

REPORT ON EXAMINATION
OF
LOCUST STREET INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

DATE OF REPORT

SEPTEMBER 29, 2011

EXAMINER

BERNARD LOTT

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

September 29, 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 30606 dated October 6, 2010, attached hereto, I have made an examination into the condition and affairs of Locust Street Insurance Company as of December 31, 2009, and respectfully submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to refer to Locust Street Insurance Company.

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

The examination was conducted at the offices of Marsh Management Services Inc., the captive manager for Locust Street Insurance Company, located at 48 South Service Road, Melville, NY 11747.

1. SCOPE OF EXAMINATION

The examination covers the five-year and two hundred day period from the Company's licensing and commencement of business on June 14, 2004, through December 31, 2009, 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 Insurance Department, 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, incorporated on May 17, 2004, is a wholly-owned subsidiary of Meredith Holding Company, which is in turn a wholly-owned subsidiary of the ultimate parent, Meredith Corporation ("Meredith"). The Company commenced doing business as a pure captive insurance company under the laws of New York State on June 14, 2004.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 7003 of the New York Insurance Law, subject at all times to the limitations on the business of a pure captive insurance company set forth in Article 70 of the New York Insurance Law.

B. By-Laws

It appears that the Company, in all material respects, is in compliance with its by-laws.

C. Capital Structure

Pursuant to Section 7004(a)(1) of the New York Insurance Law, 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. Capital paid in is \$100,000, consisting of 100,000 shares of \$1 par value per share common stock. The Company was initially capitalized at \$90,250,000, consisting of \$250,000 cash, plus a demand promissory note in the amount of \$90,000,000 issued to the Company's ultimate parent, Meredith. The Company received the Department's approval for the promissory note as part of its licensing process. The Company was further capitalized by \$90,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
6/14/ 2004	Beginning contributed surplus	\$ 90,150,000
6/22/2005	Demand promissory note issued to Meredith	90,000,000
	Total Surplus Contributions	<u>\$90,000,000</u>
12/31/2009	Ending contributed surplus	<u>\$180,150,000</u>

Department approval for the second promissory note in 2005 was granted in conjunction with a request by the Company to expand its policy limits.

D. Corporate Records

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

E. Reinsurance

The Company does not assume or cede any of its captive insurance business.

F. Management and Control

(i) Captive Manager

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 the State of New York that is licensed as an agent or broker under the provisions of the Article 21 of the New York Insurance Law or any other person approved by the Superintendent.

The Company is managed by Marsh Management Services, Inc., the captive management arm of Marsh, Inc., an insurance broker licensed by the Department. The manager's duties, pursuant to a "management agreement," include monitoring Company compliance with New York Insurance Laws and filing requirements, acting as the Company's principal representative in communications with regulatory authorities, operating bank accounts in the name of the Company and maintaining the true and complete books of account and records of all business conducted under the agreement.

(ii) Board of Directors

The business of this corporation is managed under the direction of its board of directors. At December 31, 2009, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael L. Brownstein Briarcliff Manor, NY	Executive Vice President and Chief Revenue Officer, Meredith Corporation
Michael I. Cook Yorktown Heights, NY	Director, Magazine Credit Operations, Meredith Corporation
Thomas H. Harty Irvington, NY	President, National Media Group, Meredith Corporation
Stephen M. Lacy Des Moines, IA	Chairman and Chief Executive Officer, Meredith Corporation
John S. Zieser West Des Moines, IA	Chief Development Officer and General Counsel, Meredith Corporation

The Company's by-laws state that the board of directors shall hold at least one meeting in the State of New York every calendar year. During the period covered by this examination, the board met five times and had three actions undertaken by "Unanimous Consent to Action." A review of the meeting minutes indicated that they were generally well attended and that each member had an acceptable record of attendance for all board meetings for which they were eligible to attend.

(iii) Officers

The board of directors shall elect or appoint such officers as it decides are necessary for the conduct of business. The Company's by-laws state that the officers of the Company shall be a president, one or more vice-presidents, a secretary and a treasurer.

The following were officers of the Company as of December 31, 2009:

<u>Name</u>	<u>Title</u>
Steven M. Cappaert	President
Michael L. Brownstein	Vice President
Thomas H. Harty	Vice President
Norbert W. Kaut	Secretary
Kevin M. Wagner	Treasurer

G. Certified Public Accountant 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 covered by this examination. The Company's opening actuary as of December 31, 2009, was from Marsh Management Services Inc., 100 Bank Street, 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>
2004	\$17,394,683	\$12,213,834	\$125,970,334	\$102,463,834
2005	\$31,350,707	\$25,121,446	\$244,747,064	\$217,585,280
2006	\$32,823,623	\$30,190,431	\$278,949,644	\$247,775,711
2007	\$32,723,247	\$32,274,763	\$312,082,362	\$280,050,474
2008	\$32,424,837	\$29,989,602	\$339,814,995	\$310,040,076
2009	\$32,416,728	\$23,851,189	\$360,275,173	\$333,891,265

The Company's shareholders equity as of the examination date includes "Accumulated Surplus" of \$153,641,265.

3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America that differ from statutory accounting practices prescribed or permitted for insurance companies by the New York State Department of Financial Services. The Company's independent accounting firm concluded that the following financial statements, with an exception for the effect of the inclusion of a portion of the notes receivable from Meredith in stockholder's equity (See Item 2C) and as an asset, presented fairly in all material respects, the Company's assets, liabilities and surplus and the results of its operations as of December 31, 2009. The financial position of the Company, as presented below, was accepted by the Department:

A. Balance Sheet

BALANCE SHEET AS OF DECEMBER 31, 2009

Assets

Cash	\$ 285,868
Investment income due and accrued	630,886
Investments in and advances to affiliates	359,288,036
Deferred premium tax	48,868
Pre-paid expenses	<u>21,515</u>
Total assets	<u>\$360,275,173</u>

Liabilities

Losses and loss adjustment expenses	\$ 0
Commissions, expenses and fees	29,333
Taxes payable	12,842,948
Unearned premium	<u>13,511,627</u>
Total liabilities	\$26,383,908

Capital and Surplus

Paid in capital (par value)	\$ 100,000
Contributed surplus	180,150,000
Surplus (accumulated earnings)	<u>153,641,265</u>
Total capital and surplus	<u>333,891,265</u>
Total liabilities and capital and surplus	<u>\$360,275,173</u>

B. Statement of Income

Capital and Surplus increased \$243,641,265 during the five-year and two hundred day period subsequent to the Company's initial capitalization on June 14, 2004 through December 31, 2009, detailed as follows:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$179,133,825
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Deductions:

Net losses incurred	\$	0
Net loss adjustments expenses incurred		0
General and administrative expenses		489,561
Other underwriting expenses		<u>695,624</u>

Total underwriting deductions		<u>1,185,185</u>
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Net underwriting gain		\$177,948,640
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Investment Income

Net investment income earned		<u>\$58,422,537</u>
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Net investment gain		<u>58,422,537</u>
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Net income before taxes		\$236,371,177
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Taxes		<u>82,729,912</u>
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Net income		<u>\$153,641,265</u>
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C. Capital and Surplus Account

Capital and surplus as of June 14, 2004			\$90,250,000
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$153,641,265	\$ 0	
Paid in capital	<u>90,000,000</u>	<u>0</u>	
Total gains and losses	<u>\$243,641,265</u>	<u>\$ 0</u>	
Net increase in surplus			<u>243,641,265</u>
Capital and surplus per report on examination as of December 31, 2009			<u>\$333,891,265</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2009, The Company did not report liabilities for losses and loss adjustment expenses. The Company's 2009 Actuarial Opinion states that the reserves are computed in accordance with commonly accepted actuarial methods and are fairly stated in accordance with sound actuarial principles. It further states that provisions in the aggregate for unpaid losses and loss adjustment expenses are reasonable and that they meet the relevant requirements of the insurance laws of New York.

The opining actuary's analysis, however, points out that any estimate of ultimate losses are necessarily statistical in nature, and there can be no guarantee that the indicated reserve levels will prove to be adequate and not excessive.

Based on the opining actuary's opinion and the audit performed by the independent CPA firm, no examination change will be made to the Company's reported reserve for losses and loss adjustment expenses.

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

Meredith Corporation is a publicly held media and marketing company with businesses centering on magazine and book publishing, television broadcasting, integrated marketing and interactive media.

7. INSURANCE PROGRAM

The Company provides Meredith and its subsidiaries with excess coverage for various business risks through the use of an "Integrated Risk Policy." The policy covers risks in excess of underlying primary coverage written by a number of non-affiliated commercial insurers. Excess coverage attaches at the limits of the underlying insurance's liability and extends to the respective risk's "sub-limit per occurrence/aggregate," as shown below:

<u>Coverage</u>	<u>Sub-Limit Per Occurrence/ Aggregate</u>
Media liability	\$100,000,000
Property - BI/CBI/EE	\$40,000,000
Excess liability umbrella	\$25,000,000
Employment practices liability	\$50,000,000
Directors & officers liability – coverage B only	\$69,000,000
Outside directors liability	\$94,500,000

In addition, the Integrated Risk Policy provides coverage on a primary basis when there is no underlying insurance and when the underlying coverage is no longer in force. Primary coverage where the underlying insurance is no longer in force carries a deductible of \$250,000 per occurrence and in the aggregate per line of insurance. Primary coverage, where there is no underlying insurance, also has a deductible of \$250,000, with the exception of the three risks ("Destruction of organizational record liability," "Loss of key customers or suppliers" and "Credit risk") noted below:

<u>Coverage</u>	<u>Deductible</u>	<u>Sub-Limit Per Occurrence/ Aggregate</u>
Reputational risk	\$ 250,000	\$100,000,000
Intellectual property	\$ 250,000	\$100,000,000
Property & BI/CBI - non-TRIA		
certified terrorism	\$ 250,000	\$100,000,000
Computer database failure	\$ 250,000	\$ 50,000,000
E-commerce failure	\$ 250,000	\$ 50,000,000
Property-terrorism - NBC (certified terrorism)	\$ 250,000	\$250,000,000
Casting contracts impairment	\$ 250,000	\$ 15,000,000
Destruction of organizational record		
Liability	\$ 1,000,000	\$ 50,000,000
Loss of key customers or suppliers	\$ 1,000,000	\$ 50,000,000
Commodity price risk	\$ 250,000	\$ 50,000,000
Strike	\$ 250,000	\$ 50,000,000
Media interruption	\$ 250,000	\$ 50,000,000
Loss of affiliation	\$ 250,000	\$100,000,000
Regulatory change	\$ 250,000	\$100,000,000
Political risk	\$ 250,000	\$ 25,000,000
Loss of feed from satellite	\$ 250,000	\$ 25,000,000
Credit risk	\$ 2,000,000	\$ 50,000,000

The Company's maximum annual aggregate limit of liability for all insurance coverages is \$400,000,000.

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.

Appointment No. 30606

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

LOCUST STREET INSURANCE COMPANY

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

Company

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 6th day of October, 2010



James J. Wrynn

JAMES J. WRYNN

Superintendent of Insurance