 26,636	$ 131	$ 10	$ 26,757
State and municipal securities	195,997	6,086	40	202,043
Corporate debt securities	41,607	1,283	97	42,793
Mortgage-backed securities	35,162	732	86	35,808
Common stocks	45,054	8,602	752	52,904
Total	$344,456	$16,834	$ 985	$360,305

At December 31, 2010, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 21,335	$ 21,350
Due after 90 days and in one year or less	3,147	3,199
Due after one year and in five years or less	173,107	176,276
Due after five years and in ten years or less	43,753	44,040
Due after ten years	31,502	32,437
Common stocks	71,201	88,598
Total	$344,045	$365,900

11. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

These marketable securities are classified as available for sale. At December 31, 2010 and 2009, securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $10,000 and $4.3 million, respectively. Unrealized losses related to these securities were $50 and $484,000 at December 31, 2010 and 2009, respectively. These losses are viewed as resulting from market conditions and are believed to be temporary. No losses were recorded for other-than-temporary impairment in either 2010 or 2009.

Palisades Reciprocal Group

At December 31, 2010, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income and equity securities classified as available-for-sale were as follows:

At December 31, 2010: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$178,611	$ 5,685	$ 23	$184,273
State and municipal securities	26,535	503	50	26,988
Corporate debt securities	289,344	12,353	738	300,959
Mortgage-backed securities	285,433	8,442	2,288	291,587
Common stocks	154,283	25,373	953	178,703
Total	$934,206	$52,356	$4,052	$982,510

At December 31, 2010, maturities of marketable available for sale securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 51,807	$ 51,891
Due after 90 days and in one year or less	46,713	47,797
Due after one year and in five years or less	522,830	542,586
Due after five years and in ten years or less	111,666	112,831
Due after ten years	46,907	48,702
Common stocks	154,283	178,703
Total	$934,206	$982,510

At December 31, 2010, amortized cost, unrealized gains and losses before federal income taxes, and market value of marketable fixed income and equity securities classified as held-to-maturity were as follows:

11. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2010: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
State and municipal securities	$ 6,081	$ 452	$55	$ 6,478
Corporate debt securities	30,316	2,745	-0-	33,061
Mortgage-backed securities	4,037	270	-0-	4,307
Total	$40,434	$3,467	$55	$43,846

At December 31, 2010, maturities of marketable held to maturity securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due after one year and in five years or less	$27,583	$29,805
Due after five years and in ten years or less	11,429	12,616
Due after ten years	1,422	1,425
Total	$40,434	$43,846

At December 31, 2010, securities classified as available for sale and held to maturity that had been in an unrealized loss position for longer than twelve months had total market values of $980,000 and $0, respectively. Unrealized losses related to these securities were $77,000 for the available for sale portfolio and $0 for the held to maturity portfolio at December 31, 2010. These losses are viewed as resulting from market conditions and are believed to be temporary. No losses were recorded for other-than-temporary impairment in 2010.

B. Non-Marketable Securities

The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group both have investments in privately held common stocks. Such investments of The Plymouth Rock Company and Subsidiaries amounted to $23.4 million and $21.0 million at December 31, 2010 and 2009, respectively. Such investments of the Palisades Reciprocal Group amounted to $18.4 million at December 31, 2010. The amounts for each group include investments in Homesite Group Incorporated. These investments were valued using the equity method at $13.2 million at December 31, 2010 and $14.1 million at December 31, 2009 for The Plymouth Rock Company and Subsidiaries, and at $17.7 million at December 31, 2010 for the Palisades Reciprocal Group.

11. Investment Securities and Investment Income, continued

B. Non-Marketable Securities, continued

On February 13, 2009, The Plymouth Rock Company's investment in Direct Response Corporation was liquidated as a result of the acquisition of that company by Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc. The Plymouth Rock Company's share of the net purchase price relating to this acquisition was $15.9 million, which resulted in income of $14.9 million before taxes in 2009. The Plymouth Rock Company also received at that time an option termination payment for its stock options in Direct Response of $710,000, resulting in a realized loss in 2009 of $53,000 before taxes. A portion of The Plymouth Rock Company's share of the net purchase price amounting to $1.2 million was placed in escrow in February 2009, with payment to be made in 2011 contingent upon the development of loss reserves for the acquired business. It is doubtful that any of this $1.2 million contingent receivable will be collected in 2011, so this amount has been recorded, before taxes, as a realized loss in 2010.

The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group previously acquired non-marketable investments 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 holding in ISO to Class B common shares of Verisk. These shares were restricted and could only be traded with other Class B common share investors as of December 31, 2010, but they are expected to be converted to Class A common shares in 2011. This investment of The Plymouth Rock Company and Subsidiaries had fair values of $7.8 million and $7.0 million at December 31, 2010 and 2009, respectively, and had an amortized cost of $1 at each of these dates. This investment of the Palisades Reciprocal Group had a fair value of $705,000 at December 31, 2010, also with an amortized cost of $1.

On December 23, 2010, The Plymouth Rock Company purchased 157,041 shares of Northeast Bancorp common stock for $2.3 million. Although the stock of Northeast Bancorp is publicly traded, these shares will be restricted from trading for six to 12 months from the date of purchase. At December 31, 2010, the fair value of these shares was $2.4 million.

The restricted Verisk and Northeast Bancorp holdings were evaluated for the need for discounts for lack of marketability. Given the limited remaining restriction periods, any appropriate discounts would not be material. Therefore, these securities have been valued using available market prices for their unrestricted shares.

11. Investment Securities and Investment Income, continued

C. Alternative Equity Investments

Investments in marketable alternative equities 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 there exist contractual rights to withdraw funds from these entities each year. At December 31, 2010 and 2009, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $45.6 million and $45.0 million, respectively. At December 31, 2010, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $68.9 million.

Non-marketable alternative equity investments include preferred stocks, surplus notes, and interests in partnership entities that invest in companies that are not publicly traded. These investments are valued by applying the equity method to values in their most recently available financial statements. The Plymouth Rock Company and Subsidiaries recorded values for non-marketable alternative equity investments of $39.5 million and $42.4 million at December 31, 2010 and 2009, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $12.4 million at December 31, 2010.

As of December 31, 2010, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $24.5 million in 13 private equity funds. Three of these funds are 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). The Chairman of The Plymouth Rock Company is a member of the general partner of each of these three funds. At December 31, 2010, The Plymouth Rock Company and Subsidiaries had $9.5 million, $17.6 million, and $4.2 million invested in Fund I, Fund II, and Fund III, respectively, with outstanding commitments to those three funds at that date of $0.5 million, $2.4 million and $15.8 million, respectively.

As of December 31, 2010, the Palisades Reciprocal Group had investment commitments outstanding to invest $32.8 million in 5 private equity funds.

11. Investment Securities and Investment Income, continued

D. Fair Value Measurements

Cash, cash equivalents, and investment securities are valued using a variety of accounting methods, including the equity method, the cost method, and fair value. The estimates of fair value for these assets have been derived from a variety of sources. Published market prices are used 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 fair value of a third category of assets is estimated using internal and external judgments.

The Plymouth Rock Company and Subsidiaries

Cash, cash equivalents, and investment securities totaled $505.5 million and $502.3 million at December 31, 2010 and 2009, respectively. Assets in this category valued using either the equity method or the cost method totaled $98.3 million and $101.4 million, respectively, at December 31, 2010 and 2009. The other assets in this category were reported at fair values totaling $407.2 million and $400.9 million, respectively, at December 31, 2010 and 2009.

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

At December 31, 2010: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 31,076	$ -0-	$ -0-	$ 31,076
U.S. government securities	17,791	141	-0-	17,932
State and municipal securities	-0-	189,241	-0-	189,241
Corporate debt securities	-0-	42,946	-0-	42,946
Mortgage-backed securities	-0-	27,183	-0-	27,183
Marketable common stocks	88,598	-0-	-0-	88,598
Non-marketable common stocks	2,423	7,844	-0-	10,267
Total fair value	$139,888	$267,355	$-0-	407,243
Assets valued using either the equity method or the cost method				98,299
Total value of cash, cash equivalents, and investment securities				$505,542

11. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

At December 31, 2009: (dollars 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	26,602	155	-0-	26,757
State and municipal securities	-0-	202,043	-0-	202,043
Corporate debt securities	-0-	42,793	-0-	42,793
Mortgage-backed securities	-0-	35,808	-0-	35,808
Marketable common stocks	52,904	-0-	-0-	52,904
Non-marketable common stocks	-0-	6,969	-0-	6,969
Total fair value	$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

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,180.4 million at December 31, 2010. Assets in this category that are valued using either the equity method or the cost method totaled $139.4 million at December 31, 2010. The fair values of the other assets in this category totaled $1,041.0 million at December 31, 2010.

11. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

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

At December 31, 2010: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 57,749	$ -0-	$ -0-	$ 57,749
U.S. government securities	184,194	79	-0-	184,273
State and municipal securities	-0-	26,988	-0-	26,988
Corporate debt securities	-0-	299,556	1,403	300,959
Mortgage-backed securities	-0-	291,587	-0-	291,587
Marketable common stocks	178,703	-0-	-0-	178,703
Non-marketable common stocks	-0-	705	-0-	705
Total fair value	$420,646	$618,915	$1,403	1,040,964
Assets valued using either the equity method or the cost method				139,467
Total value of cash, cash equivalents, and investment securities				$1,180,431

Investments with fair values which were derived using internal and external judgments at December 31, 2010 consisted of Morgan Stanley bond holdings. The value of these investments was approximately $1.4 million at each December 31, 2010 and December 31, 2009, as $188,000 of amortized premium was offset by a $209,000 increase in unrealized gains during 2010. There were no purchases or disposals of such investments during 2010.

11. Investment Securities and Investment Income, continued

E. Analysis of Investment Income and Capital Gains

The Plymouth Rock Company and Subsidiaries

The components of investment income and capital gains before federal income taxes during 2010 and 2009 were as follows:

(dollars in thousands)	2010	2009
Interest income and dividends from securities	$ 9,574	$ 9,615
Earnings from non-marketable securities and alternative equity investments	4,542	5,838
Rental income	3,499	3,213
Finance charges on premiums receivable	4,988	5,280
Gross investment income	22,603	23,946
Rental expenses	(3,022)	(2,619)
Investment expenses	(1,167)	(1,290)
Investment income	18,414	20,037
Net realized capital gains	1,405	20,485
Investment income and capital gains	$19,819	$40,522

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2010 were as follows:

(dollars in thousands)	2010	2009
Interest income and dividends from securities	$35,058	
Earnings from non-marketable securities and alternative equity investments	6,023	
Finance charges on premiums receivable	5,061	
Gross investment income	46,142	
Investment expenses	(6,424)	
Investment income	39,718	
Net realized capital gains	6,048	
Investment income and capital gains	$45,766	

No other-than-temporary impairment losses were recorded in 2010 and 2009 for either The Plymouth Rock Company and Subsidiaries or the Palisades Reciprocal Group.

11. Investment Securities and Investment Income, continued

F. Investment Activity

The Plymouth Rock Company and Subsidiaries

Activity in investment securities during 2010 and 2009 was as follows:

(dollars in thousands)	2010	2009
Balance at beginning of year	$468,731	$375,504
Change in marketable securities:		
Proceeds from maturities	(10,110)	(36,080)
Proceeds from sales	(158,215)	(28,437)
Purchases	167,914	132,797
Net change in marketable securities	(411)	68,280
Net change in non-marketable securities	170	(2,523)
Net change in alternative equity investments	352	6,431
Net investment activity	111	72,188
Net change in purchases in process	1,202	385
Net change in unrealized gain on securities and alternative equity investments	7,042	20,654
Elimination of intra-group transactions	(2,620)	-0-
Balance at end of year	$474,466	$468,731

Comprehensive income is defined as net income plus the change in net unrealized gains or losses on investments. The net unrealized gains on investments of The Plymouth Rock Company and Subsidiaries were reduced during 2010 by realized gains of $4.0 million previously included as unrealized in comprehensive income at December 31, 2009, while the net unrealized gains were increased during 2009 by realized losses of $1.1 million previously included as unrealized in comprehensive income at December 31, 2008.

11. Investment Securities and Investment Income, continued

F. Investment Activity, continued

Palisades Reciprocal Group

Activity in investment securities during 2010 was as follows:

(dollars in thousands)	2010	2009
Balance at beginning of year	$1,142,154	
Change in marketable securities:		
Proceeds from maturities	(41,675)	
Proceeds from sales	(711,665)	
Purchases	718,094	
Net change in marketable securities	(35,246)	
Net change in non-marketable securities	(418)	
Net change in alternative equity investments	2,570	
Net investment activity	(33,094)	
Net change in purchases in process	-0-	
Net change in unrealized gain on securities and alternative equity investments	13,622	
Balance at end of year	$1,122,682	

The net unrealized gains on investments of the Palisades Reciprocal Group were decreased during 2010 by realized gains of $5.2 million previously included as unrealized in comprehensive income at December 31, 2009.

12. Surplus Notes

On October 31, 2003, the Palisades Reciprocal Group issued a surplus note in the amount of $25 million to the former owner of High Point Preferred Insurance Company. The payment of this note is subordinated to the prior payment in full of all policy claims and senior debt. This note matures and is payable on October 31, 2018. Interest on this note is payable semi-annually at eight percent though October 31, 2013, 10 percent from November 1, 2013 through October 31, 2014, and at 12 percent from November 1, 2014 though October 31, 2018. Payments of principal and interest are made only from surplus and are subject to the prior approval of the New Jersey Department of Banking and Insurance.

13. Real Estate

At December 31, 2010, The Plymouth Rock Company and Subsidiaries owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

At December 31, 2008, a 66.7 percent interest was held in 695 Atlantic, with Direct Response owning the remaining 33.3 percent. The interest in 695 Atlantic was carried at its equity value of $17.4 million. In February 2009, Direct Response sold its interest in this property to its investors in proportion to their ownership shares, which increased the ownership interest of The Plymouth Rock Company and Subsidiaries from 66.7 percent to 69.3 percent. On September 30, 2009, The Plymouth Rock Company and Subsidiaries 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 of $8.2 million. Effective October 1, 2009, 695 Atlantic was accounted for as a fully consolidated entity.

Building improvement costs of $1.2 million and $600,000 were incurred on these properties in 2010 and 2009, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2010 and 2009:

(dollars in thousands)	2010	2009
Land	$ 7,449	$ 7,449
Buildings, improvements, and other	41,221	40,015
Total cost	48,670	47,464
Less: accumulated depreciation	12,259	10,466
Net book value	$36,411	$36,998

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $3.5 million and $3.2 million in 2010 and 2009, respectively. For each of the years 2011 through 2015, minimum annual rent receivable by The Plymouth Company and Subsidiaries is $1.0 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2015 are $11.3 million. Buildings and improvements are depreciated over their useful lives, which range from two to thirty-nine years.

The total appraised value of these two real estate interests as of December 1, 2010, as determined by an independent appraiser using the income and sales comparison approaches, was $39.6 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.

14. Stockholders' Equity

A. Common Stock

Common stock of The Plymouth Rock Company at December 31, 2010 and 2009 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 118,532 and 118,273 were issued and outstanding on December 31, 2010 and 2009, respectively.

There are 90,000 Class B shares authorized, of which 64,583 and 64,842 were issued and outstanding on December 31, 2010 and 2009, 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

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 Plymouth Rock Company and its subsidiary insurance companies totaled $178.6 million and $162.4 million at December 31, 2010 and 2009, respectively. The combined net income on a statutory accounting basis for these insurance companies was $18.2 million and $4.2 million in 2010 and 2009, respectively.

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $314.3 million at December 31, 2010. The combined net income or loss on a statutory accounting basis of these insurance companies in 2010 was a loss of $51.4 million.

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

14. Stockholders' Equity, continued

C. Earnings Per Share

Basic earnings per share of common stock are computed by dividing net income by the weighted-average number of shares of common stock outstanding throughout the year. Diluted earnings per share of common stock are computed by dividing net income by the weighted average number of shares of common stock outstanding plus the number of additional outstanding restricted shares of common stock 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

Donald I. Bryan
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
Edward J. Fernandez
James M. Flynn
Colleen M. Granahan
William D. Hartranft
Keith R. Jensen
Brendan M. Kirby
Eric L. Kramer
Lisa K. Lasky
Paul D. Luongo
Richard J. Mariani
Karen A. Murdock
Thomas G. Myers
Christopher B. Olie
Frank P. Palmer
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