

REPORT ON EXAMINATION
OF
CM INSURANCE COMPANY, INC.
AS OF
DECEMBER 31, 2002

DATE OF REPORT

JUNE 14, 2004

EXAMINER

FRANK P. SCHIRALDI

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

June 14, 2004

Honorable Gregory V. Serio
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 22107 dated November 28, 2003, attached hereto, I have made an examination into the condition and affairs of the CM Insurance Company, Inc. as of December 31, 2002, and respectfully submit the following report thereon.

This examination was conducted at the office of CM Insurance Company, Inc., located at 140 John James Audubon Parkway, Amherst, NY 14228-1197.

Wherever the designations "Company" or "CMIC" appear herein without qualification, they should be understood to refer to CM Insurance Company, Inc. Wherever the designation the "Parent" or "CM" appears herein without qualification, they should be understood to refer to Columbus-McKinnon Corporation.

1. SCOPE OF EXAMINATION

The purpose of this examination was to determine that the Company was operating within its by-laws and in conformance with both Article 70 of the New York Insurance Law and its plan of operation as submitted to the New York Insurance Department, hereinafter referred to as the "Department".

A review of the Company's operations from its licensing as a New York State captive on December 31, 1997 through the date of examination was performed. This review included an analysis of financial condition, a review of corporate records, and testing of various income and disbursement items to the extent deemed necessary. Additionally, the examiners utilized the work of the Company's independent auditors to the extent considered appropriate. 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 file submitted to the Department.

2. DESCRIPTION OF COMPANY

The Company, a wholly owned subsidiary of Columbus-McKinnon Corporation, was originally incorporated on March 26, 1990, as a pure captive insurance company pursuant to the Tennessee Captive Insurance Company Act of 1978, as amended. It began operating as a captive insurance company under the laws of New York State

December 31, 1997. The purposes of the Company, as stated in the Articles of Incorporation are:

- To redomesticate CM Insurance Company to the state of New York.
- To act as a pure captive insurance company which shall be licensed to transact all of the kinds of insurance business that are permitted to a pure captive by Section 7003 of the Insurance Law of the State of New York.

The Company's paid in capital is \$100,000, which is comprised of 1,000 shares of issued and outstanding capital stock with a par value of \$100 per share. The Company also maintained unimpaired paid-in surplus of \$150,000. Thus, the Company is in compliance with the provisions of Section 7004(a)(1) of the New York insurance Law.

A. Management

The by-laws of the Company were examined and it was noted that the Company was operating in full conformity therewith in all material respects. Additionally, the corporate records of the Company were reviewed and appeared to be substantially accurate and complete in all material respects.

i. Shareholders:

The by-laws of the Company state that the annual meeting of the shareholders shall be held in each year at the date, time and place set forth in the notice of the meeting, or a waiver of notice thereof for the purpose as stated in the notice of the meeting. The board of directors or the notice of the meeting may designate any place, either within or

without the State of New York, as the place of meeting for any annual or any special meeting of the shareholders.

ii. Board of Directors:

The by-laws of the Company state that the number of directors shall be at least three persons, the exact number to be determined by the shareholders at any meeting; the number of directors may be altered from time to time by the shareholders or by a majority of the board of directors, but shall never be less than the number required by law. At least two of the directors shall be a resident of the State of New York. A regular meeting of the board of directors shall be held without notice immediately after the annual meeting of shareholders. The presence of a majority of the directors shall constitute a quorum for the transaction of business unless the vote of a greater number is required by the laws of New York.

The following are the members of the board of directors as of December 31, 2002:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Timothy T. Tevens Clarence, NY	President, CM Insurance Co., Inc.
Robert L. Montgomery Hamburg, NY	Vice President, CM Insurance Co., Inc.

The composition of the board of directors complies with the provisions of section 7005(g) of the New York Insurance Law.

iii. Officers:

The by-laws of the Company state that the officers shall include a president and a secretary, each of whom shall be appointed by the board of directors. Such other Officers as may be deemed necessary may be appointed by the board of directors. Any two or more offices may be held by the same person, except the offices of president and secretary.

The following are the officers of the Company as of December 31, 2002:

<u>Title</u>	<u>Name</u>
President	Timothy T. Tevens
Vice President	Robert L. Montgomery
Secretary	Lois H. Demler
Treasurer	John R. Hansen

The Company is managed by Aldrich and Cox, an insurance consultant licensed by the New York State Insurance Department. The manager acts as a consultant in the purchase of insurance by CM from CMIC. Most of the functions of the insurance business are performed in-house.

The Company was audited each of the years under examination by the certified public accounting (“CPA”) firm of Ernst and Young LLP, 1400 Key Tower, 50 Fountain Plaza, Buffalo, NY 14202.

Other firms that provide services to the Company during the examination period were:

- Aldrich & Cox – Insurance consultation services;
- Andrews, Sanchez, Amigone, Mattrey & Marshall LLP (Richard A. Clark, Esq.) – corporate legal service;
- Tillinghast-Towers Perrin and Watson Wyatt Worldwide – actuarial services;
- Andrews, Sanchez, Amigone, Mattrey & Marshall LLP (Richard A. Clark, Esq.) – Claims monitoring and establishing appropriate reserves for claim losses and expenses;
- Columbus McKinnon Corporation – claims management and engineering services;
- Fleet Bank – fund custodian and discretionary investment fund services.

B. Plan of Operation

At the time of licensing, the Company was writing commercial general liability insurance for CM and its other wholly-owned United States subsidiaries with coverage limits of \$2,000,000 per occurrence, and \$3,000,000 in the aggregate. The Company also provided products liability and international commercial liability for CM. In addition to the coverage provided by the Company, CM purchases additional layers of traditional coverage in excess of CMIC's coverage pursuant to the terms of a comprehensive general liability policy issued by an unaffiliated insurer. The Company does not assume or cede any reinsurance.

C. Growth of the Company

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholder's Equity</u>
2002	2,350,000	(1,375,376)	27,608,090	4,303,364
2001	745,000	33,901	28,952,384	6,275,220
2000	3,000,000	438,274	28,761,242	5,636,904
1999	3,000,000	155,429	26,754,106	5,198,630
1998	3,000,000	116,374	22,992,558	5,043,201

3. FINANCIAL STATEMENTS

The financial statements of the Company are presented in conformity with generally accepted accounting principles, except for the inclusion of a letter of credit issued in favor of the Superintendent of Insurance of the State of New York. The inclusion of the letter of credit in assets, and in capital and surplus, is based upon accounting principles allowed for captive companies by New York Law. The financial position of the Company as presented and accepted for the period examined is as follows:

<u>Assets</u>		
Bonds	\$ 5,488,304	
Stocks	14,575,792	
Cash and cash equivalents	<u>1,910,065</u>	
Total cash and invested assets		\$21,974,161
Letter of credit	\$ 250,000	
Deferred income taxes	<u>5,383,929</u>	
Total non-invested assets		<u>5,633,929</u>
Total Assets		<u>\$ 27,608,090</u>
<u>Liabilities and Shareholder's Equity</u>		
<u>Liabilities</u>		
Losses	\$ 13,527,117	
Loss adjustment expenses	5,118,996	
Amounts due to affiliates	4,312,550	
Excess statement reserves	344,915	
Other liabilities	<u>1,148</u>	
Total liabilities		\$ 23,304,726
<u>Shareholder's Equity</u>		
Paid in capital (Par Value)	\$ 100,000	
Contributed surplus	150,000	
Unrealized gain (loss) on Investments	(242,065)	
Surplus (accumulated earnings)	<u>4,295,429</u>	
Total shareholder's equity		<u>4,303,364</u>
Total liabilities and shareholder's equity		<u>\$ 27,608,090</u>

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

Underwriting income

Net premiums earned	\$ <u>2,350,000</u>	
Total income		\$2,350,000

Underwriting expense

Net losses incurred	\$ 1,555,532	
New loss adjustments expenses incurred	165,856	
General and Administrative	30,432	
Other underwriting expenses	<u>75,312</u>	
Total underwriting expenses		<u>\$ 1,827,132</u>

Underwriting profit (loss)		\$ 522,868
Investment income		(2,320,742)
Other expenses		<u>66,758</u>

Income Before Dividends and Taxes		\$(1,731,116)
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Dividends	\$ 0	\$ 0
Taxes	<u>355,840</u>	<u>(355,840)</u>

Net income		<u>\$ (1,375,276)</u>
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Changes in capital and surplus account

Capital and surplus at December 31, 2001		\$ 6,275,220
Net income		(1,375,276)
Net unrealized capital gains or losses		<u>(596,480)</u>
Capital and Surplus at 12/31/02		<u>\$ 4,303,464</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability of 18,646,113 is the same as reported by the Company as of December 31, 2002.

The examination reserves were calculated in accordance with generally accepted actuarial principles and practices and were based on statistical information contained in the Company's filed annual statements and their internal statistics.

The Company's actuary at December 31, 2002 was Elissa Sirvotka of Tillinghast-Towers Perrin, 200 W. Madison St., Suite 310, Chicago, IL 60606.

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.

Section 7006 (c) of the New York Insurance Law provides that :

“Every captive insurance company licensed to do a captive insurance business in this state shall file with the superintendent:

(c) annually on or before July first, evidence in a form prescribed by the superintendent, that the industrial insured or member of the industrial insured group owning the captive insurance company continues to meet the financial standards set forth in seven thousand two of this article.”

Section 7002(e) defines an industrial insured as an insured:

“(1) whose net worth exceeds one hundred million dollars...”

Columbus-McKinnon Corporation is the industrial insured entity that formed the CM Insurance Co. Inc. As of December 31, 2002, the net worth of CM was \$70,390,000. Subsequent to the examination, the net worth of CM, based on the market price of outstanding shares of common stock, was \$128,702,926.

However, it is recommended that the Company take the necessary steps to ensure compliance with the provisions of Section 7002(e) of the New York Insurance Law.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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It is recommended that the Company take the necessary steps to ensure compliance with the provisions of Section 7002(e) of the New York Insurance Law.

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Appointment No 22107

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V.SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Frank Schiraldi

as proper person to examine into the affairs of the

CM INSURANCE COMPANY, INC.

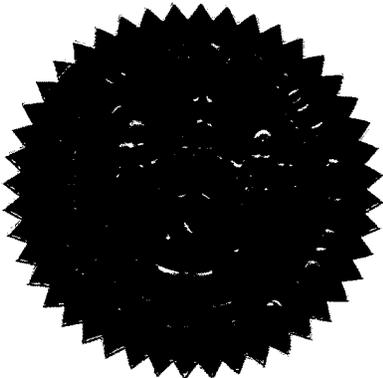
and to make a report to me in writing of the condition of the said

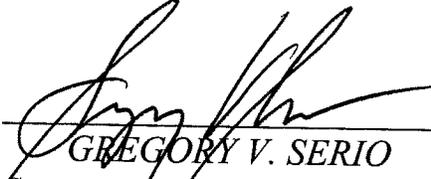
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with such other information as he shall deem requisite.

*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 28th day of November, 2003





GREGORY V. SERIO
Superintendent of Insurance