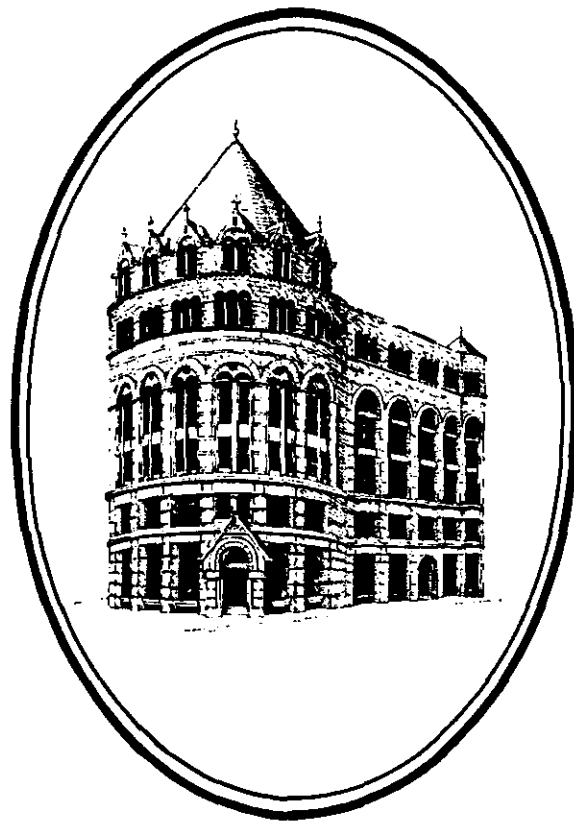


The Plymouth Rock Company



1984 Annual Report

The Plymouth Rock Company

INCORPORATED

177 Milk Street

Boston, Massachusetts 02109

Chairman's Letter

March 31, 1985

To Our Shareholders:

Plymouth Rock Assurance Corporation wrote its first policy of insurance on January 1, 1984. This is the first annual report. I am pleased to observe that 1984 was good to us. For that I want to thank our remarkably conscientious staff, our farsighted investors, and an agency force which is already the envy of our competitors.

We operate at Plymouth Rock according to a rigorous budgeting procedure. We admittedly expend more effort on detailed written projections and the tracking of actual results against budgets than most companies think necessary, but we believe this is worthwhile for us. It forces us to grade ourselves objectively, to explicitly debate changes in our course, and to test our knowledge of our own business against the very difficult standard of predictive accuracy.

This year, after our April budget review, we had to amend our projections to reflect something we came to learn about the current homeowners market in Massachusetts. We had expected to do over \$1.5 million in homeowners written premium for 1984. Our expectation reflected an underestimate of both the inertia involved in diverting business from accustomed markets and the fierce competition that presently characterizes Massachusetts homeowners. By the spring, it became apparent that we would either have to cut our rates just a few months after they took effect or scale back our projections. We chose not to make any premium adjustments in our maiden year and to accept the consequences for our 1984 volume. Our May budget anticipated premiums written of \$3.0 million in automobile insurance, \$0.5 million in homeowners and a bottom line consolidated loss for 1984 of \$480,000. This would have been, by insurance industry standards, a rather healthy start for a brand new entrant.

We actually did just a little bit better. Our written automobile volume was \$3.1 million. Our homeowners volume was \$0.6 million. The net loss for 1984 was \$260,000. A little more than half of the bottom line improvement was due to the conversion at midyear by our major investor, Central Securities Corporation, of two million dollars in interest bearing notes to preferred shares. This eliminated our long term debt and the accompanying interest burden. The rest of the improvement was due to favorable operating results.

Expense ratios in formative years tend to be well above normalized expense levels. The costs of our executive staff, data processing capabilities and other relatively fixed expenses are not matched by the expense provision in our small premium base. Economies of scale operate here, and the expense ratio will be high until those economies are realized. Until then, we will measure ourselves by our budgets. In 1984, we remained within our expense budget for the year, both in total and in the major subcategories. The 1984 expense ratio on the basis of Generally Accepted Accounting Principles was 56%. We hope to see it fall steadily each year until it settles at thirty points or below about five years from now.

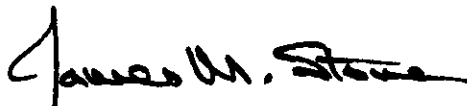
Our loss ratio is not subject to an economies of scale handicap. New companies generally have a disadvantage here from a different source. The business that floats most freely in the marketplace, and is thus easiest for a new company to attract, carries a higher loss ratio than firmly anchored business. We have gone out of our way to avoid the easy-to-get risks in our automobile underwriting and concentrated instead on seasoned business. The result is a 1984 loss ratio of 69%, a level we would be pleased to maintain forever. At some point, we expect to find that a trade-off develops between speed of growth and assurance of quality. If that occurs, we will be inclined toward the latter.

Our ability to grow and still hold our standards high in 1985 will be enhanced by Plymouth Rock's appointment in October of 1984 as a Servicing Carrier for the Massachusetts residual market, Commonwealth Automobile Reinsurers. As a servicing carrier, we will be

effectively obligated to take some business we might otherwise prefer to leave, but we will be permitted to decide, for each piece of our automobile book, whether to record the premium and losses for our own account or that of the industry. This gives us a continuing opportunity to screen our book. Pleased with the computerized underwriting model we have been using at our agents' offices, we are now building an even more sophisticated computer model to help us decide what to keep and what to cede. If we do not prove superior to the industry norms in risk selection, we will have been unsuccessful at one of our major goals.

There is less to say about our investment performance. We have adhered for the present to what might be described as a minimalist approach to portfolio risk. Our investments are more than 90% in debt securities issued or guaranteed by the federal government. Our average return this year was about 11.5%. We have selected this approach, which some may judge too conservative, principally because a portfolio of modest size is unlikely to generate enough incremental return to pay the direct costs of implementing a more complex strategy or the indirect costs of the risk it would embody.

The most important lesson of 1984 was a reconfirmation of what it takes to succeed in property casualty insurance. Selection of risk and service to the customer and agent are paramount. Our tasks are relatively straightforward. We must operate only in those lines of business we can analyze more accurately than our competitors; we must pick only those agents who can attract and hold a high quality of business; and we must scrutinize every risk individually to determine whether the price justifies the exposure. We must be quicker in both processing and claims than the other companies; we must be more accurate than the others; and we must be friendlier. These are our corporate objectives as we enter our second year. I will be surprised if they differ ten years from now.


James M. Stone

To the Board of Directors of
The Plymouth Rock Company:

We have examined the consolidated balance sheets of The Plymouth Rock Company as of December 31, 1984 and 1983, and the related consolidated statements of income, and changes in sources and uses of cash for the year ended December 31, 1984 and for the period December 8, 1982 (date of incorporation) to December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of The Plymouth Rock Company at December 31, 1984 and 1983, and the consolidated results of its operations and the changes in its financial position for the year ended December 31, 1984 and for the period December 8, 1982 (date of incorporation) to December 31, 1983 applied on a consistent basis.

Boston, Massachusetts
February 12, 1985

Coopers & Lybrand

THE PLYMOUTH ROCK COMPANY
CONSOLIDATED BALANCE SHEETS
December 31, 1984 and 1983

ASSETS	<u>1984</u>	<u>1983</u>
Marketable securities	\$ 4,519,568	\$3,275,428
Premiums receivable	5,142,597	-
Cash and short-term investments	195,660	137,992
Fixed assets	395,822	352,832
Accrued investment income	71,135	31,371
Deferred acquisition costs	212,938	-
Other assets	<u>5,884</u>	<u>2,200</u>
Total assets	<u>\$10,543,604</u>	<u>\$3,799,823</u>
LIABILITIES		
Losses and loss adjustment expenses	597,125	-
Unearned premiums	1,064,688	-
Advance premiums	5,354,031	312,891
Commissions	157,941	-
Amounts payable to reinsurer	141,774	-
Long-term debt	-	2,075,000
Other liabilities	<u>212,471</u>	<u>136,390</u>
Total liabilities	7,528,030	2,524,281
STOCKHOLDERS' EQUITY		
Preferred stock	3,500,000	1,500,000
Common stock	3,000	3,000
Additional paid-in capital	27,000	27,000
Retained deficit	<u>(514,426)</u>	<u>(254,458)</u>
Total stockholders' equity	<u>3,015,574</u>	<u>1,275,542</u>
Total liabilities and stockholders' equity	<u>\$10,543,604</u>	<u>\$3,799,823</u>

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF INCOME

for the year ended December 31, 1984 and
for the period December 8, 1982 (date of incorporation)
to December 31, 1983

	<u>1984</u>	<u>1983</u>
Revenues:		
Premiums earned	\$2,240,898	
Interest income	<u>443,393</u>	<u>\$ 301,025</u>
	<u>2,684,291</u>	<u>301,025</u>
Losses and expenses:		
Losses and loss adjustment expenses	1,546,682	-
Underwriting, general and administrative expenses	1,247,569	419,879
Investment expenses	54,714	-
Interest expense	<u>99,379</u>	<u>135,604</u>
	<u>2,948,344</u>	<u>555,483</u>
Operating loss	(264,053)	(254,458)
Realized investment gain	<u>4,085</u>	<u>-</u>
Net loss	<u>\$ (259,968)</u>	<u>\$ (254,458)</u>

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF SOURCES AND USES OF CASH

for the year ended December 31, 1984 and
for the period December 8, 1982 (date of incorporation)
to December 31, 1983

	<u>1984</u>	<u>1983</u>
Sources of cash:		
Net loss	\$ (259,968)	\$(254,458)
Change in noncash items:		
Depreciation	86,271	16,722
Insurance reserves	1,661,813	-
Deferred acquisition costs	(212,938)	-
Accrued investment income	(39,764)	(31,371)
Premium balances receivable, net of advance premiums	(101,457)	312,891
Other	<u>366,211</u>	<u>134,190</u>
Cash provided by operations	<u>1,500,168</u>	<u>177,974</u>
Carrying value of investments sold	92,450	-
Investment repayments	26,662	-
Borrowings	-	2,075,000
Issuance of capital stock	<u>2,000,000</u>	<u>1,530,000</u>
Total cash provided	<u>\$3,619,280</u>	<u>\$3,782,974</u>
Use of cash:		
Investments in fixed maturities	1,360,951	3,275,428
Fixed assets	125,661	369,554
Conversion and repayment of borrowings	<u>2,075,000</u>	<u>-</u>
Total cash used	<u>3,561,612</u>	<u>3,644,982</u>
Net change in cash and short-term investments	<u>\$ 57,668</u>	<u>\$ 137,992</u>

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

THE PLYMOUTH ROCK COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

a. Principles of Consolidation

The consolidated financial statements include the accounts of The Plymouth Rock Company from December 8, 1982 and its subsidiary Plymouth Rock Assurance Corporation since April 22, 1983, their respective dates of incorporation. The Plymouth Rock Company is the beneficial owner of all the shares of Plymouth Rock Assurance Corporation. All significant intercompany accounts and transactions have been eliminated.

b. Marketable Securities

Marketable securities are comprised entirely of fixed-income investments carried at amortized cost. Market values were approximately \$4,482,197 and \$3,232,000 at December 31, 1984 and 1983, respectively.

c. Fixed Assets

The Company provides for depreciation and amortization principally on the straight-line method by charges to expense which are sufficient to write off the cost of the assets over their estimated useful lives and over the term of the lease for leasehold improvements. Maintenance and repairs are charged to expense as incurred.

At December 31, 1984 and 1983 the components were as follows:

	<u>1984</u>	<u>1983</u>
Furniture and fixtures	\$ 83,001	\$ 63,144
Office equipment	9,317	8,530
Computers	325,916	236,326
Leasehold improvements	<u>76,981</u>	<u>61,517</u>
	495,215	369,554
Less accumulated depreciation and amortization	<u>99,393</u>	<u>16,722</u>
	<u>\$395,822</u>	<u>\$352,832</u>

Continued

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, continued:

d. Income Taxes

The Company intends to provide for taxes on income or loss as reported in the consolidated statements of income, adjusted for permanent differences between book and taxable income and for tax credits. The investment tax credit is accounted for using the flow-through method. At December 31, 1984 a net operating loss carryover of approximately \$452,000 and an investment credit carryover of approximately \$34,000 were available to reduce future years' federal taxable income and tax liability, respectively. The carryovers and the credits expire in the years 1998 and 1999.

e. Premiums

The Company reports premium revenues as earned on a pro-rata basis over the terms of the policies. Unearned premiums represent amounts which are applicable to the unexpired term of policies in-force, net of reinsurance. The Company has classified as advance premiums as of the balance sheet date amounts received or billed each year which are applicable to policies with effective dates in January of the following year.

f. Losses and Loss Adjustment Expenses

The liability for losses and loss adjustment expenses includes estimated provisions for claims incurred and related expenses determined on the basis of claim adjusters' evaluations, and reports from underwriting pools or associations in which the Company has a participation. Such estimates are continually reviewed and updated and any adjustments resulting therefrom are reflected in operating income currently.

g. Deferred Acquisition Costs

Commissions and premium taxes incurred are deferred and amortized pro-rata over the contract periods in which the related premiums are earned. The amount amortized to operations during 1984 was \$448,000. All other acquisition costs are charged to operations as incurred.

Continued

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

2. Long-Term Debt:

At December 31, 1983 long-term debt consisted of the following:

Note payable to stockholder, dated June 1, 1983, due May 31, 1991	\$2,000,000
Promissory note, maturing August 1986	<u>75,000</u>
	<u>\$2,075,000</u>

At December 31, 1984 there was no long-term debt outstanding as the \$2,000,000 note payable to stockholder had been converted into preferred stock (see Note 3) and the promissory note was repaid in its entirety.

3. Stockholders' Equity:

Stockholders' equity is comprised of the following:

	<u>1984</u>	<u>1983</u>
Preferred stock, no par value:		
Series A, 4% voting, cumulative convertible; authorized, issued and outstanding - 10,000 shares	\$ 250,000	\$ 250,000
Series B, 4% non-voting cumulative convertible; authorized, issued and outstanding - 50,000 shares	1,250,000	1,250,000
Series C, 4-7% non-voting cumulative convertible; authorized, issued and outstanding - 28,572	2,000,000	-
Common stock:		
Class A, \$.10 par value - voting; authorized 128,572 shares, issued and outstanding 30,000 shares	3,000	3,000
Additional paid-in capital	27,000	27,000
Retained deficit	<u>(514,426)</u>	<u>(254,458)</u>
	<u>\$3,015,574</u>	<u>\$1,275,542</u>

Continued

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

3. Stockholders' Equity, continued:

In June 1984 the note payable to stockholder described in Note 2 was converted into the Series C preferred stock and the authorized number of Common-Class A voting shares was increased from 100,000 to 128,572.

All of the outstanding common and Series A and B preferred stock was issued in December, 1982.

At December 31, 1984 there are 88,572 shares of Common-Class B non-voting stock with a \$.10 par value authorized, none of which are issued or outstanding.

The Preferred-Series A, B, and C stock may be converted into an equal number of shares of Common-Class A or B stock at the option of the owner, at any time, or by the Company contingent upon the occurrence of certain events or conditions specified in the corporate articles of organization. Also, owners of any Common-Class B stock outstanding may at any time exchange any such shares for an equal number of shares of Common-Class A stock.

In the event of involuntary liquidation preferred Series A and B shareholders are entitled to \$25 per share and preferred Series C shareholders are entitled to \$70 per share in preference to the common stock. At December 31, 1984 preferred shareholders are also entitled when declared or in the event of involuntary liquidation to dividends amounting to \$160,000.

4. Stock Options:

The Company has an incentive stock option plan for certain key employees. The plan authorizes the issuance of options for up to 10,000 shares of Common-Class A voting stock. The exercise price and expiration date are determined by the Board of Directors. At December 31, 1984 and 1983 options were issued and outstanding for 5,000 shares exercisable at \$25 per share and 5,000 shares exercisable at \$40 per share, and which expire in 1988.

5. Commitments:

Rental expense for 1984 (net of sublease rental income of \$67,000) aggregated \$98,000. The Company leases office facilities for which the minimum lease commitments are as follows:

Continued

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

5. Commitments, continued:

<u>Year</u>	<u>Gross Rental Expense</u>	<u>Sublease Income</u>
1985	\$146,000	\$33,000
1986	146,000	33,000
1987	215,000	-
1988	107,000	-
	<u>\$614,000</u>	<u>\$66,000</u>

Under the existing lease, there are no material contingent rentals or restrictions imposed on the Company.

6. Related Parties:

Central Securities Corporation, the holder of the Company's \$2,000,000 promissory note described in Note 2 and which was outstanding through part of 1984, is also owner of all the outstanding preferred stock. Interest expense on this debt was approximately \$98,000 and \$127,000 for 1984 and 1983, respectively.

7. Reinsurance:

Reinsurance ceded is utilized to reduce exposure to large losses. Premiums earned, unearned premiums, and the liability for unpaid losses and loss adjustment expenses are reflected net of reinsurance ceded in the amounts of \$250,000, \$154,000, and \$77,000, respectively. The Company remains primarily liable as the direct insurer on all risks.

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, Chairman

James N. Bailey

Wilmot H. Kidd, III

Keith R. Rodney

C. Carter Walker, Jr.

Officers

James M. Stone,
President and Chief Executive Officer

Keith R. Rodney,
Senior Vice President and Secretary

James N. Bailey,
Treasurer

Directors and Officers of Plymouth Rock Assurance Corporation

Directors

James M. Stone, Chairman

James N. Bailey

Alexander Ellis, Jr.

Wilmot H. Kidd, III

Keith R. Rodney

Maurice H. Saval

C. Carter Walker, Jr.

Officers

James M. Stone,
President and Chief Executive Officer

Keith R. Rodney,
Senior Vice President and Secretary

James N. Bailey,
Treasurer

William M. Kelley,
Vice President - Claims

Counsel: Ropes & Gray, Boston

Auditors: Coopers & Lybrand, Boston