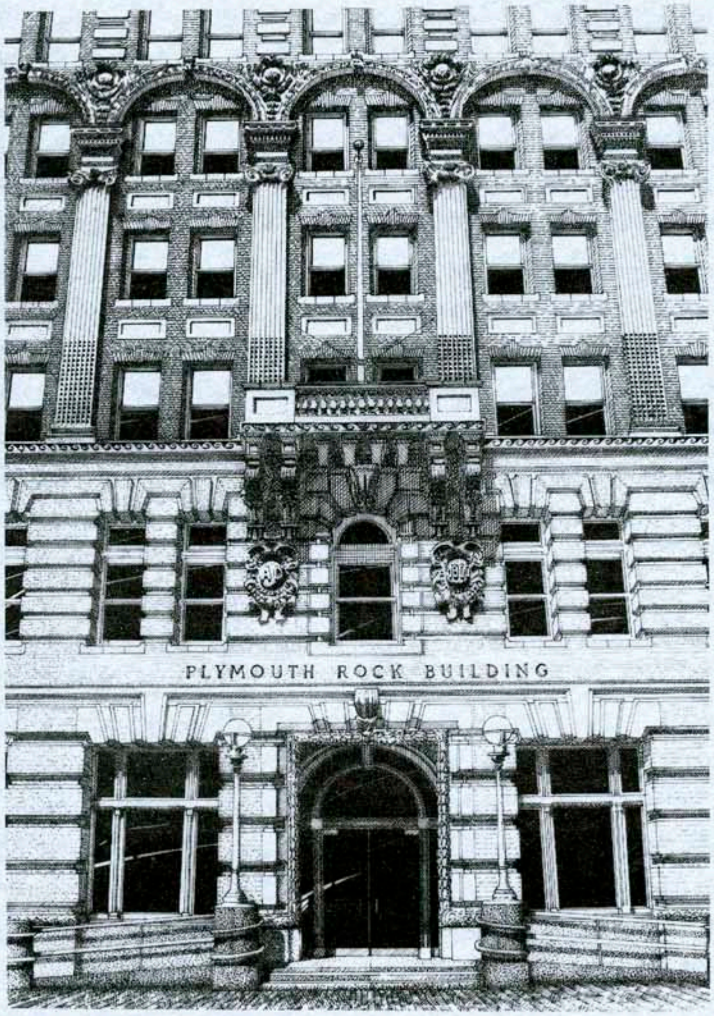
The Plymouth Rock Company



2007 Annual Report

The Plymouth Rock Company
695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 29, 2008

To Our Shareholders:

Plymouth Rock did not have an easy 2007. Net income for the group was $36.3 million, down almost a third from last year's profit level. The return on shareholders' equity was nearly 15%, a number that would make many corporations happy -- but not ours. This past year provided you around half the rate of return on equity the Company has been accustomed to delivering since 2004. It would be possible to excuse the disappointing results by noting that last year's report described $10 million of 2006 profits as a residual market reserve release not likely to be repeated any time soon -- or by observing that profits are down for other automobile insurers in our key states and around the country because of a general upward inflection in claim frequency. While these explanations are completely accurate, they blur the most important part of the story…and they let Hal Belodoff and me off the hook more quickly than we deserve. The most salient fact to convey to you in this letter is that performance at Plymouth Rock Assurance, our New England automobile insurance writer and our flagship company, was worse than it needed to be. Profit performance in New Jersey was substantially better than here in New England, although High Point Insurance, the largest New Jersey business we manage, joined Plymouth Rock Assurance in top line decline. As a consequence our entire group ended the year 3.6% smaller than it began 2007.

Neither the diminution in writings nor the reduced profits prevented shareholders' equity for our group from rising by 11.5% to $277 million, even after payment of a $13 million common stock dividend. The book value is now $1,514 per share, and the cumulative book value return since 1983 is 18.7%, a tenth of a point below last year's number but still a result we can look upon with satisfaction.

The major story in 2007 was here in Massachusetts. The New England underwriting companies taken together wrote $315 million in gross premiums during 2007, about $20 million less than they wrote in 2006, and their return on gross premiums written was 4% against a 7.5% target for that measure. The top line results actually reflect a year quite close to flat with respect to Plymouth Rock Assurance's market share and the number of cars it insures, since state-set premiums for Massachusetts automobile insurance, by far our largest line of business in New England, were reduced by 11.7% when new rates took effect in the spring. A flat market share is far from disaster, though flat is a pretty accurate description of how it feels. The bottom line is where the serious issues lie. The absolute profit numbers are unsatisfactory, and a worse rub is that we are underperforming our peers in profitability. In fact, the more deeply Hal and I looked into the subject of relative performance, the more we both became convinced that Plymouth Rock Assurance has underperformed for some time. You have all heard me say over the years that Plymouth Rock is less than exemplary in its expense management. It now appears that we were not fully making up the gap, as I had thought and too often reported to you, on the loss ratio side of the house.

I should provide some numbers to elucidate the situation as we now see it. Comparing results among insurers for any single year, though, can be misleading. One always wonders whether contrasting companies were in the same reserve situation at the start and end of the period, and whether expenses were accelerated or slowed during the year in question. I have come to depend mainly on five-year results and current trends. A look at Plymouth Rock Assurance versus its two largest primarily domestic competitors over the last five years shows our company a full five points higher in combined ratio than the average of the other two. Our direct loss ratio was only about average among the three for the period, certainly not good enough to make up for a more expensive cost structure. The picture is darker when trends are considered. At the start of the five-year period, Plymouth Rock Assurance had a better loss ratio than the two peers. But our loss ratio gradually worsened relative to the others, and by 2006 it was the highest of the three. Recent claims experience is thus adding to the expense gap it used to cancel. Hal and I are chagrined by these results, as well as our failure to see them coming. To repair them we have launched "Operation Flagship", a highly focused project to cut operating expenses at Plymouth Rock Assurance, to make sure that we are paying exactly what each claimant deserves and never more or less, and to reemerge as a superior performer in our peer group. We will be aided in this endeavor by some talented recruits to our vice presidential ranks. Andrew Rippert has joined us as Chief Underwriting Officer, taking responsibility for our Plymouth Rock Fellows, and for all New England underwriting, product and pricing decisions. Bill Hartranft is the new Chief Financial Officer, succeeding Eric Kramer who is now working full time in Hal's office of the president. Bill Tsingos is the new General Counsel. Mike Cesinger will head up the claims department when Frank Arment, whom we were fortunate enough to have hired out of a first retirement fifteen years ago, retires once again in 2008. You have every right not just to ask but to demand that Operation Flagship succeed.

Plymouth Rock Assurance will be in the forefront of our thinking in 2008 for another reason as well. In April, Massachusetts auto insurance will make the transition to a competitive rating environment. As a business matter, we are comfortable with competitive rates and the assigned risk approach to the residual market favored by the Commissioner. On the public policy questions involved, our enthusiasm is in check. We fear for those drivers at the lower end of the income spectrum and in our cities if the state's unique affordability and availability protections are allowed to erode. We are also concerned about a potentially large residual market pool and the emergence of a substantial uninsured driver population. The Commonwealth says it is mindful of these issues, but we have not seen enough detail from the regulators to be confident that Massachusetts' high standard of fairness can be maintained under the new system. Having said this, we all recognize that public policy decisions are not ours to make. They are the domain of elected officials or their appointees, and in this case some particularly competent ones. Their process has been deliberate, and many of the decisions that affect our areas of concern are yet to be made. We will do our best to make the new system work, and we have filed and gained approval for our first set of competitive rates in Massachusetts.

Results in Connecticut have been poor for some time, but 2007 reaffirmed that things can always get worse. In the insurance business, that can mean getting worse retroactively. Midyear in 2007 our overseer of Plymouth Rock operations in Connecticut, Thom Cranley, told us that the claims there had been underestimated in past years and reserves would have to be strengthened. The direct consequence of this reserve strengthening was a bigger loss for the 2007 accounting period than actually belonged to that period. In fact, the loss ratio for accidents actually occurring in 2007 was the best in our Connecticut history, and Thom is actively appointing new agents. New Hampshire's operation is roughly the same size as Connecticut's and also under Thom's purview. For the last few years taken together, New Hampshire has operated at about breakeven for us. With a more sophisticated product now in place and an ambitious program of agent appointments planned for 2008, Thom expects to see volume grow and both loss ratio and expense ratio improve. We may all be wearing rose-colored glasses, and you may accuse me of being too patient in our small-volume states, but we are not saying Uncle. These states are, at a minimum, good laboratories for Plymouth Rock.

Bunker Hill Insurance, our New England homeowners writer, grew modestly and made money for us, but the results lagged both 2006 results and budgeted 2007 amounts. While premiums rose at Bunker Hill by 3.3%, the net income of just over a million dollars was only half of the previous year's number. Among the culprits was an expense ratio that has never been properly tamed. Reinsurance purchasing was an area of progress at Bunker Hill in 2007. John Tierney, who has just recently left our group of companies, restructured the retention program to accept a little more risk and save a more than commensurate portion of the cost. Bunker Hill is also improving its product refinement. The benefits of these two initiatives should appear in the 2008 numbers. We are exploring approaches to expanding somewhat our homeowners risk retention in the future.

Our three insurance management companies oversaw $699 million in writings, of which $648 million arose from our New Jersey reciprocal operations. The three taken together produced $18.4 million in profits for the group. My overall earnings target for our management companies comes to about 3.5% on gross writings, so their 2.6% return on their writings represents less than a full success. Their profits, though, were better than their top line results. The writings of the Palisades reciprocal in New Jersey grew from $157 million to $166 million, a 6% growth that looks even better when one considers that that company's average premium fell, along with other New

Jersey insurers' prices, by roughly 6%. The writings overseen by the other two management companies, High Point and Pilgrim Insurance, however, fell by $14 million and $11 million, respectively. The fastest growing company in our entire group in 2007, Palisades deserves first place in the discussion order.

When fully competitive rates were introduced in New Jersey a few years ago and the direct writers jumped in with their massive advertising budgets, I'm sure many a local insurance executive wondered whether the independent agency companies could survive the onslaught. Some of our New Jersey staff and agents probably worried about Palisades' future. Indeed, the independent agents in New Jersey have lost some market share since the direct response giants entered the state…but Palisades has actually gained market share since then. Palisades, in fact, is now the second largest independent agency carrier in New Jersey; only Travelers is larger in that market segment. Considerable credit is due to Ed Fernandez and his outstanding management team. Palisades has first-rate agent relationships, excellent product and service capabilities, and a long record of minimal consumer complaints. There is every reason to expect its success to continue.

The High Point group remains our largest family member, with $480 million in New Jersey automobile and homeowners insurance premiums written. We acquired this business, as well as High Point's dominant distribution source, from Prudential in 2003, and we knew at the time that it would be tough to keep the Pru sales engine running at full steam while Pru itself was de-emphasizing property and casualty lines. The agents remain on a Pru payroll, not ours, and retirements in their ranks exceed new appointments. The issue was never whether we could keep 100% of the business on Pru's books at the time of the acquisition, but how long it would take us to build new distribution strength with the Pru agents and through alternative channels, so that the annual growth would more than make up for inevitable attrition. The growth challenge is not so much a consequence of the competitive product environment as it is an expected attribute of the original transaction. High Point's volume has indeed fallen since the acquisition but there is no fear of its hemorrhaging. This past year the voluntary auto book of business fell in dollar volume by 2.3%. This means that the number of voluntary automobile exposures written and the voluntary market share actually grew, since the average premium in that segment of the book decreased by close to 5%. The Pru force, we are pleased to say, includes many talented, energetic, and highly successful professionals. They come with good training, a strong tradition, large rolodexes, and a brand name known everywhere. Paired with our staff at High Point, they provide a level of customer service few companies outside of our family can match. Gerry Wilson and Jim Tignanelli have spent a great deal of time and energy on how to best motivate the Pru force to sell more of our product, and they are making progress. In March, with wide support from the agents, Pru renewed its distribution contract with us for another seven years.

At the top of Gerry Wilson's list for 2008 are two tasks that have implications for our entire family of companies: strengthening our decision support analytics to take our companies to the cutting edge in product sophistication and competitive agility; and the development of our web marketing skills. We consider that excellence in the use of the Internet is still a story in the making for the insurance industry. There is no reason not to try to set the standard in a medium where creativity and analysis are as important as large budgets.

Our New Jersey companies have always been particularly good at acquisitions. This past year, Gerry and Marc Buro negotiated High Point's purchase of GMAC's automobile insurance book. That book, which is moving to High Point month by month as policies renew, brings new and interesting group marketing opportunities to High Point for expansion in the near future. In the here and now, it is nice to know that the GMAC book should provide enough volume to assure year over year growth for High Point in 2008. Gerry is sleeping better now.

Pilgrim Insurance, too, fell somewhat short of its goals for 2007. Our Massachusetts-based insurance management company suffered from the uncertainties of a pending reform that left potential customers waiting on the sidelines for more definition. At the same time, there was continuing depopulation of the state's residual market, good and healthy for the system but bad for Pilgrim's business. Managed premiums were down $11 million, and net income dropped accordingly to less than $1 million. Ellen Wilcox, Pilgrim's president, views this year as transitional. Pilgrim is ready for the new managed competition environment as we enter 2008, and it appears from recent marketing discussions that its Massachusetts customers are ready now as well. In 2007, Ellen launched Pilgrim's Connecticut commercial auto insurance program, and this coming year she plans to help Palisades with its commercial auto offering in New Jersey.

This past year was no fun for many investors, but quite kind to our investments at Plymouth Rock. In part, this is because Plymouth Rock has changed its portfolio asset allocation considerably in the past few years; we do better in equities than in fixed income securities. A portfolio that was invested 66% in bonds and cash in 2005 is now held 56% in bonds and cash, and I expect it will continue in that direction. If you ask whether this is wise in such an uncertain stock market environment, I would respond that it is wise prospectively in almost any market environment. Yes, it is true that stocks can be volatile and risky, but as we see it the interest rate and credit dangers inherent in owning bonds make their risks just about as great, and with less generous compensation for the hazard involved. And, yes, it is true that the equity market and the economy right now have uncertain prospects, but we are long-term holders and it is in markets like these that bargains are found.

The total return on investments during 2007 for the Plymouth Rock portfolio was 12.0%, 365 basis points higher than our from-inception average return. Our bonds returned 5.4% and underperformed their benchmark by a bit, but our stocks returned 15% in a year when the relevant common stock indices were sideways at best. As they like to say on Wall Street, that's not so shabby. Plymouth Rock has always held an intentionally undiversified portfolio of common stocks, usually half a dozen stocks or fewer. Merck and Intel common shares were our star performers in 2007, both up by more than 30%. And yet again I can report, with appropriate thanks to Jim Bailey and Rick Childs, that our all-time common stock IRR since 1993 exceeds 20%. The alternative equity category, our non-marketable equity holdings led by our position in Lindsay Goldberg, also performed beautifully in 2007, returning 24%. Our real estate purchases in downtown Boston continue to be a winning doubleheader, exceeding original goals in both appreciation and cash-on-cash return.

Most years, I try to spend a part of this letter looking in depth at a selected element of our investment philosophy or economic events that may affect our portfolio. For the last two years, I have focused on the private equity business. To do so again would be repetitious, but I do want, very briefly, to summarize and reiterate last year's points. While we at Plymouth Rock believe that fruitful private equity opportunities will continue to exist indefinitely for reasons of economic structure and human nature, we believe just as strongly that a shakeout is coming that will separate the best and most constructive private equity investors from the rest. We continue just as firmly to disbelieve that returns on historical private equity investments have been as high as the readily accessible published numbers show; to disbelieve that present returns, whatever they may be, can be sustained in an environment with tightening credit and too much money chasing the same deals; and to disbelieve that all private equity fund managements are created equal, or anywhere near so, in competence.

This year, I would like to comment a bit on an issue and a half in the penumbra of the current subprime mortgage market debacle. The first issue concerns the behavior of the lending industry and current state of financial regulation. In the 1980's both the savings and loan industry and the commercial banking industry went through periods of severe crisis, and there were ample lessons to go around when the dust settled. Mortgage originators, whether banks or not, could see that underwriting default risk on loans is much more difficult than origination and requires different skill sets. By the same token the ultimate lenders should have learned that when originators don't have a stake in outcomes, their motivation to be prudent about who qualifies for loans, and to assure that the applications are honest, diminishes. The simplest available observation was that you can't simultaneously borrow massively in short-term markets, lend those funds out for long durations, and enjoy any but a fool's peace of mind. The public policy community should have learned that banks so large, or so integral to our economic fabric, that they cannot be allowed to fail can easily tend to translate that feeling of security into too much willingness to take on risk. And I might add, though few seem to agree with me here, that we all should have learned the dangers of mixing oversized institutions with overly complex instruments. By "oversized" I mean any business so large that top management, however brilliant and well-staffed, cannot comprehend the true risk posture of the institution. By "overly complex" I mean instruments whose true riskiness is close to indecipherable because, for example, the outcomes are subject to hidden correlations in their vulnerabilities, exposed to low probability-high severity events that defy historical study, or dependent on game theory sequences written into their underlying legal terms.

For a while, after the 1980's crises, it seemed as though many of the private industry lessons had been well learned. Banks in particular seemed to be concentrating on originating mortgages, then securitizing and selling off most of the debt tranches; and at many financial institutions there was an enhancement of enterprise risk management techniques that helped keep borrowing and lending sources better matched. Unfortunately, the learning seems to have faded over time. No one wanted to be left behind when the underwriting risk began knocking, with seductive profitability at first, at the back doors of the originators, but with less discipline than in the past because the mortgage application and screening process had occurred far outside the securitized vehicles. The whole psychology was reminiscent of what happens in our own industry when there hasn't been an earthquake or a hurricane in a particular region in a long time: memories fade, and myopia dominates analysis. In the most telling and repeated quote so far about this period's pervasive decline in loan underwriting rigor, one respected banking leader said: "As long as the music is playing, you've got to get up and dance." The statement has elicited many reactions. Mine is that, if this is so, it supports the case for better regulation.

The public policy lessons from the situation a few decades ago, unfortunately, were even less well absorbed than the private industry lessons. Regulation of finance has been on the defensive for the last three decades. There used to be, since the 1930's, a nearly universal consensus that the financial sector needed oversight at least with respect to its marketing practices, its use of leverage, and its disclosure standards. This is a consensus that ought to be restored, but I am not optimistic that it will be. The overall anti-government political tide of recent times has been one contributor to deregulatory fervor. Another has been the recent surge in the influence of campaign money on politics, an ill that seems to strengthen and ebb in cycles through American history and is currently in a waxing phase. A third force has been globalization, a generally welcome trend but a side effect of which has been a competitive race to the bottom in the supervision of financial activities everywhere. I cannot say for sure that there have not been benefits from freer financial markets. Perhaps, though I am not entirely convinced, cost of capital for real investment has actually been reduced by the explosion of less regulated trading. But, in my judgment, systemic protection and consumer protection have been too greatly diminished. There should have been better point-of-sale oversight in the subprime mortgage market. There should have been less opportunity for financial institutions to take on risky liability positions and fail to reflect the underlying realities on their balance sheets. And there should have been better regulatory scrutiny of the leverage and correlated event exposure inherent in many of the securitized instruments. We are all placed unnecessarily at risk by the lack of regulation. These are times I feel fortunate to be in an industry whose cycles are endogenous and not particularly correlated with broader economic events.

I referred above to an issue and a half because I have only a few sentences, with no conclusion, to offer on the second topic: the consequences of rising investment in the United States financial sector by sovereign wealth funds. I have long believed the United States wise not to let our own government, under ordinary circumstances, hold equity interests in our businesses. Governments are not persons, even to the dubious extent that corporations are (the remarkable 1886 *Santa Clara County* decision of the U.S. Supreme Court notwithstanding); governments are hard to discipline and they are not traditionally subject to the same ethical standards as natural persons. Their behavior is further from pure profit-maximization than that of individuals; they inevitably have other -- and often more pressing -- economic and political motives for their actions. Although sovereign wealth funds are neither new nor intrinsically evil, and I would certainly not expect them to invest their reserves without regard for available public equity markets, I expect their new visibility to create some tough nuts for policymakers. Jim Bailey is more optimistic than I that relatively painless regulatory solutions can crack those nuts; perhaps I see the range of likely behaviors and motives of investing governments in the future as wider than he does. To me, the combination of impacts from huge and continuing U.S. payment outflows and the reinvestment by foreign governments of those dollars here in key financial businesses seems ever more certain to influence the lives of the next American generation.

The space allocated in this letter to Homesite and Response, where Plymouth Rock and I continue to hold investment positions, will be less than it has been in the past. This is not because their stories are any less interesting, but because I am no longer chairman of either company and Plymouth Rock no longer plays an important role in any part of their management other than investments. Both companies have strong CEO's, long-horizoned and deep-pocketed investors, and capable Boards of Directors. Response, which grew by 4% on a net loss of about $5 million, had a better 2007 than many of its peers in the direct response automobile insurance business. It still needs, however, to find its creative marketing stride and, with that stride, enough volume to earn a reliable profit on its accumulated renewal book. Homesite Group is doing just fine. Underwriting homeowners insurance via referrals from well-known corporate mega-partners, it is now closing in on quarter-billion dollar per year scale and shows no sign of slowing down. It earned a substantial profit in 2007 and there are no known clouds on its horizon for 2008. I look forward to the day when both Homesite and Response reach the billion dollar mark that Plymouth Rock passed in 2003 (and which I surely hope we won't have to pass again). Little could make me prouder in my business career than to have been a principal founder of three different billion dollar companies, all highly respected for their business practices, their acumen, and their good citizenship.

James M. Stone

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
125 High Street
Boston, MA 02110-1707
Telephone (617) 530 5000
Facsimile (617) 530 5001
www.pwc.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
The Plymouth Rock Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in stockholders' equity present fairly, in all material respects, the financial position of The Plymouth Rock Company and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Boston, Massachusetts
February 29, 2008

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

Assets	2007	2006
Cash and cash equivalents	$ 61,898,693	$ 41,497,830
Investment securities	400,148,774	378,822,101
Accrued investment income	3,426,465	3,279,971
Premiums receivable	95,923,366	100,822,806
Deferred acquisition costs	9,541,592	11,715,935
Receivable from reinsurers	37,052,722	32,230,909
Amounts due from service clients	13,285,649	14,539,408
Prepaid expenses, agent loans, and deposits	7,160,634	7,354,490
Real estate	23,014,040	24,395,073
Fixed assets	45,050,097	55,219,967
Goodwill and intangible assets	3,196,518	3,946,370
Other assets	2,448,813	2,680,914
Total assets	$702,147,363	$676,505,774
Liabilities		
Claim and claim adjustment expense reserves	$145,924,331	$143,587,929
Unearned premium reserve	113,397,929	123,062,244
Advance premiums	7,310,559	7,060,606
Commissions payable and accrued liabilities	79,926,805	72,196,981
Payable to reinsurers	35,067,714	37,476,980
Unearned service fees	33,923,679	32,612,027
Amounts due to service clients	5,395,116	5,594,963
Deferred income taxes	1,656,265	2,614,715
Note payable	-0-	1,936,680
Income tax payable	2,331,686	1,501,471
Other liabilities	28,834	337,633
Total liabilities	424,962,918	427,982,229
Stockholders' Equity		
Common stock and paid-in capital	25,682,123	25,224,933
Retained earnings	234,601,433	211,460,113
Net unrealized gain on investments	16,900,889	11,838,499
Total stockholders' equity	277,184,445	248,523,545
Total liabilities and stockholders' equity	$702,147,363	$676,505,774

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, 2007 and 2006

Revenues	2007	2006
Premiums earned in underwriting activities	$241,207,416	$262,624,050
Fees earned from service activities	181,569,978	190,027,204
Investment income and capital gains	34,277,796	33,239,227
Total revenues	457,055,190	485,890,481
Expenses		
Claims and claim adjustment expenses	179,508,818	170,631,588
Policy acquisition, underwriting, and general expenses	72,189,772	78,247,534
Service activity expenses	148,224,226	153,195,082
Total expenses	399,922,816	402,074,204
Income before income taxes	57,132,374	83,816,277
Income taxes	20,817,748	29,907,491
Net income	$ 36,314,626	$ 53,908,786

Per share data		
Weighted average common shares outstanding:		
Basic	179,873	179,797
Fully diluted	182,505	182,310
Net income per share:		
Basic	$ 201.89	$ 299.83
Fully diluted	$ 198.98	$ 295.70
Common shares outstanding at end of year	183,057	182,988
Common stockholders' equity per share	$1,514.20	$1,358.14

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, 2007 and 2006

Cash flows from operating activities	2007	2006
Gross premiums collected	$318,934,381	$321,520,199
Reinsurance premiums paid	(85,608,670)	(67,416,134)
Finance charges collected	5,368,060	6,498,228
Fees and commissions collected	185,092,906	189,619,358
Investment income and capital gains received	31,599,307	28,193,337
Gross claims and claim expenses paid	(219,204,275)	(210,836,155)
Reinsured claims and claim expenses collected	45,365,599	36,254,737
Policy acquisition, underwriting, and general expenses paid	(68,423,504)	(67,566,708)
Income taxes paid	(23,752,621)	(33,174,165)
Service activity expenses paid	(127,014,249)	(136,869,280)
Net cash provided by operating activities	62,356,934	66,223,417
Cash flows from financing activities		
Payment on note payable	(1,936,680)	(968,340)
Issuance of common stock	173,190	174,020
Dividends to stockholders	(13,173,306)	(10,936,249)
Change in liabilities for outstanding checks	4,533,537	106,295
Net cash used in financing activities	(10,403,259)	(11,624,274)
Net cash provided	$ 51,953,675	$ 54,599,143
Investment of net cash provided		
Change in cash and cash equivalents	$ 20,400,863	$ (60,540,469)
Net investment activity	13,472,132	92,188,383
Purchase of goodwill and intangible assets	2,501	46,863
Net real estate activity	(254,082)	1,842,860
Purchases of fixed assets	18,332,261	21,061,506
Net cash invested	$ 51,953,675	$ 54,599,143

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

THE PLYMOUTH ROCK COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2007 and 2006

	Common Stock and Paid-in Capital	Retained Earnings	Net Unrealized Gain on Investments	Total Stockholders' Equity
December 31, 2005	$24,766,913	$168,487,576	$ 3,698,636	$196,953,125
Comprehensive income	-0-	53,908,786	8,139,863	62,048,649
Issuance of common stock	458,020	-0-	-0-	458,020
Dividends to stockholders	-0-	(10,936,249)	-0-	(10,936,249)
December 31, 2006	25,224,933	211,460,113	11,838,499	248,523,545
Comprehensive income	-0-	36,314,626	5,062,390	41,377,016
Issuance of common stock	457,190	-0-	-0-	457,190
Dividends to stockholders	-0-	(13,173,306)	-0-	(13,173,306)
December 31, 2007	$25,682,123	$234,601,433	$16,900,889	$277,184,445

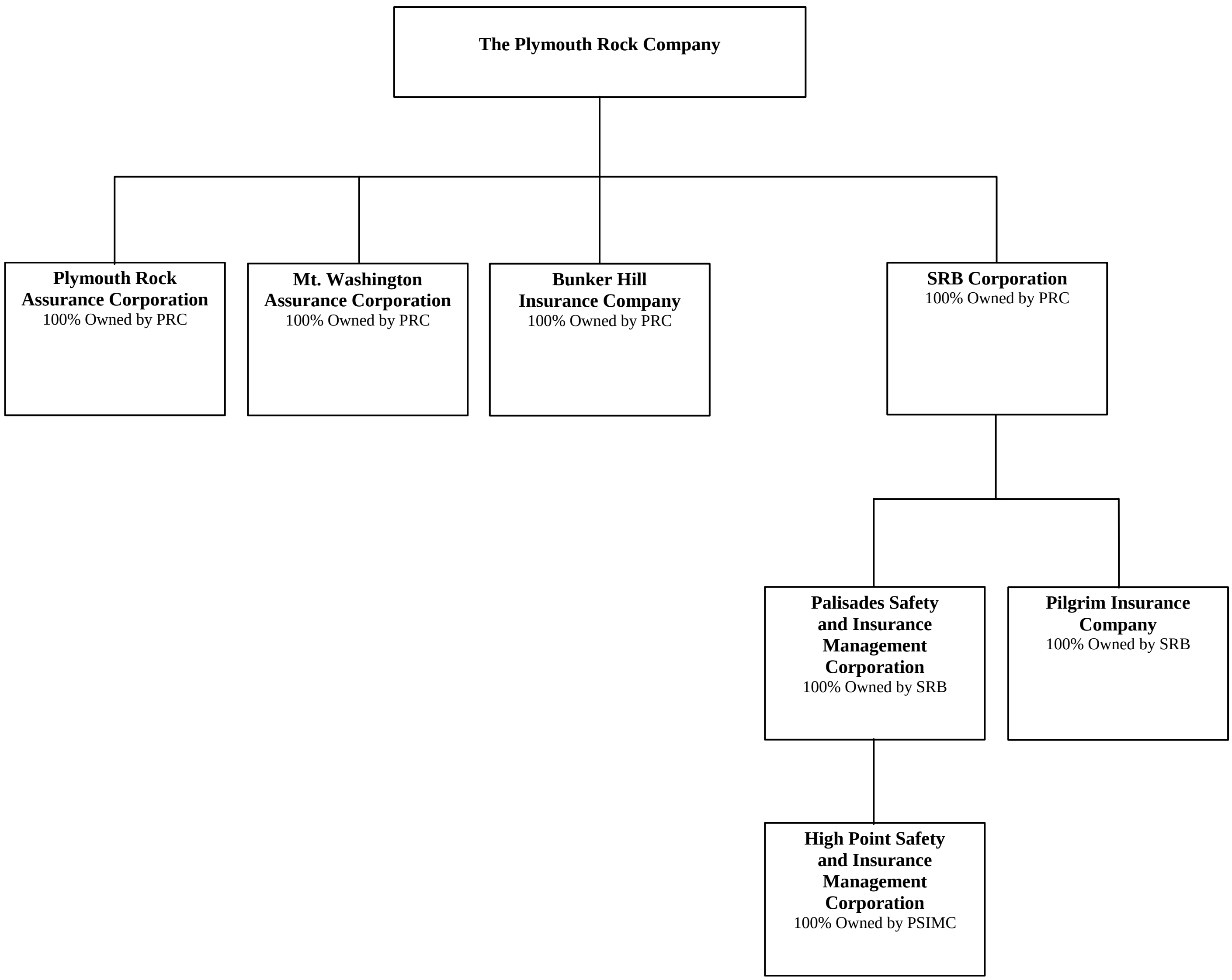
The accompanying notes are an integral part of the financial statements.

THE PLYMOUTH ROCK COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization of the Plymouth Rock Companies

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



Other affiliates include 99 Bedford Corporation and 695 Atlantic Avenue Company, LLC, which own real estate, as well as Shared Technology Services Group Inc. and BCS Holding Company, LLC, which are wholly owned subsidiaries of SRB Corporation.

2. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of The Plymouth Rock Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company, through subsidiaries, manages several entities in New Jersey whose results are not a part of the consolidated financial statements, because the Company does not hold a direct and primary interest in the risks or rewards associated with the business of these entities. Likewise, the Company does not consolidate certain entities in which it holds investments, including Direct Response Corporation and Homesite Group Incorporated (both of which are insurance companies), as well as 695 Atlantic Avenue Company, LLC (a real estate company). The Company's total investment in these entities at December 31, 2007 and 2006 was $34,631,558 and $34,105,420, respectively.

B. Cash, Investments, and Real Estate

Cash and cash equivalents include money market funds and short-term money market instruments with maturity dates no longer than 90 days at the date of acquisition. Liabilities for outstanding checks of $9.0 million and $4.5 million are included in accrued liabilities at December 31, 2007 and 2006, respectively. Marketable fixed income and equity securities are carried at their fair values. The fair values of securities are based on quoted market prices. The calculation of gain or loss on the sale of marketable securities is based on specific identification at the time of sale. Where declines in the value of marketable securities are deemed other than temporary, the securities are carried at market value and the loss is reported as a component of net realized capital gains on the sale of securities. Net unrealized gains or losses on securities available for sale, after deduction of applicable deferred income taxes, are credited or charged directly to stockholders' equity. Marketable alternative investments are recorded at fair value, and net unrealized gain or loss is included in net income. Nonmarketable alternative investments are recorded primarily at fair value. The fair values of these holdings are generally determined by the managers of the investment vehicles based on information reported to them and their assessments of the underlying investments.

Real estate and fixed assets are carried at cost less accumulated depreciation and amortization. The Company provides for depreciation and amortization principally on the straight-line method over the estimated useful lives or the applicable lease terms.

C. Deferred Acquisition Costs

Commissions and premium taxes are deferred and amortized pro rata over the contract periods in which the related premiums are earned. All amounts deferred at December 31 are charged to operations in the following year as the related premiums are earned. Deferred acquisition costs are presented net of deferred commission income on ceded reinsurance. Net amortization associated with these deferred costs for 2007 and 2006 was $24.4 million and $27.8 million, respectively.

2. Summary of Significant Accounting Policies, continued

D. Income Taxes

The Company files its federal income tax return on a consolidated basis. The provision for income taxes is based on income reported in the financial statements. Deferred income taxes arise when there are differences between reported income and taxable income.

Income taxes in the statements of income for 2007 and 2006 consist of:

	2007	2006
Current year federal income taxes	$19,219,248	$29,254,611
Current year state income taxes	5,363,588	4,164,326
Change in deferred federal taxes	(3,316,660)	(2,945,193)
Change in deferred state taxes	(448,428)	(566,253)
Total	$20,817,748	$29,907,491

Deferred income taxes in the balance sheets as of December 31, 2007 and 2006 consist of the net effect of these temporary differences:

	2007	2006
Net unrealized gain on investments	$ (9,485,927)	$ (6,679,289)
Deferred income	8,449,598	9,108,603
Deferred compensation expense	6,321,953	5,347,924
Depreciation	(6,059,256)	(12,097,453)
Investment partnership timing differences	(5,028,898)	(3,556,917)
Discounting of claim reserves	2,896,019	3,617,806
Stock options expense	2,320,506	2,109,142
Other	(1,070,260)	(464,531)
Total	$ (1,656,265)	$ (2,614,715)

The net unrealized gain on investments is presented in stockholders' equity, net of an estimate of applicable deferred income taxes. The Company's reported provision for income taxes is less than that computed by applying the income tax rate for these years to income before income taxes. This difference arises principally because the Company incurs state tax expense and receives significant nontaxable interest from state and municipal bonds.

E. Stock-Based Compensation

The Company records compensation costs for stock-based employee compensation plans at fair value.

2. Summary of Significant Accounting Policies, continued

F. Reinsurance

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

Receivables from reinsurers represent amounts recoverable for reinsured claims. Premium and losses net of reinsurance activity are as follows:

	2007		2006	
	Premiums Written	Losses Incurred	Premiums Written	Losses Incurred
Gross	$314,765,935	$221,840,677	$336,114,882	$212,606,350
Ceded	(83,222,834)	(42,331,859)	(80,774,426)	(41,974,762)
Net	$231,543,101	$179,508,818	$255,340,456	$170,631,588

Ceded premiums earned for 2007 and 2006 were $83,876,314 and $76,462,399, respectively.

The Company has treaties for quota share reinsurance with cession rates of 30 to 35 percent for homeowners property insurance premiums and certain Massachusetts automobile liability and physical damage premiums. The commission amount which the Company receives under the homeowners treaties is determined on a sliding scale based upon loss ratios. Revenues and expenses are reflected net of quota share reinsurance totaling $70 million and $64 million for 2007, respectively. For 2006, revenues and expenses were reflected net of quota share totaling $66 million and $57 million, respectively.

The Company also has treaties for catastrophe reinsurance. During the years ended December 31, 2007 and 2006, the Company incurred costs for catastrophe premiums of $5.2 million and $4.3 million, respectively.

A subsidiary of the Company, Plymouth Rock Assurance Corporation, is required to be a member of Commonwealth Automobile Reinsurers (CAR). Plymouth Rock Assurance Corporation accounts for its transactions with this entity as reinsurance. The Company records its estimated share of this activity on the basis of information provided by CAR. During 2006, CAR produced actuarial reports which were supported by an independent analysis and opinion, and the Company conducted a thorough review of its reserves for this business. This review resulted in the Company lowering its claim and claim adjustment expense reserves by $20 million.

2. Summary of Significant Accounting Policies, continued

F. Reinsurance, continued

Through its subsidiary, Pilgrim Insurance Company, the Company acts as an intermediary for certain insurance companies in administering motor vehicle insurance programs. The Company's income statement and reinsurance activity exclude $52,361,224 and $60,610,615 of premiums earned related to this third-party business and $44,729,199 and $53,344,623 of claims and claim adjustment expenses in 2007 and 2006, respectively. In connection with these arrangements, claim reserves exclude $56,733,463 and $55,634,334 at December 31, 2007 and 2006, respectively.

To achieve a better balance of reinsurance cost and risk retention at Bunker Hill Insurance Company, the Company in 2007 purchased an irrevocable standby letter of credit from a bank in the amount of $6.5 million. The letter of credit, which is not expected to be drawn upon, is security for a Statutory Capital Support Agreement between the Company and Bunker Hill. This agreement states that the Company will make a capital contribution to Bunker Hill if Bunker Hill’s surplus falls below a certain threshold at any time between July 1, 2007 and June 30, 2008. As security for its repayment obligations, the Company pledged to the bank securities which had a fair value of approximately $8.2 million as of December 31, 2007. The letter of credit expires with the Statutory Capital Support Agreement on June 30, 2008.

G. Revenues Earned in Underwriting and Service Activities

Premium revenues are earned on a daily basis over the terms of the policies. Unearned premiums represent amounts that are applicable to the unexpired terms of policies in force and are presented net of reinsurance. Premiums receivable are net of reserves for doubtful collections of $1,834,480 and $1,915,359 at December 31, 2007 and 2006, respectively.

Underwriting revenue is derived from personal lines property and casualty insurance activity, predominantly in Massachusetts. The Company also derives fee income by providing insurance, investment management, policy processing, billing, and claim management services in several Northeast states. Fee income is earned over the related policy periods. The balance sheet items, amounts due from (to) service clients, are balances with insurers for which Pilgrim Insurance Company, Palisades Safety and Insurance Management Corporation (PSIMC), and High Point Safety and Insurance Management Corporation (HPSIMC) provide services. PSIMC serves as attorney-in-fact for Palisades Safety and Insurance Association, a New Jersey reciprocal insurance exchange. HPSIMC provides services to High Point Preferred Insurance Company, High Point Safety and Insurance Company, High Point Property and Casualty Insurance Company, Twin Lights Insurance Company and Teachers Auto Insurance Company (High Point Insurance Companies), insurers domiciled in New Jersey.

2. Summary of Significant Accounting Policies, continued

H. Claim and Claim Adjustment Expense Reserves

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

	2007	2006
Balance at beginning of year	$143,587,929	$142,017,734
Claims and claim adjustment expenses incurred:		
Current year	180,556,000	185,535,000
Prior years	3,849,557	(8,991,530)
	184,405,557	176,543,470
Claims and claim adjustment expenses paid:		
Current year	120,804,000	119,073,000
Prior years	66,636,586	63,993,769
	187,440,586	183,066,769
Change in reinsurance recoverable on unpaid claims	5,371,431	8,093,494
Balance at end of year	$145,924,331	$143,587,929

During the year ended December 31, 2007, estimated claim and claim adjustment expense reserves for prior years developed unfavorably by $3.8 million primarily on losses from voluntary Connecticut automobile business. During the year ended December 31, 2006, the prior years developed favorably by $9.0 million. The favorable development in 2006 occurred primarily on losses assumed from CAR.

Claims and claim adjustment expenses incurred, shown above, include expenses for service activity clients of $4,896,739 and $5,911,882 reported in service activity expenses in the Company's consolidated statements of income for 2007 and 2006, respectively.

I. Use of Estimates

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

3. Commitments and Guarantees

The Company's rental expenses for 2007 and 2006 aggregated $6.6 million and $7.3 million, respectively. For the years 2008 through 2012, the minimum lease obligations of the Company to unrelated third parties range from $6.0 million to $7.9 million annually. Total obligations of the Company under leases are $58.4 million through 2020.

As of December 31, 2007, a subsidiary of the Company had a guarantee outstanding on a loan to one of its independent insurance agents with a balance of $181,000. This loan was fully performing in 2007 and is not expected to result in any net liability to the Company.

4. 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:

	2007	2006
Net income	$36,314,626	$53,908,786
Depreciation and amortization	29,735,366	25,578,290
Deferred income taxes	(3,765,088)	(3,511,446)
Change in operating assets and liabilities:		
Accrued investment income	(146,494)	(1,115,974)
Premiums receivable	4,899,440	(12,252,623)
Deferred acquisition costs	2,174,343	312,678
Receivable from reinsurers	(4,821,813)	(14,312,427)
Claim and claim adjustment expense reserves	2,336,402	1,570,195
Unearned premium reserve	(9,664,315)	(7,283,594)
Advance premiums	249,953	(2,204,647)
Commissions payable and accrued liabilities	3,210,774	17,786,716
Payable to reinsurers	(2,409,266)	13,313,360
Unearned service fees	1,311,652	3,029,690
Amounts due from and to service clients	1,053,912	(8,378,320)
Prepaid expenses, agent loans, and deposits	193,856	(605,261)
Income tax payable	830,215	244,766
Other assets and other liabilities	853,371	143,228
Net cash provided by operating activities	$62,356,934	$66,223,417

5. Acquisition

In January 2008, the Company purchased an insurance agency with an initial down payment of $225,000 at the time of purchase and future payments to be based on business retained by the agency over the years 2008 through 2012. The Company used the purchase accounting method to account for this transaction. The Company's net income will include the results of operations of this agency beginning in 2008.

6. Consolidated Revenues

Revenues, net of reinsurance, for the separate companies for 2007 and 2006 were:

	2007	2006
Underwriting company revenues:		
Plymouth Rock Assurance Corporation	$246,037,008	$266,561,376
Mt. Washington Assurance Corporation	142,599	175,658
Bunker Hill Insurance Company	22,793,611	21,963,990
	268,973,218	288,701,024
Management company revenues:		
The Plymouth Rock Company	53,666,859	37,517,638
SRB Corporation	78,232,895	79,144,761
BCS Holding Company, LLC	4,650,087	5,290,445
Pilgrim Insurance Company	25,868,103	30,012,067
Palisades Safety and Insurance Management Corporation	43,169,294	41,836,088
High Point Safety and Insurance Management Corporation	110,008,390	116,268,519
	315,595,628	310,069,518
Eliminations:		
Technology costs	(39,420,804)	(43,648,226)
Dividends	(70,995,160)	(52,445,850)
Other	(17,097,692)	(16,785,985)
Total revenues	$457,055,190	$485,890,481

7. Fixed Assets

The table below summarizes fixed assets at December 31, 2007 and 2006.

	Useful Lives	2007	2006
Furniture and fixtures	5-10 years	$ 10,510,498	$ 9,638,472
Computers and software development	3-7 years	95,959,705	85,931,767
Leasehold improvements	2-6 years	13,533,676	11,405,246
Vehicles	3 years	3,213,571	3,356,501
Total cost		123,217,450	110,331,986
Less: accumulated depreciation and amortization		78,167,353	55,112,019
Net book value		$ 45,050,097	$55,219,967

Depreciation expense incurred was $28.5 million and $24.2 million during 2007 and 2006, respectively. During 2006, the Company changed its method of depreciating software. This change reduced pre-tax income by $1.9 million.

8. Compensation Plans

The Company has a Savings and Investment Plan under Section 401(k) of the Internal Revenue Code. This defined contribution plan covers all employees. The Company incurred expense related to this plan of $6,555,949 and $5,270,964 during 2007 and 2006, respectively.

The Company has established deferred compensation plans for officers, managers, and directors other than its founding shareholders. These plans generally provide for a rate of return on deferrals based on the financial performance of the Company. The Company incurred expense related to these plans of $2,571,738 and $3,346,283 during 2007 and 2006, respectively.

In 1997, the Company implemented a Stock Incentive Award plan to reward key employees. The value of each Stock Incentive Award is based on the compounded increase in excess of 10 percent per year of the appraised value of the Company's common stock for the five-year vesting period following the date of the award. The cumulative numbers of outstanding awards as of December 31, 2007, 2006, and 2005 were 1,793, 3,546, and 5,263, respectively. No awards were issued during 2007. During 2007 and 2006, respectively, 1,753 and 1,684 awards became eligible for exercise, of which 69 and 77 were exercised for common stock and 1,684 and 1,607 were exercised for cash. Under the terms of this plan, the cash awards will be held by the Company over a two-year maturation period. At the end of this two-year period, the initial amounts of the cash awards together with investment returns accrued on them will be distributed to the participants. During 2007 and 2006, respectively, 0 and 33 awards were forfeited. Total expense recorded for the Stock Incentive Award plan was $1,372,251 and $1,533,455 in 2007 and 2006, respectively.

On May 1, 2007, 2006, and 2005, the Company granted stock incentive awards totaling 222, 222, and 1,110 shares, respectively, to a key officer. These awards will vest at different times during a period starting in 2006 and ending in 2012 provided that certain performance and service requirements are met. During each of 2007 and 2006, respectively, 222 awards of the 2005 grant vested and were exercised for cash. The Company recorded expense of $196,070 and $96,170 in 2007 and 2006, respectively, related to these awards.

Another key officer received a stock incentive award totaling 625 shares effective May 1, 2007. The award is eligible for vesting at different times during a period starting in 2008 and ending in 2012 provided that certain performance and service requirements are met.

Effective February 2, 2004, the Company provided a long-term compensation package to a key officer. This package includes a grant of 3,150 shares of restricted stock with an appraised value at the time of grant of $990 per share and an option to purchase 200 shares of restricted stock at an exercise price of $150 per share. The option was exercised on March 26, 2004. All of these restricted shares will vest in their entirety in 2010 and 2011 provided that certain performance and service requirements are met. The Company recorded expense of $284,000 in both 2007 and 2006 related to this package.

9. Real Estate

The Company had ownership interests in two real estate properties as of December 31, 2007. One of these interests is a two-thirds ownership interest through a limited liability company. This investment is accounted for under the equity method. Costs for building improvements on these properties of $0.8 million and $1.6 million were incurred in 2007 and 2006, respectively. The table below summarizes the real estate costs and carrying values at December 31, 2007 and 2006:

	2007	2006
Land	$ 4,523,650	$ 4,523,650
Buildings, improvements, and other	26,331,867	26,585,949
Total cost	30,855,517	31,109,599
Less: accumulated depreciation	7,841,477	6,714,526
Net book value	$23,014,040	$24,395,073

Rental income from lessees other than Plymouth Rock Companies aggregated $2.7 million and $2.5 million in 2007 and 2006, respectively. For each of the years 2008 through 2012, minimum annual rent receivable by the Company is $2.4 million. Total obligations of lessees to the Company through 2012 are $11.8 million. Buildings and improvements are depreciated over their useful lives, which range from two to thirty-nine years.

The total appraised value of the Company's real estate interests, as determined by an independent appraiser during 2007 using the income and sales comparison approaches, was $50.6 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.

10. Goodwill and Intangible Assets

Goodwill of $2,940,390 and $3,366,790 at December 31, 2007 and 2006, respectively, representing the excess of the purchase price over the estimated fair value of net assets acquired, has resulted from the Company's purchase of insurance agencies. The Company reviews goodwill annually for impairment. No impairment of goodwill was recorded in 2007 or 2006. Intangible assets of $256,128 and $579,580 at December 31, 2007 and 2006, respectively, representing expirations, noncompetition agreements, brand name, and website expenditures, also exist as a result of the purchase of insurance agencies and are being amortized over periods ranging from three to seven years. Amortization associated with these intangible assets for 2007 and 2006 was $127,264 and $369,929, respectively.

During both 2007 and 2006, the Company sold portions of its agency business. These sales resulted in reductions to goodwill and intangible assets. In 2007, the reduction to goodwill and intangible assets were $426,400 and $198,689, respectively. In 2006, goodwill and intangible assets were reduced by $381,714 and $222,275, respectively.

11. Investment Securities and Investment Income

A. Marketable Securities

At December 31, 2007 and 2006, amortized cost, unrealized gains and losses before federal income taxes, and fair value of fixed income and equity securities were as follows:

At December 31, 2007:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 17,454,110	$ 189,836	$ 2,910	$ 17,641,036
State and municipal securities	169,864,783	1,409,641	192,752	171,081,672
Corporate debt securities	28,529,924	20,643	249,288	28,301,279
Mortgage-backed securities	16,955,634	195,402	215,852	16,935,184
Common stocks	52,223,589	25,833,598	601,502	77,455,685
Total	$285,028,040	$27,649,120	$1,262,304	$311,414,856

At December 31, 2006:	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 30,697,543	$ 9,821	$ 729,269	$ 29,978,095
State and municipal securities	140,369,413	134,436	549,367	139,954,482
Corporate debt securities	52,571,672	12,737	814,899	51,769,510
Mortgage-backed securities	14,007,334	2,713	181,976	13,828,071
Common stocks	47,829,913	20,648,027	14,435	68,463,505
Total	$285,475,875	$20,807,734	$2,289,946	$303,993,663

At December 31, 2007, maturities of marketable securities were as follows:

	Amortized Cost	Fair Value
Due in 90 days or less	$ 6,234,358	$ 6,216,089
Due after 90 days and in one year or less	38,931,059	38,943,618
Due after one year and in five years or less	126,117,449	126,805,004
Due after five years and in ten years or less	15,444,460	15,590,070
Due after ten years	46,077,125	46,404,390
Common stocks	52,223,589	77,455,685
Total	$285,028,040	$311,414,856

11. Investment Securities and Investment Income, continued

A. Marketable Securities, continued

The Company classifies these marketable securities as available for sale. At December 31, 2007 and 2006, the Company owned securities that had been in an unrealized loss position for longer than twelve months with a total fair value of $42.0 million and $101.4 million, respectively. Unrealized losses related to these securities were $0.7 million and $1.9 million at December 31, 2007 and 2006, respectively. The Company views these losses as resulting from market conditions and believes them to be temporary. During 2006, the Company recorded a loss of $17,640 on one security, for which it believed the value it previously recorded to be “other than temporarily impaired.” No such losses were recorded in 2007.

B. Alternative Equity Investments

Marketable alternative investments include positions in entities that focus predominantly on publicly announced mergers and acquisitions arbitrage. Substantially all of the investments made by these entities are in publicly traded securities, and the Company has contractual rights to withdraw its funds from these entities each year. At December 31, 2007 and 2006, the Company’s recorded equity in these marketable alternative investments, which includes realized and unrealized gains, was $39,208,336 and $38,806,303, respectively. In January of 2008, the Company made an additional investment of approximately $5.0 million in one of these entities and an investment of approximately $5.0 million in a new entity.

Nonmarketable alternative investments include privately held common stocks, preferred stocks, surplus notes, and partnership entities investing in companies that are not publicly traded. The Company’s nonmarketable investments amounted to $49,525,582 and $36,022,135 at December 31, 2007 and 2006, respectively. These amounts include investments in Direct Response Corporation and Homesite Group Incorporated totaling $14.5 million and $13.8 million at December 31, 2007 and 2006, respectively. Also included in these amounts are stock options in Direct Response Corporation valued at $975,468 and $166,901 at December 31, 2007 and 2006, respectively. Direct Response Corporation and Homesite Group Incorporated derive underwriting revenue from personal lines property and casualty insurance activity throughout most of the United States. During 2007, the Company committed approximately $5.5 million to a new nonmarketable alternative investment. No capital call has been made as of the date of this report. The Company has remaining commitments to invest $0.9 million and $11.0 million in two private equity funds, Lindsay Goldberg & Bessemer L.P. I (Fund I) and Lindsay Goldberg & Bessemer L.P. II (Fund II), respectively. The Company is a limited partner of both Fund I and Fund II. The Chairman of the Company is a member of the general partner of both Fund I and Fund II. At December 31, 2007, the Company had invested $9.1 million in Fund I and $9.0 million in Fund II.

11. Investment Securities and Investment Income, continued

C. Analysis of Investment Income and Capital Gains

The components of investment income and capital gains before federal income taxes during 2007 and 2006 were as follows:

	2007	2006
Interest income and dividends from securities	$12,495,609	$11,718,198
Earnings from alternative equity investments	12,840,462	14,116,938
Rental income	2,738,255	2,522,074
Finance charges from premiums receivable	5,368,060	6,498,228
Gross investment income	33,442,386	34,855,438
Rental expenses	(1,828,159)	(1,684,480)
Investment expenses	(1,282,709)	(1,117,448)
Investment income	30,331,518	32,053,510
Net realized capital gains	3,946,278	1,185,717
Investment income and capital gains	$34,277,796	$33,239,227

D. Investment Activity

Activity in investment securities during 2007 and 2006 was as follows:

	2007	2006
Balance at beginning of year	$378,822,101	$273,814,528
Change in marketable securities:		
Proceeds from maturities	(32,162,147)	(31,628,000)
Proceeds from sales	(27,918,726)	(39,115,246)
Purchases	59,647,525	138,406,429
Net change in marketable securities	(433,348)	67,663,183
Net change in investments in alternative equities	13,905,480	24,525,200
Net investment activity	13,472,132	92,188,383
Net change in purchases in process	(14,487)	(8,387)
Net change in unrealized gain on marketable securities and alternative equities	7,869,028	12,827,577
Balance at end of year	$400,148,774	$378,822,101

Comprehensive income is defined as net income plus the change in net unrealized gain on investments. Accordingly, the net unrealized gain on investments is reduced by realized gains previously included as unrealized in comprehensive income of $5,200,000 and $340,000 in 2007 and 2006, respectively.

12. Note Payable

The Company issued a note payable in the amount of $9,683,400 at an interest rate of 6.32% in 1998 in conjunction with the purchase of outstanding shares of its common stock. Payments of principal were scheduled to be made in ten equal annual installments of $968,340. The Company had the right to prepay this note at any time. During 2007, the outstanding principal of $1,936,680 and all accrued interest were paid in full. Interest expense on this note totaled $61,000 and $153,000 during 2007 and 2006, respectively.

13. Stockholders' Equity

A. Common Stock

Common stock at December 31, 2007 and 2006 is composed of Class A common shares and Class B common shares, both classes having a par value of $0.10 per share. There are 300,000 Class A shares authorized, of which 117,625 and 117,237 were issued and outstanding on December 31, 2007 and 2006, respectively.

There are 90,000 Class B shares authorized, of which 65,432 and 65,751 were issued and outstanding on December 31, 2007 and 2006, 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 others are elected by the Class A shareholders.

B. Statutory Surplus and Dividend Availability

The Company's insurance subsidiaries are required to file financial statements with state insurance departments. The accounting principles prescribed or permitted for these financial statements differ in certain respects from accounting principles generally accepted in the United States of America. On a statutory accounting basis, capital and surplus of the Company's insurance subsidiaries aggregated $155.8 million and $154.7 million at December 31, 2007 and 2006, respectively. Regulatory limits restrict the amount of dividends that can be remitted to the Company from its insurance subsidiaries without permission of state insurance regulators.

C. Earnings Per Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding throughout the year plus dilutive potential common shares that were outstanding at year-end.

Directors and Officers of The Plymouth Rock Company

Directors

James M. Stone, *Chairman*

James N. Bailey

Hal Belodoff

Michael J. Johnston

Wilmot H. Kidd, III

Norman L. Rosenthal

Sandra A. Urie

Peter J. Wood

Officers

James M. Stone
Chief Executive Officer

James N. Bailey
Treasurer and Clerk

Hal Belodoff
President and Chief Operating Officer

Paula W. Gold
Vice President

Colleen M. Granahan
Vice President

Directors and Officers of the Plymouth Rock Group of Companies

Non-Management Directors

Dennis A. DiMarzio
Kerry A. Emanuel
Fabian J. Fondriest
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 Officers

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

Counsel:
Ropes & Gray LLP

Independent Auditors:
PricewaterhouseCoopers LLP