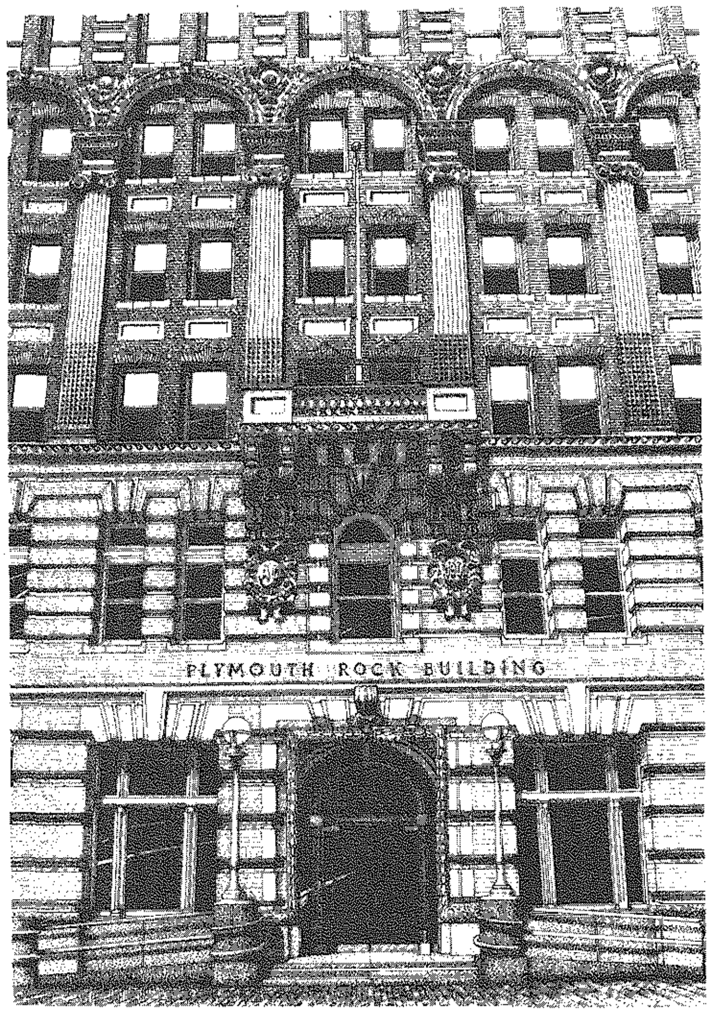
The Plymouth Rock Company



2011 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 28, 2012

To Our Shareholders:

Calendar year 2011 was our second poor performance year in a row. Shareholder profits in 2010 had remained at a reasonable level; this year they were down by 35%. By that rather visible standard, this was the uglier year of the two. In fact, though, I feel far, far better about the recent year than the prior one. In 2010, the problems that confronted Plymouth Rock were caused by our own errors, while in 2011 the worst culprit was the weather, the adverse impact of which was shared by all of our competitors. Just as important to keep in mind when comparing the two years, the shareholder profits that fell precipitously do not reflect the results of the New Jersey reciprocal premium volume our group manages. The fully consolidated net income for the enterprise, including both underwritten and managed businesses, does not display a dramatic year-to-year contrast. Profits for the entire group on a consolidated basis were similarly disappointing in 2010 and 2011. The consolidated net income was actually up by 51%, but it is more revealing to say that profits once again round to $10 million, a small fraction of what the group's income ought to be. After an embarrassing year, it would have been refreshing to have had a particularly good (and lucky) one, but that was not to be. Still, a careful look at the Company's position as we enter the new year may give you some cheer.

This is not to say that you, as Plymouth Rock Company stockholders, can ignore the shareholder-owned subset of the total. Reflecting the adverse New England weather, net income for The Plymouth Rock Company fell from $44 million in 2010 to $28.7 million in 2011. We haven't recorded shareholder profits this low since 2003. In a year when nature hit so hard, nonetheless, we are glad our business is robust enough that it still earns an 8.0% return on equity. I am reminded of the comment last year of a friend from a large bank who told me to stop whining that the Company's income was disappointing. He reminded me that the institution he worked for reported losses in the tens of billions in 2008 and 2009. Plymouth Rock's book value is now $1,994 per common share, up 2.2% from a year ago. The cumulative book value rate of return over the twenty-eight years of the Company's history, which takes account of shareholder dividends as well as equity, is 18.2%, two-tenths of a point below last year's number. The scale of our enterprise is not a line on the financial statements. Scale is best measured by the consolidated premium volume before the impact of reinsurance. Underwritten and managed premiums at year-end totaled $1.06 billion, down by $54 million from the count at last year's close.

The weather is topic one for all of us at the Company. Let me describe what occurred in 2011 and then turn to the elephant of a question that has wandered into our room. Four separate and unusual weather events slugged the insurers of the Northeast hard in this past year. The year opened with snowstorms. The month of January was the whitest in New Jersey in 62 years, and it was worse in New England. Boston's January was the third snowiest in its oft-wintry history. Heavy snow has, to the surprise of folks who don't know our business, been the most expensive natural hazard throughout Plymouth Rock's existence. Built-up snow on roofs, repeatedly thawing and refreezing, all too often produces leaks. Ice dams and nail-hole trickles were both plentiful and expensive for our companies on the homeowners side of the business, while snow accumulation and slick roads added to the auto claim count. By the end of January, a banner year for Plymouth Rock results was already out of the question. There was a respite in the early spring, but on June 1 a trio of tornadoes touched down in western Massachusetts, destroying lives and homes without notice. Killer tornadoes are rare in this area; these were the first in 16 years. There were about 10,000 claims, and we got our full share.

The years from 2006 to 2010 were a rare and fortunate period for the Atlantic coast of the United States, without a single hurricane making landfall there. In August of 2011, Hurricane Irene, an enormous storm, brought that hiatus to a close. Irene made landfall on the East Coast three times: first in North Carolina, then in New Jersey as a tropical storm, and finally in New York before heading forcefully onto dry land in New England. The total damage from the storm is estimated loosely at $10 billion. For our group of companies, the New Jersey assault was particularly bad news. Since 1903 no Atlantic storm of Irene's strength had come to land in New Jersey. As if this were not enough pre-winter trouble, a still rarer incident occurred in October when an early snowstorm buried the whole Northeast. This was another ten-figure cost event for our industry. The key to the Halloween storm's destructive power was that the wet snow fell on tree limbs still richly adorned with leaves. Countless more branches collapsed to damage insured property than would have done so in a comparable but more seasonal winter storm. Two million homes in the Northeast found themselves without power. All four of our states were among the hardest hit.

The immediate impact of the disastrous weather was, of course, a reduction in profits. The bigger and more troubling question the weather events of 2011 raise in everyone's mind is whether they are reflective of a long-term trend in the climate. Our industry commonly refers to catastrophic events as one-in-fifty-year or one-in-a-hundred-year events or the like. This has the effect of discounting their information content and dampening their impact on rate indications. Bad results are smoothed over five or ten years, or, in some cases, disregarded altogether. Regulators encourage this gradualism and de-emphasis of outliers for obvious reasons. When patterns of events presumed to appear once in a century occur with regularity, however, one must question whether the characterization of the probabilities is justified. Conditions can change over time; and models that simply extrapolate from past data, just as the world has learned in financial markets, do not always predict the future. The National Oceanic and Atmospheric Administration has reported that there were a record fourteen United States weather events serious enough to cause at least a billion dollars in damage in 2011. You can compare this with an average of one per year in the decade when we started writing this business and four per year in the 1990's.

The direction is plainer than the causes. Whether there is global warming due to greenhouse gasses, or we are witnessing an inflection point in a natural climate cycle largely unrelated to human activity, it is increasingly plausible that more extreme weather than in the past is now a fact to be reckoned with. Any recent and fundamental change that renders past data an understatement will cause near-term rate increases phased in over five or ten years to be insufficient. Assuming that the pattern of adverse climate change is not endlessly accelerating, in which case the insurance industry's problems will be minor compared to the general scope of the calamity, this would not necessarily be bad for our industry over time. It would surely underscore to customers the need to keep purchasing our products even as prices rise, but there could be some rough intermediate years as rates lag the experience.

As we entered the year just ended, Hal and I both felt confident that Plymouth Rock Assurance, our New England carrier, had put behind it a time of inadequate performance relative to its peers and its opportunity. That company's chief since 2009, Chris Olie, is a natural leader, a sound insurance executive, and an admirable colleague. Looked at on a competitive basis, his company's combined ratio has improved and any peer gap that existed has been effectively closed. Exposure growth, which had been falling while unsuitable business fell away, moved into the black again by the last quarter of the year. Dollar volume was, due to rate increases, on the upward slope all year, ending 2011 up 4% over the prior year with $233 million of automobile insurance premiums in force. Any gains, though, were overridden in 2011 by the year's harsh weather. Plymouth Rock Assurance's combined ratio was over 102%, just low enough to earn that company a skimpy profit. Our major domestic competitors suffered similarly from the weather.

The greater part of the problem was at the homeowners writer, Bunker Hill, where the loss and loss adjustment expense ratio was a horrendous 127%. The combined ratio was 165%, with the four weather events having contributed $21 million in covered losses. This was the first year since 1991 that insured catastrophe losses in Massachusetts and Connecticut for all carriers exceeded one billion dollars. Not surprisingly, the results for Bunker Hill's Massachusetts-based peers were similarly grim. The first quarter's unusual weather losses, mainly from heavy and continuous snow, were almost half of the total. Bunker Hill and its competitors will have to raise rates and consider underwriting and coverage changes to protect against a repetition. About the only silver lining to the storm clouds of 2011 was that both Plymouth Rock Assurance and Bunker Hill managed not just to keep on top of the unusual claims load but to do so throughout this difficult year without sacrificing their characteristically high levels of service.

Pilgrim Insurance, an insurance services provider, actually does a bit better in a rough year than a calm one. Part of its revenue is tied to claims volume. That company's sales emphasis in 2011 was on the servicing of personal lines policies for the relatively new Massachusetts assigned risk plan, for which it is emerging as the contractor of choice. In the past, Pilgrim's business had also included work on a fee basis for this state's residual market in commercial automobile coverage. Residual market commercial writings have contracted in recent years, though, and Pilgrim is not included among the current servicing carriers. Pilgrim secured a seven-figure profit once again for our group. Encharter, the corporate home of our investments in independent insurance agencies, had a relatively flat year, generating again only a low six-figure pretax profit. It has yet to find its special sauce that realizes the savings and growth opportunities that ought to be accessible through vertical integration and its innovative use of the Internet. Absent the exceptional weather, Mt. Washington Assurance, writing in New Hampshire, might have continued apace, earning a small profit in 2011. Instead, its contribution was a loss of $1.4 million. At some point, a harder headed person than I would probably have given up on Connecticut, where the automobile insurance volume is less than $10 million and the cumulative profits nonexistent. This year's loss was about $1.2 million dollars. Rather than surrender, we are trying again to rev up the engines there with new talent and a redesigned product. Watch this space next year for a report on the results.

New Jersey remains our largest state by volume. The first thing to be said about High Point and Palisades is that you won't be hearing those names much anymore. While they remain identifiers of the individual legal entities that issue our group's policies in New Jersey, there has been an effort to simplify branding. In the age of the Internet, it was becoming too expensive and inefficient to brand ourselves in the public mind with multiple names. We will refer collectively to the various Garden State entities as Plymouth Rock Assurance or, when needed, Plymouth Rock Assurance New Jersey. This change coincides with a managerial reorganization completed in 2011. All of the companies comprising Plymouth Rock Assurance New Jersey are now under the well-proven leadership of Gerry Wilson.

For two years now, New Jersey has been the locus of our toughest challenges. The business written there through independent insurance agencies, after years of excellent loss ratio results, had become under-reserved and underpriced by 2010. The problem was industry-wide, but our team was relatively late to see it. Since that time, our New Jersey companies and their competitors have taken unusually large rate increases. Although our companies' volume suffered more from the price shocks than did the writings of some of the other carriers, this was not because we needed more rate than they did, but because the tardiness caused us to take our price increases more suddenly. Plymouth Rock is in fact relatively near the middle of the New Jersey pack in total rate taken over the last few years. Its average filed premium is up 24% since the start of 2010. Largely as a consequence, the New Jersey companies together closed the year with written premiums down nearly 7% from the prior year-end, to $752 million.

The consolidation of the various New Jersey companies under Gerry has proved a boon for at least two reasons. Expense savings from the consolidation have approximated $6 million. Even better, under the spotlight that can accompany a reorganization, the application of our statewide talent pool to the agency company's bodily injury claims has resulted in reducing ultimate payments in that line by roughly $20 million. Had there not been about the same $20 million in weather-related claims over and above historically driven budget estimates, and higher than expected Personal Injury Protection claims in all of the New Jersey distribution channels, this would have given a welcome boost to the bottom line. As things turned out, the entire New Jersey operation, taking management company and underwriting entities together, operated at only a modest profit. If the current year does not show a healthy recovery by this time next year, the problem will likely have arisen from New Jersey PIP, where claims continue to escalate at an unabated rate. The state regulators have so far been understanding of the situation, sympathetic to inevitable price increases, and supportive of experiments in cost-saving reforms. As in New England, the New Jersey staff – and particularly the claims staff –

deserves a compliment for handling a difficult year and exceptional claims volume without any loss at all of service quality. Given that this year there was also a major reorganization in New Jersey, with many changes in reporting structures, that accomplishment is all the more impressive. No competitor enjoyed a better valid complaint ratio according to New Jersey Insurance Department data. In fact, Gerry reports, Plymouth Rock Assurance had no valid complaints at all during 2011, a notable accomplishment in any year.

The Standard & Poor's 500 Index closed last December 30 just about where it began the year. To say that the public equity markets were flat in 2011, though, would totally fail to convey the excitement surrounding their intra-year volatility or the considerable anxiety they caused investors, much of which was related to an ongoing European governmental and banking crisis. Flat was indeed the final result at year-end, with the Index returning only 2.1% including dividend payouts. Our undiversified portfolio of marketable common stocks beat the market index, as it has in 14 out of the 19 years since we began equity investing. It returned 4.3%. The 2011 results lowered our all-time internal rate of return on marketable stocks to 16.1%, which we still compare with some pride (and plaudits due Jim Bailey and Rick Childs) to the 10.0% annual return on the S&P Index stocks for the same period. Returns on fixed income investments were skimpy once again, as interest rates remained near record lows. Results for our bond portfolio are more influenced by Fed policy than specific investment picks within the conservative guidelines we set. This year, bonds gave us a tax-equivalent return, with both coupon and price changes considered, of 4%. The insurance industry, and particularly a carrier disciplined not to stretch for higher yields by taking more interest rate or credit risk, needs stronger underwriting results in such periods. When fixed income yields are so much lower than their historical norms, our targets for combined ratios must be set well below 100% to generate any reasonable return on capital.

Hedge funds had a poor year by historical standards, the market's anxieties having suppressed the financing and acquisition activities on which they earn their money. Unlike most prior years, when we have enjoyed returns on hedge fund investments in the double digits, their return in 2011 was just 1%. The private equity industry as a whole suffered from much of the same, but our holdings did better than the pack and provided a return in excess of 10%. The overall earnings contribution of the investment portfolio's income and realized capital gains was quite similar to the prior year's contribution. Some of the changes in the investment portfolio's value each year flow to the balance sheet without affecting income. Unrealized gains, which declined by $0.5 million, are an example. Our Boston real estate did well according to the appraisers and, counting both operations and increases in valuation (the latter of which is reflected in neither income nor balance sheet equity), yielded a healthy high-teens return.

Homesite Insurance group, in which we have a significant investment position, was battered even harder than Plymouth Rock by weather. That carrier's worst problems were in the Midwest, once considered the safest place to write with respect to natural disaster potential, but hit for three consecutive years now by unprecedented storms. We take our proportionate share of Homesite's gains and losses each year into income, and that company had its worst year by far in 2011, recording pretax losses of around $40 million. Its expenses are admirably managed; its claims from non-weather perils were right near its targets; and even its hurricane, wildfire, winter storm, and earthquake claims came in as anticipated in its pricing. The losses from hailstorms and tornados created the entire shortfall and then some. Homesite, of course, expects hail-tornado losses every year and budgets accordingly. The historical cost of these losses per policy, averaged nationally, has been about $70 per policy. The problem is that, for the past three years, hail-tornado losses have cost that company something more like $200 per policy. Data from competitors shows a similar spike, with each of the last three years worse than the prior period. Homesite's top line has continued, meanwhile, to grow rapidly. Premiums written by that company expanded in 2011 from $410 million to just over half a billion dollars, mainly via partnerships with leading insurers who write automobile insurance but choose not to cover homeowners. The value of a Homesite partnership in improving their auto insurance customer retention is clearer all the time to these carriers. There is no other company in the country, moreover, that can match Homesite's skills and expertise in a homeowners partnership. Because Homesite has added to its reinsurance coverage, its growth can continue into 2012, but the owners of Homesite are all aware that, regardless of demonstrated partner satisfaction, the current rate of expansion cannot continue indefinitely without profit.

A key question for both Homesite and Plymouth Rock is whether the recent experience with weather is better described as a spike or by the ominous T-word: a trend. Rather than return the claim costs to historical norms, a trend could flatten to an elevated new plateau or continue in a further upward trajectory. Plainly, one must wonder if the extremes of weather expressed as Midwest hailstorms and tornadoes are related to the East Coast weather events and signify a shift to a generally more turbulent climate. No one, not even the most gifted academic experts in the world (one of whom we regularly consult), can give us an answer to these questions. In Bob Dylan's words, you know "something is happening here, but you don't know what it is…". I expect, at a minimum, that provisions in the rates for weather-related perils need to rise more than one would calculate by the traditional tempered methods. As 2012 begins, the weather is not just elevator conversation; it is at the center of our thoughts.

The general economy is still fragile. Even if its closely watched measures improve, there is reason to remain wary of the economic future until the root causes of the 2008 financial sector crash have been addressed. The concentration of market shares in the financial services industry is even greater now than before the crash, and, all the more troubling, derivative leverage is still at absurd levels. It was the systemic risk arising from oversized and interconnected derivative positions that turned a real estate price correction into a general collapse, and now exacerbates the European debt crisis. The open interest in derivative instruments held by U.S. banks alone is a staggering $250 trillion, which is more than 17 times the nation's entire GDP and about 150 times the aggregate balance sheet equity of the banks. This is out of scale with any legitimate hedging function, incompatible with the notion of financial services as a lubricant rather than a driver in a free economy, and a source of risk beyond the ability of any executive or board member to fathom, let alone manage prudently. The true leverage faced by the banks, which can net their derivatives holdings for accounting purposes to show only the market gain or loss rather than the nominal position size and offset one position against another according to internally generated models, is many times the published numbers.

Because the markets for derivatives have minimal price transparency, allowing them to be sold to less expert buyers for inflated prices, and because non-financial client companies insist on over-purchasing proffered hedging instruments, profits have been lofty for the dealers. In fact, since derivatives came on the Wall Street scene, financial sector profits have roughly quadrupled, while the total profits of the non-financial U.S. corporations for whom the banks provide hedging services have increased at an average annual rate of only 1 percent. To revive an old question: "Where are the customers' yachts?" The financial sector in recent times has come to absorb between 30% and 40% of all U.S. corporate profits, an unprecedented share. The portion of these profits that comes from trading requires a loser for every winner. The former must surely be the non-financial businesses and traditional investors, exactly the economic entities on whom real prosperity depends. No one else has that much wealth to lose.

Why then have our political leaders not united in trimming back this hazardous excess? Campaign contributions presumably have their intended effect, but there are substantive concerns as well. Some politicians and their advisors have been convinced that banking requires its present scale of trading to support its mortgage and small business lending. The data suggests, though, that since the advent of derivatives small business loans are decreasingly a sweet spot for the large money center banks. And, as I pointed out last year, so-called financial innovation, including mortgage derivatives and securitization, hasn't even moved the dial on one of its early heralded contributions, the promotion of home ownership. In 1980, before the securitization boom, the fraction of American families owning their own homes rounded to 66%. The home ownership percentage today is once again about 66%. Other public policy leaders wonder aloud if imposing limits on derivatives trading would cause this country to lose its pre-eminence as a world banking center. Some of the other developed nations might sensibly follow suit if we acted for restraint, but surely not all would drop out of the race for the most super-sized banks. I'd be comfortable wagering, though, that the countries that shared this prize would be the ones that would regret it. There is nothing to envy in what oversized and overleveraged banks did for Japan, Iceland, and Ireland.

Never wishing to disregard babies when throwing out bathwater, I should affirm that prudently purchased and well used hedging instruments can indeed serve to reduce risk for commercial businesses, just as insurance policies can. But we insurers properly face capital charges, and add to our bulk reserves for future claims, every time we add a new policy. One giant step toward enhancing the stability of worldwide banking would require nothing more radical than that. Banks, just like insurers, should post a reserve for every new position opened, thus recognizing that counterparty risk and basis risk (as well as systemic risk when the institutions are large) are always and necessarily non-zero. Consider what a reserve requirement of a small fraction of a cent per dollar of new notional value, with no netting permitted, would do for soundness and rational scale in the derivatives business and the banking sector as a whole. The benefits of derivative instrument trading might once again outweigh the microeconomic and macroeconomic risks and costs of an activity grown beyond all reason, prudence, and good sense.

Since most of you are directors, you have by now seen Hal's objectives and mine for the coming year. Our greatest defensive commitments of time, influence, and effort will be devoted to homeowners results and the New Jersey dislocation in the Personal Injury

Protection line, while two voluntary initiatives will occupy our energies equally on offense. One of the latter initiatives is an enterprise-wide project that Hal calls alignment. A brilliant figure in our industry once told me that there was no logically right balancing point between centralization and regional autonomy in a company. He suggested that a company should simply go in one direction or the other until that approach becomes the accepted norm, and then reverse course to gain the benefits of change, new thinking, and the purging of tired assumptions. Without needing to reach a universal judgment on this provocative theory, our senior management has determined that this is a time for greater congruence in some of Plymouth Rock's business activities.

You have already heard that there will be more uniform branding around the Plymouth Rock name. With that effort will come a more unified presentation of the Company's value proposition to its agents and customers. Product management provides another case in point. The analytical modeling on which we want to rely for the future works best with a maximum of data and a modular product design that allows prompt deployment of what the data teaches in our rates and policy forms. There is little benefit to our current level of diversity in billing plans, policy documents, and invoices across our various states. Another case for greater congruence can be found in claims and customer service, where quality standards, workflows, and measurement techniques can all be improved in a better aligned regime. We are not, however, taking the path of maximum change or purging all of our old assumptions. If there are benefits to radical reinvention as a centralized organization, we will forgo them. We simply do not wish to surrender the proven advantages of the neighborhood focus and strong local leadership around which this company was built. We are not changing the basic recipe for the stew of autonomous regionalism and scalable centrality that has fed us well up to now. That stew, however, needs at least a pinch more of alignment.

The enhancement of our analytic underwriting capabilities referred to above deserves its own place on the marquee of high priority projects. The Plymouth Rock Companies' new Chief Underwriting Officer, David Bassi, is off to a fine start in creating a peer review process for reserving, working with the underwriting officers to enhance staff capacity and techniques for predictive modeling in both New England and New Jersey, and instituting a serious retrospective testing regime for rate indications and claim cost modeling at the enterprise level. His greater charge, though, is to help our company presidents construct an even more data-driven analytical culture than we have now, with loss ratio results and methodologies that will be the envy of our industry. Data wizards and modelers are invited to apply (dbassi@plymouthrock.com).

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, 2011 and 2010, 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.

PricewaterhouseCoopers LLP

March 7, 2012

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2011 and 2010
(dollars in thousands)

Assets	2011	2010
The Plymouth Rock Company and Subsidiaries		
Cash and cash equivalents	$ 33,992	$ 31,076
Investment securities	480,674	474,466
Accrued investment income	3,219	3,716
Premiums receivable	86,434	84,415
Deferred acquisition costs	20,882	19,743
Amounts receivable from reinsurers	10,428	12,393
Amounts due from service clients	2,830	1,120
Prepaid expenses, agent loans, and deposits	7,980	7,248
Real estate	35,380	36,411
Fixed assets	29,363	30,934
Goodwill and intangible assets	4,539	4,697
Income tax recoverable	4,104	4,315
Other assets	1,141	1,352
Subtotal	720,966	711,886
Palisades Reciprocal Group		
Cash and cash equivalents	38,312	57,749
Investment securities	1,094,219	1,122,682
Accrued investment income	5,540	7,720
Premiums receivable	109,498	120,515
Deferred acquisition costs	6,269	9,657
Amounts receivable from reinsurers	122,148	101,971
Amounts due from service clients	27	33
Prepaid expenses, agent loans, and deposits	568	875
Fixed assets	223	690
Goodwill and intangible assets	17,955	19,874
Income tax recoverable	13,243	10,292
Deferred income taxes	14,833	5,429
Other assets	9,234	6,862
Subtotal	1,432,069	1,464,349
Total assets	$2,153,035	$2,176,235

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2011 and 2010
(dollars in thousands)

Liabilities	2011	2010
The Plymouth Rock Company and Subsidiaries		
Claim and claim adjustment expense reserves	$ 121,467	$ 126,313
Unearned premium reserve	135,729	129,509
Advance premiums	6,580	5,737
Commissions payable and accrued liabilities	53,005	61,749
Amounts payable to reinsurers	1,466	267
Unearned service fees	3,647	4,521
Amounts due to service clients	4,285	4,027
Deferred income taxes	8,156	6,130
Other liabilities	2,356	2,325
Subtotal	336,691	340,578
Palisades Reciprocal Group		
Claim and claim adjustment expense reserves	749,982	754,858
Unearned premium reserve	232,734	242,978
Advance premiums	7,174	9,335
Commissions payable and accrued liabilities	87,206	78,724
Amounts payable to reinsurers	7,353	7,368
Surplus notes	25,000	25,000
Other liabilities	1,341	2,738
Subtotal	1,110,790	1,121,001
Total liabilities	1,447,481	1,461,579
Equity		
The Plymouth Rock Company and Subsidiaries		
Common stock and paid-in capital	27,862	27,742
Retained earnings	318,314	310,056
Net unrealized gain on investments	19,010	19,397
The Plymouth Rock Company stockholders' equity	365,186	357,195
Palisades Reciprocal Group	340,368	357,461
Total liabilities and equity	$2,153,035	$2,176,235

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, 2011 and 2010
(dollars in thousands)

Revenues	2011	2010
The Plymouth Rock Company and Subsidiaries		
Premiums earned in underwriting activities	$ 261,559	$ 256,483
Fees earned from service activities	207,845	210,981
Investment income and capital gains	19,485	19,819
Subtotal	488,889	487,283
Palisades Reciprocal Group		
Premiums earned in underwriting activities	623,567	661,511
Fees earned from service activities	371	308
Investment income and capital gains	39,665	45,766
Subtotal	663,603	707,585
Less: Intra-group transactions	182,410	183,318
Total revenues	970,082	1,011,550
Expenses		
The Plymouth Rock Company and Subsidiaries		
Claims and claim adjustment expenses	211,492	183,622
Policy acquisition, underwriting, and general expenses	75,748	76,374
Service activity expenses	155,622	157,570
Subtotal	442,862	417,566
Palisades Reciprocal Group		
Claims and claim adjustment expenses	525,188	575,836
Policy acquisition, underwriting, and general expenses	165,413	187,656
Service activity expenses	869	674
Subtotal	691,470	764,166
Less: Intra-group transactions	182,410	183,318
Total expenses	951,922	998,414
Income before income taxes	18,160	13,136
Income taxes	5,529	4,743
Fully consolidated net income	12,631	8,393
Less: Net loss of Palisades Reciprocal Group	(16,026)	(35,608)
Net income of The Plymouth Rock Company and Subsidiaries	$ 28,657	$ 44,001

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, 2011 and 2010
(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, 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
Comprehensive income	-0-	28,657	(387)	28,270	(17,093)	11,177
Issuance of common stock	120	-0-	-0-	120	-0-	120
Dividends to stockholders	-0-	(20,399)	-0-	(20,399)	-0-	(20,399)
December 31, 2011	$27,862	$318,314	$19,010	$365,186	$340,368	$705,554

The Plymouth Rock Company and Subsidiaries - Per share data

	2011	2010
Weighted average common shares outstanding:		
Basic	183,115	183,015
Fully diluted	183,115	183,115
Net income per share:		
Basic	$ 156.50	$ 240.42
Fully diluted	$ 156.50	$ 240.29
Common shares outstanding at end of year	183,115	183,115
Common stockholders' equity per share	$1,994.30	$1,950.66

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, 2011 and 2010
(dollars in thousands)

Cash flows from operating activities	2011	2010
The Plymouth Rock Company and Subsidiaries		
Gross premiums collected	$ 280,310	$ 270,364
Reinsurance premiums paid	(15,280)	(26,844)
Finance charges collected	4,594	4,988
Fees and commissions collected	213,003	208,322
Investment income and capital gains received	16,507	16,423
Gross claims and claim expenses paid	(227,598)	(203,752)
Reinsured claims and claim expenses collected	11,044	15,370
Policy acquisition, underwriting, and general expenses paid	(74,706)	(71,992)
Income taxes paid	(15,010)	(24,498)
Service activity expenses paid	(147,546)	(148,712)
Net cash provided by operating activities	45,318	39,669
Palisades Reciprocal Group		
Gross premiums collected	761,358	805,332
Reinsurance premiums paid	(139,196)	(168,096)
Finance charges collected	5,087	5,061
Fees and commissions collected	376	318
Investment income and capital gains received	43,315	44,774
Gross claims and claim expenses paid	(645,227)	(630,663)
Reinsured claims and claim expenses collected	91,199	118,979
Policy acquisition, underwriting, and general expenses paid	(160,468)	(189,937)
Income taxes recovered	62	22,987
Service activity expenses paid	(869)	(674)
Net cash provided by operating activities	(44,363)	8,081
Total net cash provided by operating activities	$ 955	$ 47,750

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, 2011 and 2010
(dollars in thousands)

Cash flows from financing activities	2011	2010
The Plymouth Rock Company and Subsidiaries		
Dividends to stockholders	$ (20,399)	$ (24,926)
Net cash used in financing activities	(20,399)	(24,926)
Palisades Reciprocal Group		
Net cash used in financing activities	-0-	-0-
Total net cash used in financing activities	(20,399)	(24,926)
Net cash provided		
The Plymouth Rock Company and Subsidiaries	$ 24,919	$ 14,743
Palisades Reciprocal Group	$ (44,363)	$ 8,081
Total	$ (19,444)	$ 22,824
Investment of net cash provided		
The Plymouth Rock Company and Subsidiaries		
Change in cash and cash equivalents	$ 2,916	$ (2,521)
Net investment activity	6,718	111
Purchase of goodwill and intangible assets	-0-	35
Net real estate activity	749	1,206
Purchases of fixed assets	14,536	15,912
Net cash invested	$ 24,919	$ 14,743
Palisades Reciprocal Group		
Change in cash and cash equivalents	$ (19,437)	$ 41,166
Net investment activity	(24,926)	(33,094)
Purchases of fixed assets	-0-	9
Net cash invested	$ (44,363)	$ 8,081
Total net cash invested	$ (19,444)	$ 22,824

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

THE PLYMOUTH ROCK COMPANY

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”.

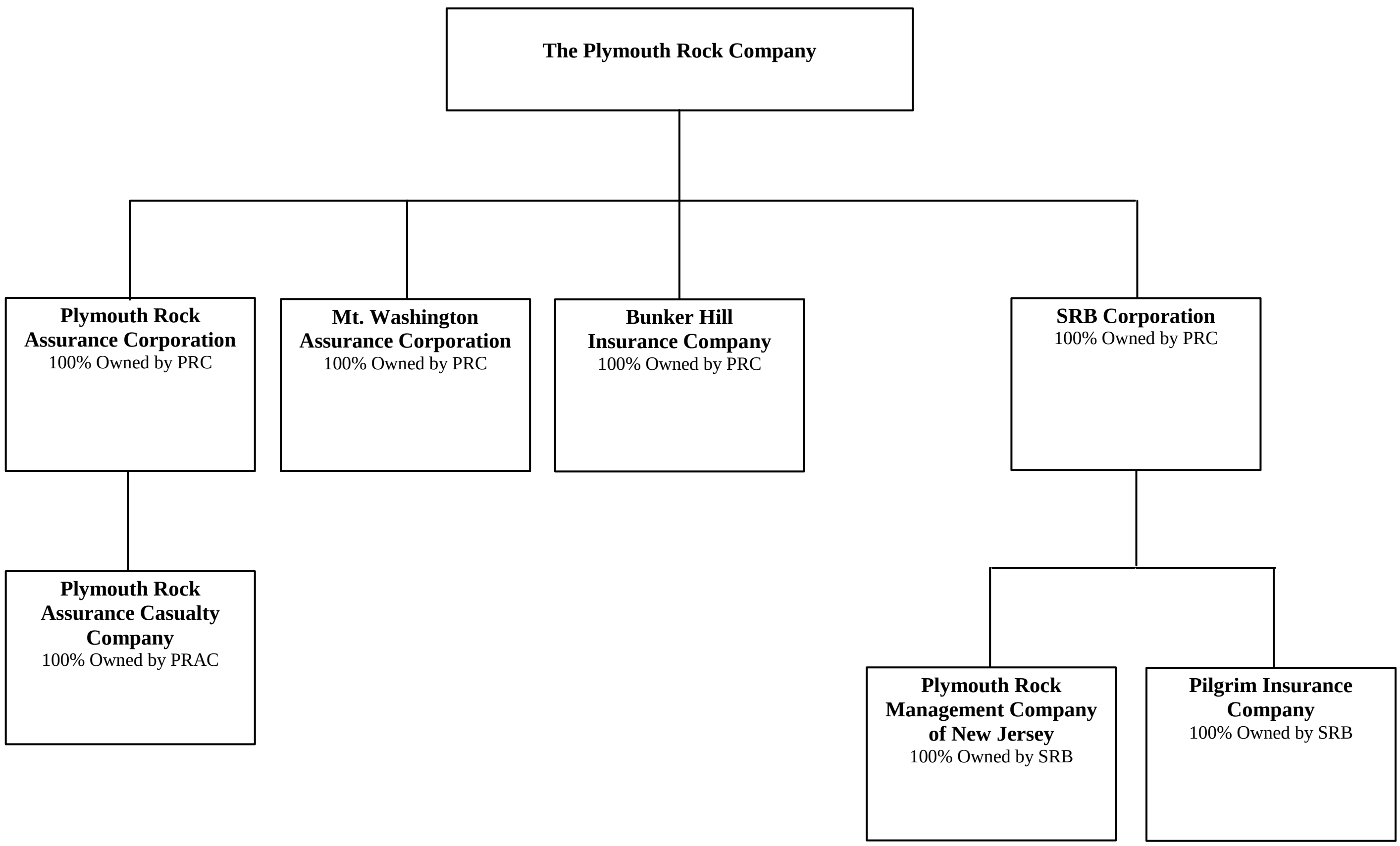
Among The Plymouth Rock Company’s largest businesses is the management of a reciprocal insurance group in New Jersey, which is conducted through a subsidiary. The members of that reciprocal group of companies, which are referred to in these financial statements as the “Palisades Reciprocal Group”, are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

1. Nature of Operations, continued

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. 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 5.5 percent and 5.2 percent, of the equity of the Palisades Reciprocal Group at December 31, 2011 and 2010, respectively. The Plymouth Rock Company and Subsidiaries do not bear direct risk or earn direct rewards on the basis of the performance of the Palisades Reciprocal Group. Under present accounting standards, a service provider is required to consolidate variable interest entities that it services if it has the power to direct the activities that most significantly impact the performance of those entities and the fees paid for those services are significant relative to the service recipient's overall economic performance. The Plymouth Rock Company and Subsidiaries manage all activities of the Palisades Reciprocal Group and the servicing fees received by The Plymouth Rock Company and Subsidiaries are significant relative to the financial results of the Palisades Reciprocal Group; therefore the results are presented in a consolidated manner despite fundamental legal and regulatory distinctions between The Plymouth Rock Company and Subsidiaries on one hand and the Palisades Reciprocal Group on the other.

2. Organization of the Plymouth Rock Company and Subsidiaries

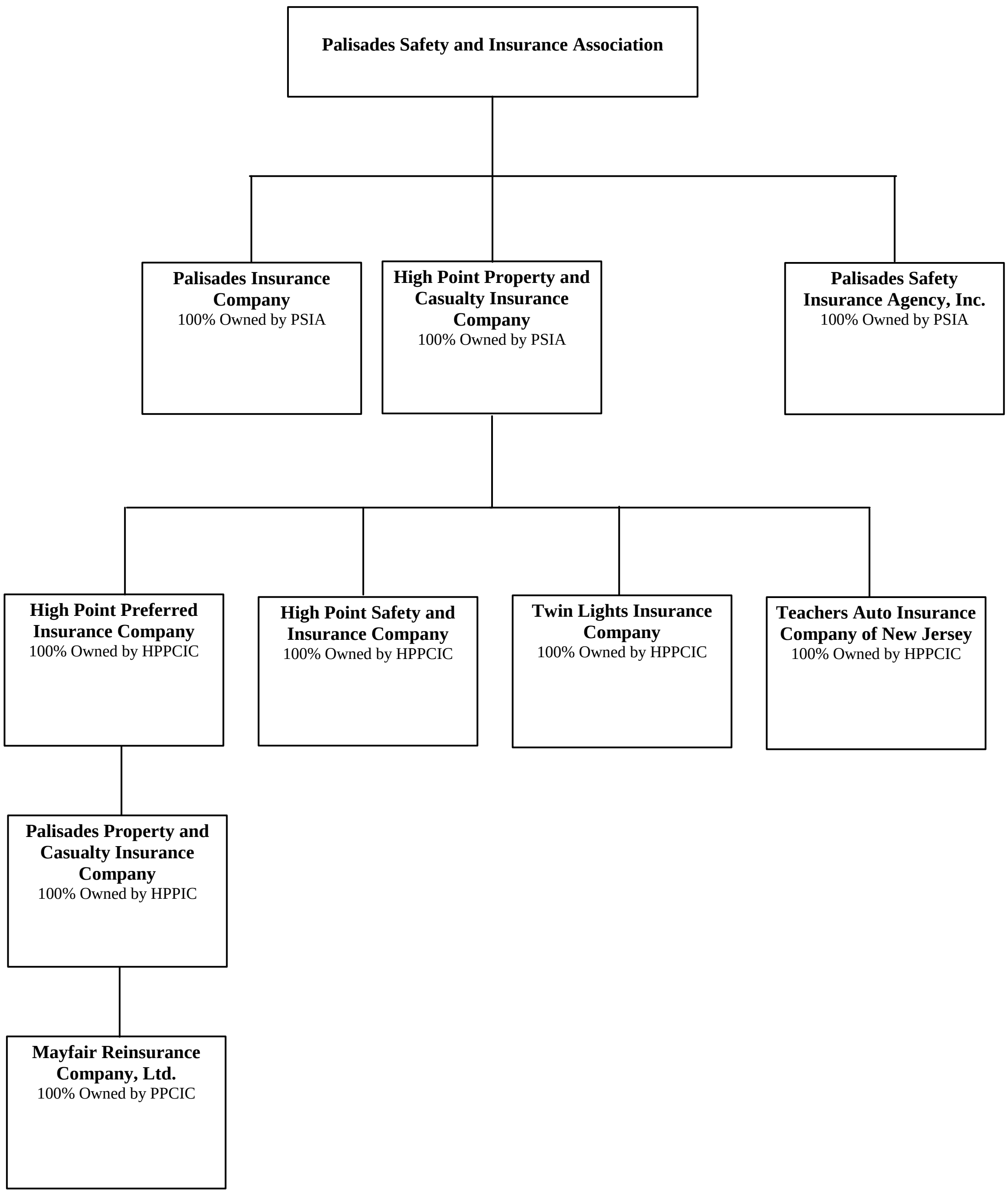
The corporate and ownership structure of The Plymouth Rock Company and principal subsidiaries is shown in the following chart:



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

3. Organization of the Palisades Reciprocal Group

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



4. Summary of Significant Accounting Policies

A. Principles of Consolidation

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

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

C. Use of Estimates

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

4. Summary of Significant Accounting Policies, continued

D. Cash and Investments

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days from the date of acquisition. Liabilities for outstanding checks for The Plymouth Rock Company and Subsidiaries of $5.8 million and $8.1 million are included in accrued liabilities at December 31, 2011 and 2010, respectively. Liabilities for outstanding checks for the Palisades Reciprocal Group of $14.4 million and $0 are included in accrued liabilities at December 31, 2011 and 2010, respectively. Marketable fixed income and equity securities are carried at their market value. The calculation of gain or loss on the sale of marketable securities is based on specific identification at the time of sale. Where a decline in the value of marketable securities is deemed other than temporary, the security is written down to its fair value. The portion of the loss attributable to credit quality is reported as a component of net realized capital gains, while any portion of the loss attributable to other factors, such as fluctuations in interest rates, is reported as a component of other comprehensive income. 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. At December 31, 2010, two common stock investments had restrictions that limited their marketability. The fair values of these investments at that date were derived using available market data on unrestricted shares of these companies' common stock. During 2011, the restrictions on these two investments were removed, and they are classified as marketable common stock as of December 31, 2011. 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. Real Estate and Fixed Assets

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

4. Summary of Significant Accounting Policies, continued

F. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred as of December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of deferred commission income on ceded reinsurance. Net amortization associated with these deferred costs for 2011 and 2010 for The Plymouth Rock Company and Subsidiaries was $39.8 million and $36.4 million, respectively, while the 2011 and 2010 net amortization for the Palisades Reciprocal Group was $21.0 million and $30.7 million, respectively. The 2011 net amortization for Palisades Reciprocal Group includes a $2.5 million reversal of an overstatement of the deferred acquisition cost asset as of both January 1, 2010 and December 31, 2010 upon its initial consolidation into The Plymouth Rock Company's financial statements. This reversal is deemed to not have a material effect on reported 2011 results.

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, 2011 and 2010, the reserves for doubtful collections for The Plymouth Rock Company and Subsidiaries were $901,000 and $1.1 million, respectively. The reserves for doubtful accounts of the Palisades Reciprocal Group at December 31, 2011 and 2010 were $2.8 million and $2.0 million, respectively.

H. Recognition of Fees Earned from Service Activities

The Plymouth Rock Company and Subsidiaries earn management fees from the Palisades Reciprocal Group and other unaffiliated companies for providing sales, underwriting, policy issuance, claim adjusting, accounting and other insurance-related services. Fees from service activities are earned over the applicable policy terms. The balance sheet item "amounts due from (or to) service clients" consists of balances with insurers for which Pilgrim Insurance Company provides services. In 2011 and 2010, fees of $182.4 million and $183.3 million, respectively, earned from the Palisades Reciprocal Group are eliminated upon consolidation.

4. Summary of Significant Accounting Policies, continued

I. Income Taxes

Income taxes in the statements of income for 2011 and 2010 consist of:

(dollars in thousands)	2011	2010
The Plymouth Rock Company and Subsidiaries	$ 17,370	$ 25,715
Palisades Reciprocal Group	(11,841)	(20,972)
Total	$ 5,529	$ 4,743

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

Deferred income taxes arise when there are differences between reported income and taxable income. The realization of deferred tax assets requires sufficient taxable income in either the allowable carryback or carryforward periods. Detailed assessments of recent and projected future results indicate that there will more likely than not be sufficient future taxable income to realize all deferred tax assets. Therefore, no valuation allowance has been established against the deferred tax assets of either The Plymouth Rock Company and Subsidiaries or the Palisades Reciprocal Group.

The net unrealized gain on investments is presented in equity, net of an estimate of applicable deferred income taxes. The reported provision for income taxes 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, as well as significant amounts of dividend income and interest from state and municipal bonds, all of which receive favorable federal tax treatment.

There are no tax positions of questionable merit that require a reserve for potential disallowance. As of December 31, 2011, neither The Plymouth Rock Company and Subsidiaries nor the Palisades Reciprocal Group is subject to examinations for tax years prior to 2008. Examinations by taxing authorities are presently in progress for both The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group covering years 2008 through 2010. At this time, we are not aware of any findings that would result in a material change to either group’s financial position.

4. Summary of Significant Accounting Policies, continued

I. Income Taxes, continued

The Plymouth Rock Company and Subsidiaries

Income taxes in the statements of income for 2011 and 2010 consist of:

(dollars in thousands)	2011	2010
Current year federal income taxes	$10,940	$15,127
Current year state income taxes	4,281	4,233
Change in deferred federal taxes	2,116	5,852
Change in deferred state taxes	33	503
Total	$17,370	$25,715

Deferred income taxes in the balance sheets as of December 31, 2011 and 2010 consist of the net effects of these temporary differences:

(dollars in thousands)	2011	2010
Net unrealized gain on investments	$(10,339)	$(10,462)
Unearned premiums	9,605	9,467
Depreciation	(8,257)	(8,023)
Compensation expense	7,493	8,795
Deferred acquisition expense	(7,309)	(6,910)
Discounting of claim reserves	2,863	2,936
Investment and partnership timing differences	(3,401)	(3,348)
Stock options expense	752	715
Other	437	700
Total	$ (8,156)	$ (6,130)

Palisades Reciprocal Group

Income taxes in the statement of income for 2011 and 2010 consist of:

(dollars in thousands)	2011	2010
Current year federal income taxes	$ (3,106)	$ (7,848)
Current year state income taxes	93	10
Change in deferred federal taxes	(8,828)	(13,134)
Total	$(11,841)	$(20,972)

4. Summary of Significant Accounting Policies, continued

I. Income Taxes, continued

Deferred income taxes in the balance sheet as of December 31, 2011 and 2010 consist of the net effects of these temporary differences:

(dollars in thousands)	2011	2010
Unearned premiums	$ 16,794	$ 17,539
Net unrealized gain on investments	(16,578)	(17,154)
Deferred acquisition expense	(14,632)	(17,818)
Discounting of claim reserves	14,416	15,413
Net operating loss carryforward	11,549	16,888
Investment and partnership timing differences	1,625	1,152
Intangibles	823	2,808
Depreciation	376	260
Deferred income	-0-	(14,682)
Other	460	1,023
Total	$ 14,833	$ 5,429

Federal net operating loss carryforwards of $27.0 million will expire in 2030. The Palisades Reciprocal Group also has alternative minimum tax credit carryforwards of $1.2 million that do not expire.

J. Claim and Claim Adjustment Expense Reserves

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

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)	2011	2010
Balance at beginning of year	$126,313	$137,406
Claims and claim adjustment expenses incurred:		
Current year	222,018	196,030
Prior years	(7,384)	(7,478)
	214,634	188,552
Claims and claim adjustment expenses paid:		
Current year	157,774	135,759
Prior years	59,344	57,705
	217,118	193,464
Change in reinsurance recoverable on unpaid claims	(2,362)	(6,181)
Balance at end of year	$121,467	$126,313

During the year ended December 31, 2011, reserves for claims and claim adjustment expenses for prior years developed favorably by $7.4 million. The favorable development from prior years was primarily related to the bodily injury coverages on Massachusetts private passenger auto policies. During the year ended December 31, 2010, reserves for claims and claim adjustment expenses for prior years developed favorably by $7.5 million. This favorable development from prior years related to Massachusetts and Connecticut private passenger auto business, including the continuing runoff of business assumed from Commonwealth Automobile Reinsurers (CAR), which manages the residual market pools for both private passenger and commercial auto in Massachusetts.

The amounts for claims and claim adjustment expenses incurred shown above include expenses for service activity clients of $3.1 million and $4.9 million reported in service activity expenses in the consolidated statements of income for 2011 and 2010, respectively.

4. Summary of Significant Accounting Policies, continued

J. Claim and Claim Adjustment Expense Reserves, continued

Palisades Reciprocal Group

(dollars in thousands)	2011	2010
Balance at beginning of year	$754,858	$717,686
Claims and claim adjustment expenses incurred:		
Current year	522,844	553,364
Prior years	2,344	22,472
	525,188	575,836
Claims and claim adjustment expenses paid:		
Current year	254,888	275,995
Prior years	291,838	280,229
	546,726	556,224
Change in reinsurance recoverable on unpaid claims	16,662	17,560
Balance at end of year	$749,982	$754,858

During the year ended December 31, 2011, reserves for claims and claim adjustment expenses for prior years developed unfavorably by $2.3 million. This resulted primarily from unfavorable development of $4.0 million in commercial auto business, which was partially offset by favorable development in other liability business. 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 personal auto business, which was partially offset by favorable development in other liability 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:

	2011		2010	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$284,257	$222,817	$275,848	$192,714
Ceded	(16,478)	(11,325)	(13,912)	(9,092)
Net	$267,779	$211,492	$261,936	$183,622

Ceded premiums earned for 2011 and 2010 were $16.6 million and $23.3 million, respectively.

The Plymouth Rock Company and Subsidiaries have treaties for quota share reinsurance for homeowners and Massachusetts private passenger auto. 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 most recent Massachusetts private passenger auto quota share treaty 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 auto premiums were ceded annually at a cession rate of 80 percent on certain physical damage coverages. For 2011, revenues and expenses are reflected net of quota share reinsurance totaling $11.1 million and $14.9 million, respectively. For 2010, revenues and expenses are reflected net of quota share reinsurance totaling $17.8 million and $15.9 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, 2011 and 2010, the costs incurred for these treaties were $4.5 million and $3.2 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 CAR and record their estimated share of this activity on the basis of information provided by CAR. The private passenger auto pool is now in run-off, as Massachusetts transitioned to an assigned risk structure in 2009.

Pilgrim provides auto insurance services to certain unrelated insurance companies. The income statement and reinsurance activity for The Plymouth Rock Company and Subsidiaries exclude $29.6 million and $31.9 million of premiums earned and $25.1 million and $25.1 million of claims and claim adjustment expenses incurred in 2011 and 2010, respectively, related to Pilgrim's third-party business. In connection with these arrangements, claim and claim adjustment expense reserves exclude $37.8 million and $39.9 million at December 31, 2011 and 2010, respectively. While Pilgrim does not retain any underwriting risk, it does have reinsurance recoverable from service clients under the terms of certain service arrangements.

To achieve a better balance of reinsurance cost and risk retention at Bunker Hill Insurance Company, The Plymouth Rock Company and Bunker Hill have entered into a Statutory Capital Support Agreement. This agreement provides that The Plymouth Rock Company will make a capital contribution to Bunker Hill if that company's surplus falls below a certain threshold. As security for its obligations under this agreement, The Plymouth Rock Company has purchased an irrevocable standby letter of credit from a bank in the amount of $7.5 million. Although this letter of credit is not expected to be drawn upon, The Plymouth Rock Company has pledged to the bank as collateral securities that it owns which had a market value of approximately $9.0 million as of December 31, 2011. The Statutory Capital Support Agreement, as well as the letter of credit, are scheduled to expire on June 30, 2012, by which time The Plymouth Rock Company and Bunker Hill expect to renew this agreement and the letter of credit. During 2011, Bunker Hill's surplus dropped below the specified threshold, which is presently $20.0 million, and The Plymouth Rock Company made a capital contribution in the amount of $2.4 million to Bunker Hill under this agreement. The letter of credit was not drawn upon. No capital contribution was required under this agreement during 2010.

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:

	2011		2010	
(dollars in thousands)	Premiums Written	Claims and Claim Adjustment Expenses Incurred	Premiums Written	Claims and Claim Adjustment Expenses Incurred
Gross	$752,503	$640,351	$807,222	$667,834
Ceded	(139,180)	(115,163)	(168,050)	(91,998)
Net	$613,323	$525,188	$639,172	$575,836

Ceded premiums earned for 2011 and 2010 were $156.6 million and $145.7 million, respectively.

The Palisades Reciprocal Group has multiple homeowners and personal auto quota share reinsurance treaties in place. High Point Preferred Insurance Company ceded $43.5 million and $43.9 million of homeowners premiums in 2011 and 2010, respectively, at a 45 percent cession rate. Through September 30, 2011, Palisades Safety and Insurance Association ceded between 20 and 30 percent of its personal auto liability and physical damage premiums under a quota share treaty. The premiums ceded under this treaty in 2011 and 2010 were $13.6 million and $53.8 million, respectively. From June 1, 2010 through May 31, 2011, High Point Safety and Insurance Company had quota share reinsurance in place under which it ceded 30 percent of its personal auto liability and physical damage premiums. The premiums ceded under this treaty in 2011 and 2010 were $9.0 million and $43.1 million, respectively. From October 1 through December 31, 2011, High Point Safety and Insurance Company had quota share reinsurance in place under which it ceded 58 percent of its personal auto liability and physical damage premiums. The premiums ceded under this treaty in 2011 were $49.2 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 38.0 percent of premiums ceded.

4. Summary of Significant Accounting Policies, continued

K. Reinsurance, continued

For 2011, revenues and expenses are reflected net of quota share reinsurance totaling $137.3 million and $135.0 million, respectively. For 2010, revenues and expenses are reflected net of quota share reinsurance totaling $122.8 million and $129.9 million, respectively.

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 years ended December 31, 2011 and 2010, the Palisades Reciprocal Group incurred costs of $11.8 million and $16.9 million, respectively, under these treaties.

L. Subsequent Events

Subsequent events have been evaluated from December 31, 2011 through March 7, 2012. No material subsequent events have been identified.

5. Commitments and Contingencies

The Plymouth Rock Company and Subsidiaries incurred real estate rental expenses for 2011 and 2010 totaling $7.9 million and $8.9 million, respectively. For the years 2012 through 2016, the minimum lease obligations to unrelated third parties range from $6.9 million to $8.8 million annually. Total obligations of The Plymouth Rock Company and Subsidiaries under leases are $60.0 million through 2020.

During December 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. As of December 31, 2011 Pilgrim has a remaining obligation of approximately $2.2 million under the original lease. Under the sublease Pilgrim is scheduled to receive approximately $1.1 million from January 1, 2012 through September 30, 2015.

5. Commitments and Contingencies, continued

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. 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. Both companies reached settlements with the Massachusetts Attorney General to resolve this matter, as did a number of other carriers. The companies paid a total of approximately $4.4 million in 2010 and 2011 to cover premium refunds and interest to former and current motorcycle policyholders, as well as administrative expenses. The two companies had established reserves totaling $4.6 million in December 2009 with respect to this matter. Final payments totaling $15,000 were made during 2011 to complete these settlements.

Plymouth Rock Assurance entered into agreements in December 2011 with three companies that write Massachusetts private passenger auto insurance to sell surplus residual market credit premium for a total of $500,000 during 2012. Plymouth Rock Assurance had generated a surplus of this credit premium, which can be used to reduce a company’s residual market assignments.

Plymouth Rock Assurance entered into an agreement in May 2011 to purchase $6.5 million of Massachusetts low-income housing tax credits at a cost of $4.4 million. The $4.4 million purchase price will be paid on or before February 15, 2014, contingent upon the delivery of a project eligibility certificate. The credits will be used to reduce the company’s Massachusetts premium tax liability by $6.5 million over a five-year period from 2013 through 2017.

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 at both December 31, 2011 and 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; no impairment was recorded in 2011 or 2010.

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 an increase in goodwill of $517,000 in 2010. 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.

These purchases of insurance agencies have also given rise to intangible assets in the form of expirations, noncompetition agreements, and brand names. Intangible assets, which are amortized over periods ranging from three to 15 years, were valued at $1.1 million and $1.3 million at December 31, 2011 and 2010, respectively. The two agency purchases described above resulted in an increase to intangible assets of $349,000 in 2010. Amortization associated with these intangible assets for both 2011 and 2010 was $158,000. The annual amortization is expected to decrease from $124,000 in 2012 to $90,000 in 2016, resulting in a balance of $627,000 at December 31, 2016.

Palisades Reciprocal Group

The Palisades Reciprocal Group's purchase of Teachers Auto Insurance Company of New Jersey in 2007 resulted in goodwill of $3.3 million at both December 31, 2011 and 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; no impairment was recorded in 2011 or 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, state licenses and a non-competition agreement. At both December 31, 2011 and 2010, the value of trademarks totaled $2.4 million and the value of state licenses totaled $150,000. These intangible assets are reviewed annually for impairment; no impairment was recorded in 2011 or 2010. The remaining intangible assets are being amortized over periods ranging from five to 20 years, and were valued at $12.1 million and $14.0 million at December 31, 2011 and 2010, respectively. Amortization associated with these intangible assets was $1.9 million and $2.1 million in 2011 and 2010, respectively. Amortization is expected to range from $1.6 million to $1.0 million annually in years 2012 through 2016, resulting in a balance of $5.8 million at December 31, 2016.

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)	2011	2010
Net income	$ 28,657	$ 44,001
Depreciation and amortization	18,013	17,703
Deferred income taxes	2,149	6,355
Change in operating assets and liabilities:		
Accrued investment income	497	425
Premiums receivable	(2,019)	(4,659)
Deferred acquisition costs	(1,139)	(2,662)
Amounts receivable from reinsurers	1,965	12,680
Claim and claim adjustment expense reserves	(4,846)	(11,093)
Unearned premium reserve	6,220	5,453
Advance premiums	843	(359)
Commissions payable and accrued liabilities	(8,744)	(11,025)
Amounts payable to reinsurers	1,199	(12,813)
Unearned service fees	(4,338)	121
Amounts due from and to service clients	6,984	(3,690)
Prepaid expenses, agent loans, and deposits	(732)	(291)
Income tax payable	211	(5,137)
Other assets and other liabilities	398	4,660
Net cash provided by operating activities	$ 45,318	$ 39,669

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

Palisades Reciprocal Group

(dollars in thousands)	2011	2010
Net income	$(16,026)	$(35,608)
Depreciation and amortization	2,385	2,640
Deferred income taxes	(8,828)	(13,134)
Change in operating assets and liabilities:		
Accrued investment income	2,180	1,625
Premiums receivable	11,017	(1,635)
Deferred acquisition costs	6,872	6,499
Amounts receivable from reinsurers	(20,177)	(11,190)
Claim and claim adjustment expense reserves	(4,876)	37,172
Unearned premium reserve	(10,244)	(22,339)
Advance premiums	(2,161)	(255)
Commissions payable and accrued liabilities	10,375	34,081
Amounts payable to reinsurers	(15)	(46)
Unearned service fees	-0-	(675)
Amounts due from and to service clients	(8,452)	2,519
Prepaid expenses, agent loans, and deposits	307	313
Income tax payable	(2,951)	15,219
Other assets and other liabilities	(3,769)	(7,105)
Net cash provided by operating activities	$(44,363)	$ 8,081

8. Consolidated Revenues

Revenues, net of reinsurance, by company for 2011 and 2010 were:

(dollars in thousands)	2011	2010
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$ 255,596	$ 252,229
Mt. Washington Assurance Corporation	74	75
Bunker Hill Insurance Company	23,530	25,251
Palisades Reciprocal Group	663,603	707,585
	942,803	985,140
Management company revenues:		
The Plymouth Rock Company	41,654	30,193
SRB Corporation	74,097	69,518
BCS Holding Company, LLC	4,407	4,721
Pilgrim Insurance Company	19,791	20,684
Plymouth Rock Management Company of New Jersey	181,807	182,378
	321,756	307,494
Eliminations with subsidiaries of The Plymouth Rock Company:		
Technology costs	(33,084)	(34,796)
Dividends	(64,745)	(49,995)
Other	(14,238)	(12,975)
	(112,067)	(97,766)
Elimination of intra-group transactions	(182,410)	(183,318)
Total revenues	$970,082	$1,011,550

9. Fixed Assets

The table below summarizes fixed assets at December 31, 2011 and 2010.

The Plymouth Rock Company and Subsidiaries

(dollars in thousands)	Useful Lives	2011	2010
Computers and software development	3 years	$125,283	$130,790
Leasehold improvements	10 years	16,877	16,152
Furniture and fixtures	5 years	11,701	11,313
Vehicles	3 years	1,737	1,976
Total cost		155,598	160,231
Less: accumulated depreciation and amortization		126,235	129,297
Net book value		$ 29,363	$ 30,934

Depreciation and amortization expenses incurred were $16.1 million and $15.8 million during 2011 and 2010, respectively.

Palisades Reciprocal Group

(dollars in thousands)	Useful Lives	2011	2010
Computers and software development	3 years	$1,561	$1,561
Less: accumulated depreciation and amortization		1,338	871
Net book value		$ 223	$ 690

Depreciation and amortization expenses incurred were $470,000 and $510,000 during 2011 and 2010, respectively.

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 $6.6 million and $6.1 million were incurred related to these plans during 2011 and 2010, respectively. Deferred compensation plans have been established at The Plymouth Rock Company and several of its subsidiaries for officers, directors, and managers other than the founding shareholders. In general, these plans provide for a rate of return on deferred compensation equal each year to the rate of return earned by The Plymouth Rock Company and Subsidiaries that year. Incurred expenses related to these plans were $1.7 million and $2.7 million during 2011 and 2010, 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. The last distribution related to this plan occurred 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 2010. All of the awards granted to this officer will vest at different times during a period that started in 2006 and will end in 2015, provided that certain financial performance and service requirements are met. During 2011 and 2010, 222 awards granted in 2006 and 2005, respectively, 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 $131,000 and $243,000 related to these awards were recorded in 2011 and 2010, respectively, with the expectation that financial performance and service requirements will be met.

Another key officer received stock incentive awards totaling 625 shares effective May 1, 2007. These awards are 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 2011 and 2010. Expenses of $54,000 and $98,000 related to these awards were recorded in 2011 and 2010, respectively, 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; this option was exercised on March 26, 2004. During 2010, 3,250 restricted shares vested. The remaining 100 shares vested in 2011. Expenses of $284,000 related to this package were recorded in 2010. No expenses were recorded in 2011.

Effective June 11, 2009, stock incentive awards were granted to three key officers totaling 8,472 shares. These share awards will vest in 2014, provided that certain financial performance and service requirements are met. Expenses of $120,000 and $635,000 related to these awards were recorded in 2011 and 2010, respectively, on the basis of financial performance for those years.

10. Compensation Plans, continued

Effective February 16, 2011, a stock incentive award of 701 shares were granted to another key officer. This award will vest in 2016, provided that certain financial performance and service requirements are met. No expense related to this award was recorded in 2011.

11. Investment Securities and Investment Income

A. Marketable Securities

The Plymouth Rock Company and Subsidiaries

At December 31, 2011 and 2010, 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, 2011: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$ 16,292	$ 25	$ 2	$ 16,315
State and municipal securities	191,368	3,309	103	194,574
Corporate debt securities	35,456	1,057	147	36,366
Asset-backed securities	27,036	555	3	27,588
Common stocks	81,322	25,928	1,270	105,980
Total	$351,474	$30,874	$1,525	$380,823

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
Asset-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

11. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

At December 31, 2011, maturities of marketable securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 891	$ 891
Due after 90 days and in one year or less	18,860	18,966
Due after one year and in five years or less	200,981	204,347
Due after five years and in ten years or less	12,955	13,487
Due after ten years	9,429	9,564
Asset-backed securities	27,036	27,588
Common stocks	81,322	105,980
Total	$351,474	$380,823

These marketable securities are classified as available for sale. At December 31, 2011 and 2010, securities were held that had been in an unrealized loss position for longer than twelve months with a total market value of $2.6 million and $10,000, respectively. Unrealized losses related to these securities were $101,000 and $50 at December 31, 2011 and 2010, 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 2011 or 2010.

<u>Palisades Reciprocal Group</u>

At December 31, 2011 and 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, 2011: (dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government securities	$134,219	$ 3,607	$ 6	$137,820
State and municipal securities	31,481	646	211	31,916
Corporate debt securities	266,474	8,435	1,301	273,608
Asset-backed securities	338,106	9,465	282	347,289
Common stocks	171,569	30,431	3,417	198,583
Total	$941,849	$52,584	$5,217	$989,216

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
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
Asset-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, 2011, maturities of marketable available for sale securities were as follows:

(dollars in thousands)	Amortized Cost	Market Value
Due in 90 days or less	$ 10,370	$ 10,448
Due after 90 days and in one year or less	93,075	93,564
Due after one year and in five years or less	307,530	317,674
Due after five years and in ten years or less	17,241	18,016
Due after ten years	3,958	3,642
Asset-backed securities	338,106	347,289
Common stocks	171,569	198,583
Total	$941,849	$989,216

At December 31, 2011 and 2010, securities classified as available for sale that had been in an unrealized loss position for longer than twelve months had total market values of $10.3 million and $980,000, respectively. Unrealized losses related to these securities were $1.6 million and $77,000 at December 31, 2011 and 2010, 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 2011 or 2010.

11. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

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:

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
Asset-backed securities	4,037	270	-0-	4,307
Total	$40,434	$3,467	$55	$43,846

At December 31, 2010, no securities classified as held to maturity had been in an unrealized loss position for longer than twelve months. No losses were recorded for other-than-temporary impairment in either 2011 or 2010.

In December 2011, a held to maturity portfolio was sold for $40.5 million, resulting in a realized capital gain of $2.2 million. This portfolio was sold to better align the broader investment portfolio with applicable investment guidelines as well as for tax planning reasons. All remaining securities are classified as available for sale as of December 31, 2011.

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 $11.1 million and $23.4 million at December 31, 2011 and 2010, respectively. Such investments of the Palisades Reciprocal Group amounted to $16.7 million and $18.4 million at December 31, 2011 and 2010, respectively. The amounts for each group include investments in Homesite Group Incorporated. These investments were valued using the equity method at $11.1 million at December 31, 2011 and $13.2 million at December 31, 2010 for The Plymouth Rock Company and Subsidiaries, and at $16.7 million at December 31, 2011 and $17.7 million at December 31, 2010 for the Palisades Reciprocal Group.

11. Investment Securities and Investment Income, continued

B. Non-Marketable Securities, continued

In February 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. 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 scheduled to be made in 2011 contingent upon the development of loss reserves for the acquired business. At December 31, 2010, it appeared doubtful that any of this $1.2 million contingent receivable would be collected. This amount was recorded, before taxes, as a realized loss in 2010. The final estimate of ultimate loss reserves for the transferred business turned out to be less unfavorable than previously expected, and $402,000 of the escrowed funds were collected and recorded, before taxes, as a realized gain in 2011.

The Plymouth Rock Company and Subsidiaries and the Palisades Reciprocal Group previously acquired non-marketable investments in Insurance Services Office, Inc. (ISO). On October 7, 2009, ISO became a wholly owned subsidiary of Verisk Analytics, which conducted an initial public offering that converted shares of stock of ISO into shares of Class B common stock of Verisk Analytics. These shares were originally restricted and could only be traded with other holders of shares of Class B common stock. Effective on December 31, 2010, these shares were converted into shares of Class A common stock and were classified as marketable securities at December 31, 2011. This investment of The Plymouth Rock Company and Subsidiaries had fair values of $9.2 million and $7.8 million at December 31, 2011 and 2010, 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 $831,000 and $705,000 at December 31, 2011 and 2010, respectively, and had an amortized cost of $1 at each of those dates.

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 were restricted from trading for six to 12 months from the date of purchase. As of December 31, 2011 there were no longer any restrictions in effect, and these shares were classified as marketable securities at December 31, 2011. At December 31, 2011 and 2010, the fair value of these shares was $2.0 million and $2.4 million, respectively.

11. Investment Securities and Investment Income, continued

B. Non-Marketable Securities, continued

At December 31, 2010, the holdings of restricted shares of stock of Verisk Analytics and Northeast Bancorp were evaluated to assess the need, if any, for discounts for lack of marketability. Given the limited duration of the remaining restriction periods, appropriate discounts, if any, were considered not to have been material. Therefore, these securities were valued using available market prices for the corresponding unrestricted shares of stock.

C. Alternative Equity Investments

Investments in marketable alternative equities include positions in entities that focus predominantly on arbitrage relating to publicly announced mergers and acquisitions. Substantially all of the investments made by these entities are in publicly traded securities, and there exist contractual rights to withdraw funds from these entities each year. At December 31, 2011 and 2010, The Plymouth Rock Company and Subsidiaries recorded values for these marketable alternative equity investments, which include realized and unrealized gains, of $46.5 million and $45.6 million, respectively. At December 31, 2011 and 2010, the Palisades Reciprocal Group recorded values for these marketable alternative equity investments of $75.7 million and $68.9 million, respectively.

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 $42.3 million and $39.5 million at December 31, 2011 and 2010, respectively. The Palisades Reciprocal Group recorded values for non-marketable alternative equity investments of $12.6 million and $12.4 million at December 31, 2011 and 2010, respectively.

11. Investment Securities and Investment Income, continued

C. Alternative Equity Investments, continued

As of December 31, 2011, The Plymouth Rock Company and Subsidiaries had commitments outstanding to invest $21.5 million in 16 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, 2011, The Plymouth Rock Company and Subsidiaries had $9.5 million, $17.8 million, and $6.7 million invested in Fund I, Fund II, and Fund III, respectively, with outstanding commitments to those three funds at that date of $471,000, $2.2 million and $13.3 million, respectively.

As of December 31, 2011, the Palisades Reciprocal Group had investment commitments outstanding to invest $17.9 million in six private equity funds.

D. Fair Value Measurements

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

The Plymouth Rock Company and Subsidiaries

Cash, cash equivalents, and investment securities totaled $514.7 million and $505.5 million at December 31, 2011 and 2010, respectively. Assets in this category valued using either the equity method or the cost method totaled $99.9 million and $98.3 million, respectively, at December 31, 2011 and 2010. The other assets in this category were reported at fair values totaling $414.8 million and $407.2 million, respectively, at December 31, 2011 and 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, 2011: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 33,992	$ -0-	$ -0-	$ 33,992
U.S. government securities	16,180	135	-0-	16,315
State and municipal securities	-0-	194,574	-0-	194,574
Corporate debt securities	-0-	36,366	-0-	36,366
Asset-backed securities	-0-	27,588	-0-	27,588
Marketable common stocks	105,980	-0-	-0-	105,980
Non-marketable common stocks	-0-	-0-	-0-	-0-
Total fair value	$156,152	$258,663	$-0-	414,815
Assets valued using either the equity method or the cost method				99,851
Total value of cash, cash equivalents, and investment securities				$514,666

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
Asset-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

Palisades Reciprocal Group

Cash, cash equivalents, and investment securities totaled $1,132.5 million and $1,180.4 million at December 31, 2011 and 2010, respectively. Assets in this category that are valued using either the equity method or the cost method totaled $105.0 million and $139.4 million at December 31, 2011 and 2010, respectively. The fair values of the other assets in this category totaled $1,027.5 million and $1,041.0 million at December 31, 2011 and 2010, respectively.

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

At December 31, 2011: (dollars in thousands)	Based on Quoted Prices	Determined from Other Available Market Data	Estimated Using Internal and External Judgments	Total
Cash and cash equivalents	$ 38,312	$ -0-	$ -0-	$ 38,312
U.S. government securities	137,784	36	-0-	137,820
State and municipal securities	-0-	31,916	-0-	31,916
Corporate debt securities	-0-	273,608	-0-	273,608
Asset-backed securities	-0-	347,289	-0-	347,289
Marketable common stocks	198,583	-0-	-0-	198,583
Non-marketable common stocks	-0-	-0-	-0-	-0-
Total fair value	$374,679	$652,849	$ -0-	1,027,528
Assets valued using either the equity method or the cost method				105,003
Total value of cash, cash equivalents, and investment securities				$1,132,531

11. Investment Securities and Investment Income, continued

D. Fair Value Measurements, continued

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
Asset-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 derived using internal and external judgments as of December 31, 2010 consisted of $1.4 million of Morgan Stanley bonds. Approximately $1.0 million of these bonds were retired by Morgan Stanley during 2011, while the value of the remaining bonds could be determined using market data available as of December 31, 2011.

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 2011 and 2010 were as follows:

(dollars in thousands)	2011	2010
Interest income and dividends from securities	$ 8,993	$ 9,574
Earnings from non-marketable securities and alternative equity investments	2,202	4,542
Rental income	3,449	3,499
Finance charges on premiums receivable	4,594	4,988
Gross investment income	19,238	22,603
Rental expenses	(2,916)	(3,022)
Investment expenses	(1,119)	(1,167)
Investment income	15,203	18,414
Net realized capital gains	4,282	1,405
Investment income and capital gains	$19,485	$19,819

Palisades Reciprocal Group

The components of investment income and capital gains before federal income taxes during 2011 and 2010 were as follows:

(dollars in thousands)	2011	2010
Interest income and dividends from securities	$30,550	$35,058
Earnings from non-marketable securities and alternative equity investments	555	6,023
Finance charges on premiums receivable	5,087	5,061
Gross investment income	36,192	46,142
Investment expenses	(6,556)	(6,424)
Investment income	29,636	39,718
Net realized capital gains	10,029	6,048
Investment income and capital gains	$39,665	$45,766

No other-than-temporary impairment losses were recorded in 2011 and 2010 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 2011 and 2010 was as follows:

(dollars in thousands)	2011	2010
Balance at beginning of year	$474,466	$468,731
Change in marketable securities:		
Proceeds from maturities	(7,635)	(10,110)
Proceeds from sales	(196,712)	(158,215)
Purchases	211,775	167,914
Net change in marketable securities	7,428	(411)
Net change in non-marketable securities	(4,354)	170
Net change in alternative equity investments	3,644	352
Net investment activity	6,718	111
Net change in purchases in process	-0-	1,202
Net change in unrealized gain on securities and alternative equity investments	(510)	7,042
Elimination of intra-group transactions	-0-	(2,620)
Balance at end of year	$480,674	$474,466

Comprehensive income includes 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 2011 by gains of $5.4 million previously included as unrealized in comprehensive income at December 31, 2010 that were realized during 2011, while the net unrealized gains were increased during 2010 by losses of $2.3 million previously included as unrealized in comprehensive income at December 31, 2009 that were realized in 2010.

11. Investment Securities and Investment Income, continued

F. Investment Activity, continued

Palisades Reciprocal Group

Activity in investment securities during 2011 and 2010 was as follows:

(dollars in thousands)	2011	2010
Balance at beginning of year	$1,122,682	$1,142,154
Change in marketable securities:		
Proceeds from maturities	(28,870)	(41,675)
Proceeds from sales	(414,785)	(711,665)
Purchases	412,755	718,094
Net change in marketable securities	(30,900)	(35,246)
Net change in non-marketable securities	(980)	(418)
Net change in alternative equity investments	6,954	2,570
Net investment activity	(24,926)	(33,094)
Net change in purchases in process	(1,893)	-0-
Net change in unrealized gain on securities and alternative equity investments	(1,644)	13,622
Balance at end of year	$1,094,219	$1,122,682

The net unrealized gains on investments of the Palisades Reciprocal Group were reduced during 2011 by gains of $7.9 million previously included as unrealized in comprehensive income at December 31, 2010 that were realized in 2011, while the net unrealized gains were increased during 2010 by losses of $4.0 million previously included as unrealized in comprehensive income at December 31, 2009 that were realized during 2010.

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 claims arising from policies issued by High Point Property and Casualty Insurance Company, which currently carries the surplus note, as well as to its senior debt. This note will mature and be payable on October 31, 2018. Interest on this note is payable semi-annually at a rate of eight percent though October 31, 2013, 10 percent from November 1, 2013 through October 31, 2014, and 12 percent from November 1, 2014 though October 31, 2018. Payments of principal and interest may be made only from surplus and only with the prior approval of the New Jersey Department of Banking and Insurance.

13. Real Estate

At December 31, 2011, The Plymouth Rock Company and Subsidiaries owned properties located at 695 Atlantic Avenue and 99 Bedford Street in Boston.

Building improvement costs of $749,000 and $1.2 million were incurred on these properties in 2011 and 2010, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2011 and 2010:

(dollars in thousands)	2011	2010
Land	$ 7,449	$ 7,449
Buildings, improvements, and other	41,970	41,221
Total cost	49,419	48,670
Less: accumulated depreciation	14,039	12,259
Net book value	$35,380	$36,411

Rental income from lessees other than The Plymouth Rock Company and Subsidiaries totaled $3.4 million and $3.5 million in 2011 and 2010, respectively. For each of the years 2012 through 2016, minimum annual rent receivable by The Plymouth Rock Company and Subsidiaries is $1.4 million. Total obligations to The Plymouth Rock Company and Subsidiaries from non-affiliated lessees through 2016 are $11.1 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, 2011, as determined by an independent appraiser using the income and sales comparison approaches, was $43.6 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, 2011 and 2010 is composed of Class A common shares and Class B common shares, with shares of both classes having a par value of $0.10 each. There are 300,000 Class A shares authorized, of which 118,784 and 118,532 were issued and outstanding on December 31, 2011 and 2010, respectively.

There are 90,000 Class B shares authorized, of which 64,331 and 64,583 were issued and outstanding on December 31, 2011 and 2010, 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 insurance company subsidiaries of The Plymouth Rock Company totaled $174.8 million and $178.6 million at December 31, 2011 and 2010, respectively. The combined results on a statutory accounting basis for these insurance companies were a net loss of $511,000 in 2011 and net income of $18.2 million in 2010.

Capital and surplus of the insurance companies in the Palisades Reciprocal Group totaled $304.6 million and $314.3 million at December 31, 2011 and 2010, respectively. The combined operating results on a statutory accounting basis for these insurance companies were net losses of $22.3 million and $51.4 million in 2011 and 2010, respectively.

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

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 arrangements 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

David B. Bassi
Chief Underwriting 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
David B. Bassi
Hal Belodoff
Mary L. Biernbaum
Marc V. Buro
Michael J. Cesinger
Frederick C. Childs
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
Louis C. Palomeque
Kenneth F. Petersen
Carl A. Peterson
Anne M. Petruff
Joseph Scaturro
Linda D. Schwabenbauer
Mary A. Sprong
Karen L. Stickel
James M. Stone
James A. Tignanelli
Courtland J. Troutman
Basilios E. Tsingos
Gerald I. Wilson

Counsel:
Ropes & Gray LLP

Independent Auditors:
PricewaterhouseCoopers LLP