

REPORT ON EXAMINATION
OF THE
LCT INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

DATE OF REPORT

SEPTEMBER 6, 2011

EXAMINER

BERNARD LOTT

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

September 6, 2011

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30604 dated October 6, 2010 attached hereto, I have made an examination into the condition and affairs of LCT Insurance Company as of December 31, 2009, and submit the following report thereon.

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

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

1. SCOPE OF EXAMINATION

The examination covered the period from the Company's licensing and commencement of business on January 30, 2004 through December 31, 2009. The examination comprised a verification of assets and liabilities as of December 31, 2009. This included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountant and opining actuary.

The 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.

2. DESCRIPTION OF COMPANY

The Company is a pure captive insurance company and is a wholly-owned subsidiary of Tiffany & Co. ("Tiffany"). The Company was incorporated on January 30, 2004 and commenced business on January 31, 2004, under the laws of New York State.

A. Articles of Incorporation

The Company's charter states that the Company was organized for the purpose of transacting:

“. . . the kinds of property and casualty insurance business specified in paragraphs 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 19, 20, 21, 22, 24, 27, 28 and 30 of Subsection (a) of Section 1113 of the New York Insurance Law and any amendments to such paragraphs . . . 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 Company appears, in all material respects, to be in compliance with its by-laws.

C. Capital Structure

Section 7004(a)(1) of the New York Insurance Law states that a pure captive insurance company incorporated as a stock insurer is required to possess, and thereafter maintain, unimpaired paid-in-capital and surplus of not less than \$250,000, in order to be issued a license to do captive insurance business in New York State. The Company was incorporated as a stock insurer and licensed as a pure captive insurance company on January 30, 2004. The Company was initially capitalized with a \$235,000,000 contribution from Tiffany. The contribution was in the form of 99% of Tiffany's ownership in TRM Investments LLC. Tiffany also contributed \$15,000,000 in cash in exchange for all 100,000 shares of LCT's \$1 par value common stocks and additional contributed surplus of \$14,900,000. The Company has maintained surplus and paid-in-capital in excess of the amount required by the Insurance Law for the entire period covered by this examination.

D. Corporate Records

All corporate records reviewed that are not specifically addressed elsewhere in this report appeared to be substantially accurate and complete in all material respects.

E. Plan of Operation

The initial purpose for the formation of the Company was to augment Tiffany's commercial insurance program, providing loss funding where commercial coverage was deemed unavailable or too expensive and gaining access to federal Terrorism Risk Insurance Act protection through a United States domiciled captive.

F. Reinsurance

The Company does not assume any business.

The Company does not have a formal ceded reinsurance program but essentially receives quota share protection from the United States Government through the insurers required participation in the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA"). Signed into law on December 26, 2007, TRIPRA keeps in place the basic framework of the Terrorism Risk Insurance Act ("TRIA") enacted in 2002, and extended in 2005 by the Terrorism Risk Insurance Extension Act ("TRIEA"), and extends the federal backstop for terrorism exposure until December 31, 2014.

Under this federal program, property and casualty insurers doing business in the United States are required to offer coverage for incidents of international and domestic terrorism. In exchange for this requirement the federal government will reinsure a large percentage of the risk insured. Coverage under the program is triggered once a loss from a “Certified Act of Terrorism” equals at least \$100 million (a Certified Act of Terrorism is when the Treasury Secretary, in concurrence with the Secretary of State and the Attorney General, certify that an incident meets the definition of an act of terrorism). After a triggered event, the Company would be eligible for reinsurance of 85% on its losses, in excess of the deductible stipulated in TRIPRA. The Company retains 15% of its losses plus the deductible amount. TRIPRA provides an annual aggregate limit of \$100 billion on terrorism risks.

G. Management and Control

(i) Management Firm

Section 7003(b)(4) of the Insurance Law provides that no captive insurer can do any captive insurance business in this state unless it utilizes a captive manager resident in New York State that is licensed as an agent or broker under the provisions of the Insurance Law’s Article twenty-one or any other person approved by the superintendent of insurance.

The Company is managed by Willis Management, Ltd., an insurance consultant licensed by the New York Insurance Department. The manager’s duties, pursuant to an agreement with the Company, includes providing services in connection with all business transactions relating to insurance operations and activities undertaken by the Company including the initiation and maintenance of proper accounting records. The agreement provides for the maintenance of the Company’s investment and bank accounts. It ensures that the Company establishes and maintains such books and records as are necessary to conform with the laws of New York relating to captive insurance companies. Additionally, the manager agrees to carry out all reporting obligations imposed on captive insurance companies by the laws of New York and other regulatory bodies in accordance with recommended practice.

(ii) Board of Directors

The Company exercises its corporate powers through a board of directors consisting of not less than three members nor more than ten. All directors are elected annually by the Company’s sole shareholder (Tiffany).

The board shall hold at least one regular meeting a year in addition to its annual shareholder's meeting. At December 31, 2009, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mark L. Aaron New York, NY	Vice President, Tiffany & Co.
Michael W. Connolly Glen Gardner, NJ	Vice President and Treasurer, Tiffany & Co.
Patrick B. Dorsey New York, NY	Senior Vice President and General Counsel, Tiffany & Co.

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

(iii) Officers

As of December 31, 2009, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Patrick B. Dorsey	President
Michael W. Connolly	Treasurer
Mark L. Aaron	Secretary

H. Certified Public Accountant and Actuarial Services

The Company was audited by Pricewaterhouse Coopers LLP from its inception to year-end 2007. Saslow Lufkin & Buggy, LLC performed the audit for the years ending 2008 and 2009. AJB Risk Management Consultants, Inc. has provided the Company's opining actuary for the entire period covered by this examination.

I. Growth of Company

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

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2004	\$14,166,667	\$16,751,643	\$279,879,576	\$269,541,236
2005	\$10,458,333	\$16,177,914	\$301,620,021	\$285,906,196
2006	\$10,958,333	\$18,697,194	\$325,545,502	\$304,253,278
2007	\$10,768,083	\$19,018,806	\$343,676,703	\$323,384,313
2008	\$10,978,917	\$15,422,524	\$351,712,089	\$333,458,118
2009	\$11,000,000	\$11,103,208	\$371,676,888	\$347,464,513

Included in shareholders' equity at December 31, 2009 is accumulated earnings of \$96,218,082, minority interest of \$2,945,082 and a \$(1,698,869) unrealized loss on investments.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The examination accepted the financial position of the Company, as presented below and in LCT's filed annual statement. The financial statements were prepared in conformity with accounting practices prescribed or permitted by the New York State Insurance Department. The Company's independent accounting firm, Saslow Lufkin & Buggy, LLP, concluded that the statutory financial statement presented fairly, in all material respects, the Company's assets, liabilities and surplus and the results of its operations as of December 31, 2009:

BALANCE SHEET AS OF DECEMBER 31, 2009

Assets

Bonds	\$27,872,829
Stocks	11,845,929
Cash	5,069,849
Investment income due and accrued	27
Deferred acquisition costs	3,667
Notes receivable due from affiliated company	325,969,811
Deferred tax asset	<u>914,776</u>
 Total assets	 \$ <u>371,676,888</u>

Liabilities, Capital and SurplusLiabilities

Losses	\$	0
Loss adjustment expenses		0
Taxes payable		23,225,617
Unearned premium		916,667
Accrued expenses		<u>70,091</u>
 Total liabilities	 \$	 24,212,375

Capital and Surplus

Paid in capital (par value)	\$	100,000
Contributed surplus		249,900,000
Unrealized gain (loss) on investments		(1,698,869)
Minority interest		2,945,082
Surplus (accumulated earnings)		<u>\$96,218,300</u>
 Total capital and surplus		 <u>347,464,513</u>
 Total liabilities, capital and surplus		 <u>\$ 371,676,888</u>

B. Statement of Income

Capital and Surplus increased \$97,464,513 during the nearly six-year period subsequent to the Company's commencement of business on January 31, 2004 through December 31, 2009, detailed as follows:

STATEMENT OF INCOMEUnderwriting income

Net Premiums earned		\$ 68,330,333
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Deductions:

Net losses incurred	\$	0
Net loss adjustments expenses incurred		0
General and administrative		878,377
Other underwriting expenses		<u>352,375</u>

Total underwriting deductions		<u>1,230,752</u>
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Net underwriting gain		\$ 67,099,581
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Investment Income

Net Investment income earned	\$83,541,141
Other expenses	<u>547,556</u>

Net investment gain		<u>82,993,585</u>
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Net income before taxes		\$150,093,166
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Taxes		<u>52,921,877</u>
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Net income		<u>\$ 97,171,289</u>
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C. Capital and Surplus Account

Capital and surplus as of January 31, 2004			\$250,000,000
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$ 97,171,289	\$ 0	
Net unrealized capital losses		1,698,869	
Transferred to surplus		952,989	
Minority interest	<u>2,945,082</u>	<u>0</u>	
Total gains and losses	<u>\$100,116,371</u>	<u>\$2,651,858</u>	
Net increase in surplus			<u>97,464,513</u>
Capital and surplus as of December 31, 2009			<u>\$347,464,513</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company does not report liabilities for unpaid losses and loss adjustment expenses as of December 31, 2009. Its opining actuary concludes that based on its review of the material provided and its understanding of the captive operating characteristics, the financial statement is actuarially sound and provisions for these liabilities is reasonable. Further, the actuary notes the insurer's significant initial capitalization, accumulated retained earnings and participation in TRIPRA as support for its conclusion. No examination change will be made.

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. In addition to sections of Article 70 already specifically noted in this report, no material areas of non-compliance were found.

6. ORGANIZATIONAL STRUCTURE

Tiffany & Co. is a publicly traded holding company which conducts all business through its subsidiary companies. The company sells fine jewelry and other items that it manufactures or has been made by others.

6. INSURANCE PROGRAM

The Company provides Tiffany with insurance protection via its “Terrorism and NBCR Insurance Policy.” The policy provides coverage for TRIPRA, Non- TRIPRA and Nuclear, Biological, Chemical or Radiological (“NBCR”) exposures. It covers inventory, real and personal property and the Tiffany Diamond. The policy indemnifies the insured up to the limits shown below, subject to any deductible or self insured retention, where the underlying coverage has been exhausted. NBCR coverage was excluded from the underlying policies.

POLICY LIMITS (AND DEDUCTIBLE OR SIR) PER LINE OF BUSINESS

Lines of Business	Coverages For	Policy Limits	Deductible / SIR
TRIPRA - Jewelers Block (US Locations)	Inventory	\$250,000,000	\$25,000,000
Non-TRIPRA - Jewelers Block (US Locations)	Inventory	\$275,000,000	First dollar
Non-TRIPRA - Jewelers Block (International Locations)	Inventory	\$125,000,000	First dollar
Non-TRIPRA Property/Business Interruption (Worldwide)	Real & Personal Property, Income loss & Extra Expense	\$400,000,000	\$100,000,000
Nuclear, Biological Chemical & Radiological (Worldwide Locations)	Real & Personal Property, Income loss & Extra Expense	\$500,000,000	First dollar
TRIPRA	Tiffany Diamond	\$21,500,000	First dollar
Non-TRIPRA	Tiffany Diamond	\$21,500,000	First dollar

The Company also provides employers practices liability insurance with its “Employment Practices Liability Insurance Policy.” This is a claims-made policy with limits of \$5 million per claim and a \$500,000 deductible.

Both policies offered by the Company are required to take advantage of TRIPRA as noted in the following Endorsement No. 1 found in each:

LCT INSURANCE COMPANY

One World Financial Center, 200 Liberty Street ♦ New York, New York 10281

ENDORSEMENT NO. 1

POLICYHOLDER DISCLOSURE

It is hereby understood and agreed that this Policy is amended to reflect the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) as follows:

Under the federal Terrorism Risk Insurance Program Reauthorization Act of 2007 (“Reauthorization Act”), which was effective December 26, 2007, Act of Terrorism means any act that is certified by the Secretary of the Treasury, in concurrence with the Secretary of State, and the Attorney General of the United States (i) to be an act of terrorism (ii) to be a violent act or an act that is dangerous to (A) Human life; (B) property or (C) infrastructure and (iii) to have resulted in damage within the United States, or outside of the United States in the case of an air carrier or vessel or the premises of a U.S. mission, and (iv) to have been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

Under your coverage, any losses resulting from certified acts of terrorism may be partially reimbursed by the United States Government under a formula established by the Terrorism Risk Insurance Act, as amended. Under the formula, the United States Government generally reimburses 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance company providing the coverage. The Terrorism Risk Insurance Act, as amended, contains a \$100 billion cap that limits U.S. Government reimbursement as well as insurers’ liability for losses resulting from certified acts of terrorism when the amount for such losses exceeds \$100 billion in any one calendar year. If the aggregate insured losses for all insurers exceed \$100 billion, your coverage may be reduced.

All other terms, conditions and exclusions remain unchanged.

Respectfully submitted,

_____/s/_____

Bernard Lott
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

BERNARD LOTT being duly sworn, deposes and says that the foregoing report, subscribed by him is true to the best of his knowledge and belief.

_____/s/_____

Bernard Lott

Subscribed and sworn to before me

this _____ day of _____, 2011.

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Bernard Lott

as proper person to examine into the affairs of the

LCT INSURANCE COMPANY

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

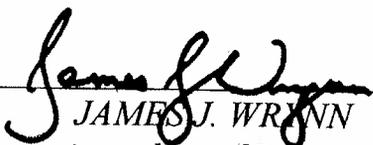
Company

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 6th day of October, 2010





JAMES J. WRYNN
Superintendent of Insurance