

REPORT ON EXAMINATION

OF THE

MIDTOWN INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT

MAY 29, 2009

EXAMINER

VERONICA DUNCAN BLACK

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

May 29, 2009

Honorable Eric R. Dinallo  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30286 dated January 29, 2009, attached hereto, I have made an examination into the condition and affairs of Midtown Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Midtown Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's offices located at 300 Broadhollow Road, Melville, New York 11747.

## **1. SCOPE OF EXAMINATION**

The purpose of this examination was to determine whether the Company was operating within its by-laws, was conforming to Article 70 of the New York Insurance Law, and was in compliance with its plan of operation as submitted to the Department.

A review was conducted of the Company's operations, from its date of incorporation as a New York captive insurance company, May 15, 2003 through December 31, 2007. The review included an analysis of the Company's financial condition, the corporate records, and limited tests of the various income and disbursement items as deemed necessary. This report is submitted on an "exception" basis. Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

The report utilized work performed by the Company's independent certified public accountants ("CPA") to the extent considered appropriate.

## **2. DESCRIPTION OF COMPANY**

The Company was incorporated on May 15, 2003 and commenced operations as a captive insurance company under the laws of the State of New York on July 10, 2003. The Company is a wholly owned subsidiary of NYT Capital, Inc., which is ultimately owned by The New York Times Company ("NYT"). NYT is a media conglomerate that includes newspapers, internet business, radio stations, and paper mills. NYT is separated into two business segments: The News Media Group and the About Group. The News Media Group operates NYT publications, which comprises the New York Times Media Group, New England Media Group, and the Regional Group. The About Group operates NYT websites that includes About.com and ConsumersSearch.com. Both of these two segments earn revenue primarily through advertising sales.

### **A. Articles of Incorporation**

The purpose of the Company, as stated in its articles of incorporation, was to form a corporation for the purpose of transacting the kinds of insurance specified in Section 1113 of the New York Insurance Law, subject at all times to the limitations on the business of pure captive insurance companies set forth in Article 70 of the New York Insurance Law.

B. By-Laws

The by-laws of the Company were reviewed, and it was determined that the Company was operating in full conformity with its by-laws in all material respects.

C. Capital Structure

The Company was incorporated as a pure captive insurance Company on May 15, 2003. On June 20, 2003, the Company issued 100,000 shares of common stock at \$1 par value per share to its parent company, The New York Times Company, in exchange for \$250,000 in cash and intangible assets in the form of the New York Metro Area Subscriber Relationships (the Customer Lists). At the time of the exchange, the list had a carrying value of \$0 and a fair value well above the carrying value. During this transaction, the Company's parent company, NYT, contributed 100% of its ownership in the Company to NYT Capital, Inc. In addition, NYT Capital, Inc. made a capital contribution of \$275,000,000 in the form of a demand promissory note to the Company.

Gross paid in and contributed surplus did not change during the examination period. The gross paid in and contributed surplus is as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2003	Beginning paid in capital and contributed surplus	\$275,150,000
	Net Surplus contribution	<u>0</u>
2007	Ending paid in capital and contributed surplus	<u>\$275,150,000</u>

D. Corporate Records

The corporate records reviewed appeared to be substantially accurate and complete in all material respects.

E. Plan of Operation

The Company's plan of operation is designed to provide its parent company, The New York Times Company, and all of its domestic subsidiaries with certain insurance coverages as permitted by Article 70 of the New York Insurance Law. The initial plan provided insurance coverage for the following risks: fleet liability, directors and officers, employment practices liability, pension trust liability, crime, multimedia errors and omissions, excess multimedia errors and omissions, excess liability, umbrella liability, excess directors and officers', employment practices liability, excess umbrella liability, Terrorism Risk Insurance Act of 2002 ("TRIA") coverage, property excess difference-in-conditions ("DIC") terrorism, nuclear biological chemical-NYT risk only, nuclear biological chemical-Boston Globe risk only, excess property, and weather.

In calendar years 2004, 2005 and 2007, the Company did not renew several of the captioned insurance coverages. For the period ended December 31, 2007, the Company's insurance coverage consists of the following: fleet and multimedia, TRIA coverage, property, weather, excess umbrella liability and inland marine. The Company amended its plan of operation in 2004 to include inland marine insurance coverage.

F. Reinsurance

The Company participated in two ceded reinsurance arrangements for the period under examination. A review of the agreements shows that such agreements were in compliance with Sections 7010(c) and Section 1308 of the New York Insurance Law.

TRIA Coverage

The Company provides terrorism insurance coverage to its parent company and affiliates for losses caused by both non-certified and certified acts of terrorism as defined under the Terrorism Risk Insurance Act of 2002. The policy provides a liability limit of \$1.2 billion per occurrence. The Company has a quota share facultative reinsurance agreement in place for the protection of its TRIA terrorism insurance coverage. This treaty provides a reinsurance limit of \$180 million (15%) part of \$1.2 billion. The treaty also affords the Company 100% protection with the following limits: TRIA Single Event Trigger - \$100 million per occurrence, TRIA Deductible - \$8.5 million per occurrence, Non-Certified Terrorism - \$250 million annual aggregate, and International Terrorism - \$100 million annual aggregate.

On November 26, 2002, the Terrorism Risk Insurance Act of 2002 ("TRIA" or "the Act") was signed into law. On December 26, 2007, the President of the United States signed the Terrorism Risk Insurance Program Reauthorization Act of 2007 into law, which extended TRIA through December 31, 2014. The Act created a U.S. government facility that provides reinsurance coverage to insurers as a result of declared terrorism events. The Act established a "program trigger" that must be met before the Treasury will cover a loss. The program trigger is currently \$100 million and applies to all certified acts of terrorism. When the program is triggered, the Federal government is required to pay 85% of insured terrorism losses in excess of individual insurer trigger/deductible while the insurer pays 15%.

#### Excess Property Coverage

The Company provides an excess property insurance policy to its parent company and affiliates with a limit of \$24 million part of \$300 million excess \$100 million excess a deductible of \$250,000 per occurrence for physical loss or damage to property. The Company has a facultative reinsurance treaty in place for the protection of this risk. This risk is fully reinsured.

The Company did not participate in any assumed reinsurance arrangements for the period under examination.

#### G. Management

##### Captive Manager

The Company is managed by Marsh Management Services, Inc., ("Marsh") pursuant to Section 7003(b)(4) of the New York Insurance Law. Effective July 1, 2003, the Company executed a management agreement with Marsh. The agreement requires Marsh to act as the principle representative of the Company in all communication and dealings with all regulatory authorities in regard to certain management and administrative services, financial and accounting services, insurance related service, claims management services, and actuarial services.

##### Service Agreement

For the period under examination, the Company entered into a service agreement with an affiliate. Pursuant to the terms of the agreement, the affiliated company agrees to allocate its employees to perform insurance, legal, accounting, tax, billing, administrative and other support services to the Company as may be agreed from time to time between the companies.

Board of Directors

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than three, but not more than ten members. At December 31, 2007, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert Anthony Benten New York, NY	Senior Vice President & Controller, The New York Times Company
Kenneth A. Richieri New York, NY	Senior Vice President & General Counsel, The New York Times Company
Rhonda Lyn Brauer New York, NY	Senior Vice President & Corporate Secretary, The New York Times Company

A review of the minutes of the board of directors' meetings held during the examination period indicate that the meetings were generally well attended, and that each board member has an acceptable record of attendance.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert Anthony Benten	President
Rhonda Lyn Brauer	Secretary
Lauena L. Emhoff	Treasurer
Kenneth A Richieri	Vice President
George A. Barrios	Vice President
Daniel R. Rivera	Vice President

H. Certified Public Accountant and Actuarial Services

The Company was audited by Ernst & Young LLP for the period ended December 31, 2007. The Company was audited by Deloitte Touch LLP for the prior periods, December 31, 2003 through December 31, 2006. Janine A. Finan of Marsh Management Services, Inc. provided actuarial services to the Company for the entire examination period. The Company filed its certified public accountant's financial statements annually on or before July 1 for all of the years under examination.

I. Growth of Company

The following schedule sets forth the Company's significant summary financial information for the years covered by this examination:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2003	\$48,514,652	\$43,351,280	\$344,125,312	\$318,601,280
2004	\$46,577,482	\$55,301,624	\$406,766,985	\$373,902,904
2005	\$45,138,693	\$56,023,285	\$464,986,134	\$429,926,189
2006	\$42,078,889	\$59,371,902	\$551,767,951	\$489,298,091
2007	\$42,833,027	\$65,175,550	\$653,466,302	\$554,473,641

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The financial statements of the Company are presented in conformity with generally accepted accounting principles. The financial position of the Company as presented and accepted was audited by the Company's certified public accountant:

#### Balance Sheet December 31, 2007

##### Asset

Cash	\$ 250,000
Investments in and advances to affiliates	646,137,898
Prepaid reinsurance	251,466
Other assets – Accrued royalty income receivable	6,743,087
Deferred New York franchise tax	<u>83,851</u>
Total assets	<u>\$653,466,302</u>

##### Liabilities, Capital and Surplus

##### Liabilities

Losses	\$ 5,194,119
Loss adjustment expense	577,124
Commissions, expenses and fees	271,054
Taxes payable	67,159,764
Unearned premium	25,509,096
Losses payable	<u>281,504</u>
Total liabilities	\$98,992,661

##### Capital and Surplus

Paid in capital	\$ 100,000
Contributed surplus	275,150,000
Surplus (accumulated earnings)	<u>279,223,641</u>

Total capital and surplus	<u>554,473,641</u>
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Total liabilities, capital and surplus	<u>\$653,466,302</u>
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B. Statement of Income

Capital and surplus increased \$235,872,361 during the four-year examination period, December 31, 2003 through December 31, 2007.

Underwriting Income

Net premiums earned		\$176,628,091
<u>Underwriting Expense</u>		
Net losses incurred	\$4,998,786	
Net loss adjustment expense	672,193	
General and administrative	774,424	
Other underwriting expense	<u>683,294</u>	
Total underwriting expense		<u>7,128,697</u>
Underwriting profit(loss)		\$169,499,394
Investment income (net)		89,546,991
Other income		<u>103,834,169</u>
Income before dividends and taxes		\$362,880,554
Taxes		<u>127,008,193</u>
Net income		<u>\$235,872,361</u>

C. Capital and Surplus Account

Capital and surplus at December 31, 2003			\$318,601,280
	<u>Increase</u>	<u>Decrease</u>	
Net income	\$ 235,872,361	\$ 0	
Total increase and decrease	<u>\$235,872,361</u>	<u>\$ 0</u>	
Net increase in surplus			<u>\$235,872,361</u>
Surplus as regard policyholder, per report on Examination as of December 31, 2007			<u>\$554,473,641</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The Company reported losses and loss adjustment expenses of \$5,771,243 as of December 31, 2007. The examiner did not independently review the loss reserves but rather relied upon the opinion of the Company's actuary and its certified public accountant's actuary. The Company's actuary at December 31, 2007 was Janine A. Finan of Marsh Services, Inc. and its certified public accountant's actuary was Ann V. Griffith.

The purpose of the actuarial opinion is to provide an evaluation as to the reasonableness of the Company's loss reserves at year end. The actuaries opined that the Company's reserves are within a reasonable range and believe that the Company has made a reasonable provision for its unpaid loss and loss expense obligation as of December 31, 2007.

Ms. Janine Finan states in her Statement of Actuarial Opinion that the Company's reserve at December 31, 2007:

“Are computed in accordance with commonly accepted actuarial methods and are fairly stated in accordance with sound actuarial principles. Make reasonable provision in the aggregate for unpaid losses and loss adjustment expenses under the term of the Company's policies. Are computed in the basis of similar general methods as used at December 31, 2006. Meet the relevant requirements of the insurance laws of New York.”

Based upon the actuarial opinion, no changes were made to the reserves reported by the Company.

## **5. ARTICLE 70 COMPLIANCE**

Article 70 of the New York State Insurance Law is the governing law for the formation and continued operation of captive insurance companies in New York State. A review was performed to test the Company's compliance with Article 70. No material area of non-compliance with Article 70 was found during the course of this examination.

## **6. INSURANCE PROGRAM**

The Company was licensed as a captive insurance company to provide insurance for various self-insured risks, to fund potential losses, and to provide a greater flexibility to its parent company's risks management program. For the period under examination, the Company provided its parent company and affiliates with the following insurance policies:

1. TRIA terrorism coverage (Terrorism Risk Insurance Act of 2002) and an excess property insurance policy provide insurance coverage for any acts of terrorism as defined by the Act and coverage for physical loss or damage to property, respectively. These policies are described in Item 2F of this report under the heading "Reinsurance."
2. Deductible liability reimbursement policy provides coverage for fleet, automobile, workers compensation and general liability lines. This policy provides a limit of \$1 million per occurrence/\$36.5 million aggregate for fleet liability and a limit of \$6 million (20%) part of \$30 million per occurrence/aggregate excess of a deductible of \$1.5 million each event for multimedia errors and omissions liability.
3. Excess umbrella liability indemnity policy provides a limit of \$25 million excess of \$100 million per occurrence for commercial general liability including products liability, auto/fleet and employer's liability fleet and aircraft risks.
4. Excess property policy provides a limit of \$500 million in excess of \$700 million per occurrence/annual aggregate for any physical loss or damage to property.
5. Weather policy provides a limit of \$5 million per event and \$15 million aggregate for losses caused by precipitation on any calendar day during the policy term, in which average daily precipitation is greater than one standard deviation over the ten-year mean as recorded by the United States Government Weather Bureau located at LaGuardia Airport.
6. Commercial inland marine policy provides a limit of \$320,000 per occurrence excess a deductible of \$100,000 per occurrence. This policy also extends coverage for property whether owned or in the care, custody or control of the insured with a limit of \$700,000 per occurrence.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no recommendation.



Appointment No. 30286

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Veronica DuncanBlack**

*as proper person to examine into the affairs of the*

**MIDTOWN INSURANCE COMPANY**

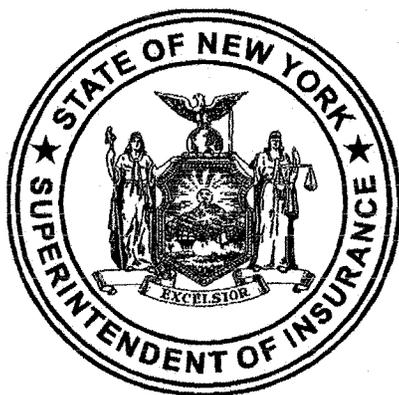
*and to make a report to me in writing of the condition of the said*

**Company**

*with such other information as she shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of New York,*

*this 29th day of January, 2009*



A handwritten signature in black ink that reads "Eric Dinallo".

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ERIC R. DINALLO  
Superintendent of Insurance