

REPORT ON EXAMINATION

OF

MIDTOWN INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT

APRIL 25, 2014

EXAMINER

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TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	2
	A. Articles of incorporation	3
	B. By-laws	3
	C. Capital structure	3
	D. Corporate records	3
	E. Reinsurance	3
	F. Management and control	4
	G. Certified public accountant and actuarial services	5
	H. Growth of the Company	6
3.	Financial statements	7
	A. Balance sheet	7
	B. Statement of income	8
	C. Capital and surplus account	8
4.	Losses and loss adjustment expenses	9
5.	Article 70 compliance	9
6.	Organizational structure	9
7.	Insurance program	10
8.	Summary of comments and recommendations	10



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

April 25, 2014

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31044 dated September 12, 2013, attached hereto, I have made an examination into the condition and affairs of Midtown Insurance Company as of December 31, 2012, 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 designation “Parent” or “NYT Capital” appears herein without qualification, it should be understood NYT Capital, Inc. 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 covers the period from January 1, 2008 through December 31, 2012, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation, as submitted to the New York State Department of Financial Services, and was in compliance with Article 70 of the New York Insurance Law.

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 and its opining actuary to the extent considered appropriate.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of New York State as a captive insurance company on May 15, 2003 and commenced business on July 10, 2003. The Company is a wholly-owned subsidiary of NYT Capital, Inc. ("NYT Capital"), which is ultimately owned by The New York Times Company ("NYT Co"). NYT Co is a leading global, multimedia news and information company that currently includes newspapers, digital business, investments in paper mills and other investments. NYT Co is separated into two business reportable segments, the News Media Group and the About Group. As a result of the sale of the About Group effective September 23, 2012, NYT Co has only one reportable segment. Currently NYT Co has two divisions:

- The New York Times Media Group, which includes The New York Times, International Herald Tribune, NYTimes.com and related businesses.
- The New England Media Group, which includes The Boston Globe, BostonGlobe.com, Boston.com, the Worcester Telegram & Gazette, Telegram.com and related businesses.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) 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 examination revealed that the Company is in compliance with its by-laws in all material respects.

C. Capital Structure

As a pure captive insurance company incorporated as a stock insurer, the Company is required to maintain surplus as regards policyholders of not less than \$250,000, of which \$100,000 shall represent paid in capital pursuant to the provisions of Section 7004(a)(1) of the New York Insurance Law.

As of December 31, 2012, the Company's paid in capital was \$100,000 consisting of 100,000 shares of \$1.00 par value per share common stock and its surplus as regards policyholders was \$520,552,963.

D. Corporate Records

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

E. Reinsurance

The Company provides insurance to its parent and its affiliated, subsidiary and associated companies covering loss or damage caused by or resulting from both non-certified and certified acts of terrorism, as defined under the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRPRA 2007"), up to a limit of \$1.2 billion for any one occurrence.

Under TRPRA 2007, the United States government will reimburse the Company for 85% of covered losses resulting from certified acts of terrorism in excess of a statutorily calculated deductible. The Company ceded the remaining 15% of terrorism losses to an authorized reinsurer in order to reduce its exposure to large losses.

F. Management and Control

(i) Captive Manager

Section 7003(b) (4) of the New York Insurance Law provides that no captive insurer shall do any captive insurance business in this state unless it utilizes a captive manager resident in the State of New York that is licensed as an agent or broker under the provisions of Article 21 of the New York Insurance Law, or any other person approved by the Superintendent.

Since the commencement of business, the Company has been managed by Marsh Management Service Inc. (“Marsh”), which is authorized to act as a manager for captive insurance companies by the New York Department of Financial Services.

Pursuant to the Management Agreement between the Company and Marsh, effective July 1, 2011, Marsh, under the direction and control of the Company, shall render management and administrative services related to the following services:

- Accounting and any regulatory reporting services deemed necessary;
- Policy services;
- Claims administration;
- Ceding reinsurance;
- Assuming reinsurance;
- Advice on insurance programs;
- Acting as principal representative of the Company regarding regulatory matters;
- Actuarial services;
- Other services as may from time to time be agreed upon by Marsh and the Company.

(ii) Board of Directors

Pursuant to the Company’s by-laws, management of the Company is vested in a board of directors consisting of not less than three nor more than ten members, of which at least two shall at all times be residents of New York State. At December 31, 2012, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
R. Anthony Benten New York, NY	Senior Vice President, Finance & Corporate Controller, The New York Times Company

Kenneth A. Richieri
New York, NY

Executive Vice President, General Counsel,
The New York Times Company

Laurena L. Emhoff
Brooklyn, NY

Vice President, Treasurer,
The New York Times Company

During the period covered by this examination, the board met one time each year. A review of the meeting minutes during the examination period indicated that all the board meetings were generally well attended.

The Company was in compliance with its By-laws and Section 7003(b)(2) and 7005(g) of the New York Insurance Law.

(iii) Officers

As of December 31, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
R. Anthony Benten	President
Kenneth A. Richieri	Vice President and Secretary
Laurena L. Emhoff	Treasurer
Randall K. Short	Assistant Treasurer

G. Certified Public Accountant (“CPA”) and Actuarial Services

The Company was audited by the independent CPA firm Saslow Lufkin & Buggy, LLP, 10 Tower Lane, Avon, CT 06001 for the years 2010-2012 and Ernst & Young LLP, 5 Times Square, New York, NY 10036 for the years 2008-2009. The Company’s opining actuary as of December 31, 2012 was Marsh Management Services, Inc., 100 Bank Street, Suite 601, Burlington VT 05401.

H. 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>
2008	\$42,119,229	\$60,117,114	\$402,202,995	\$339,590,755
2009	40,092,072	49,985,093	475,126,860	389,575,848
2010	39,530,249	47,063,242	487,857,669	436,639,090
2011	44,719,505	39,072,823	555,347,156	475,711,913
2012	45,845,964	44,941,050	564,344,108	520,652,963

3. FINANCIAL STATEMENTS

With the Department's permission, the Company's financial statements have been prepared in conformity with generally accepted accounting principles, which differ from statutory accounting principles prescribed or permitted by the Department for insurance companies. The Company's independent CPA firm concluded that the following financial statements present fairly, in all material respects, the Company's financial position as of December 31, 2012.

A Balance Sheet

Assets

Cash	\$ 250,000	
Notes receivable from Parent	558,530,302	
Accrued royalty income due from the Parent	1,626,916	
Deferred tax asset	3,486,260	
Other assets	<u>450,630</u>	
Total Assets		<u>\$564,344,108</u>

Liabilities

Unpaid losses and loss adjustment expenses	\$ 9,960,742	
Taxes payable to the Parent	6,442,295	
Unearned premiums	26,703,266	
Reinsurance payable	435,348	
Accounts payable and accrued expenses	<u>149,494</u>	
Total liabilities		\$ 43,691,145

Capital and Surplus

Common stock	\$ 100,000	
Additional paid in capital	150,000	
Surplus (Accumulated earnings)	<u>520,402,963</u>	
Total capital and surplus		<u>520,652,963</u>
Total liabilities and capital surplus		<u>\$564,344,108</u>

B. Statement of Income

The Company's capital and surplus increased \$241,179,322 during the five-year examination period, detailed as follows:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned	\$212,307,019	
Royalty income	<u>97,697,472</u>	
Total underwriting income		\$310,004,491
Deductions:		
Losses and loss adjustment expenses	\$10,510,025	
Underwriting expenses	1,928,104	
General and administrative expenses	<u>962,918</u>	
Total operating deductions		13,401,047
Investment income		<u>74,441,665</u>
Net income before tax		\$371,045,109
Federal income tax expenses		<u>129,865,787</u>
Net income		<u>\$241,179,322</u>

C. Capital and Surplus Account

Capital and surplus as of January 1, 2008		\$279,473,641
	<u>Gains in surplus</u>	
Net income	\$241,179,322	
Net increase in surplus		<u>241,179,322</u>
Capital and surplus as of December 31, 2012		<u>\$520,652,963</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2012, the Company reported total loss and loss adjustment expense reserves of \$9,960,742. The Company's opening actuary stated the following in its Statement of Actuarial Opinion:

In my review, I have relied on listings and other relevant data provided by the Company; I have performed no verification as to the accuracy of this data, however I have evaluated the data for reasonableness and consistency. I have also reconciled the data to the Company's annual statement.

In my opinion, based on the foregoing procedures, the Company's December 31, 2012 reserves identified herein:

- 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 all 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, 2011.
- Meet the relevant requirements of the insurance laws of New York.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70 of the New York Insurance Law. No significant areas of non-compliance were found.

6. ORGANIZATIONAL STRUCTURE

The Company is wholly-owned subsidiary of NYT Capital, Inc. ("NYT Capital"), which is ultimately owned by the New York Times Company ("NYT Co"). NYT Co is a leading global, multimedia news and information company that currently includes newspapers, digital business, investments in paper mills and other investments.

7. INSURANCE PROGRAM

As of December 31, 2012, the Company provided the following coverage to NYT Co and its affiliates:

<u>Policy coverage</u>	<u>Limits</u>	<u>Policy period</u>
Terrorism Risk, including Nuclear, Biological, Chemical and Radiological.	The Company shall not be liable for more than its proportion of \$1.2 billion for any one occurrence.	9/1/2012 – 9/1/2013
Excess Property	\$500,000,000 xs \$700,000,000 per occurrence and annual aggregate	9/1/2012 – 9/1/2013
Excess Umbrella Liability	\$25,000,000 xs \$125,000,000 per occurrence and in the annual aggregate.	3/1/2012 – 3/1/2013
Media Excess Liability	\$25,000,000 per occurrence attaching at \$30,000,000 per occurrence.	3/1/2012 – 3/1/2013
Weather Insurance	\$15,000,000 per occurrence and in the annual aggregate.	1/1/2012 – 1/1/2013
Deductible Liability Reimbursement	<p>A. Fleet Liability: \$500,000 per occurrence, subject to a combined annual aggregate limit.*</p> <p>B. General Liability: \$250,000 per occurrence, subject to a combined annual aggregate limit.*</p> <p>C. Auto Liability: \$500,000 per occurrence, subject to a combined annual aggregate limit.*</p> <p>D. Workers' Compensation: \$500,000 per occurrence, subject to a combined annual aggregate limit.*</p> <p>E. Multimedia Errors and Omissions: \$6 million (part of \$30 million) and \$6 million in the annual aggregate excess of \$1.5 million.</p>	3/1/2012 – 3/1/2013

* Combined annual aggregate of \$9,569,505 covering Fleet, General Liability, Automobile, and Workers' Compensation lines, inclusive of allocated loss adjustment expenses and applicable loss assessments.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

_____/s/
Wei Cao
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

WEI CAO, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/s/
Wei Cao

Subscribed and sworn to before me

this _____ day of _____, 2014.

APPOINTMENT NO. 31044

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Wei Cao

as a proper person to examine the affairs of the

Midtown Insurance Company

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

COMPANY

with such other information as he shall deem requisite.

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

this 12th day of September, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By: _____

Jean Marie Cho
Deputy Superintendent