

REPORT ON EXAMINATION

OF

**MAKE Transportation Insurance, Inc.,
A Risk Retention Group**

AS OF

December 31, 2008

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

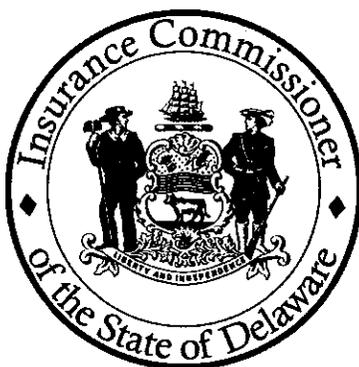
I, **Karen Weldin Stewart**, Insurance Commissioner of the State of Delaware, do hereby certify that the attached **Report On Examination**, made as of **December 31, 2008**, of the

**MAKE TRANSPORTATION INSURANCE, INC.,
A RISK RETENTION GROUP**

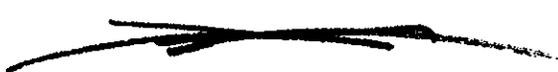
is a true and correct copy of the document filed with this Department.

Attest By: 

Date: 17 June 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 17th day of June, 2010.


Karen Weldin Stewart, CIR-ML
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
MAKE TRANSPORTATION INSURANCE, INC.,
A RISK RETENTION GROUP
AS OF
DECEMBER 31, 2008

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 17th day of June, 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

TABLE OF CONTENTS

	Page
SALUTATION	1
SCOPE OF EXAMINATION	2
HISTORY	2
GROWTH OF COMPANY	3
MANAGEMENT AND CONTROL	3
CORPORATE RECORDS	4
TERRITORY AND PLAN OF OPERATION	5
REINSURANCE	6
ACCOUNTS AND RECORDS	6
FINANCIAL STATEMENTS	8
NOTES TO THE FINANCIAL STATEMENTS	11
RECOMMENDATIONS	12
SUMMARY COMMENTS	13
CONCLUSION	13
SUBSEQUENT EVENTS	14

March 15, 2010

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No. 9.036, an examination has been made of the affairs, financial condition and management of

**MAKE Transportation Insurance, Inc.,
A Risk Retention Group**

hereinafter referred to as "MTIRRG." or "Company", incorporated under the laws of the State of Delaware.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

An organizational examination of MTIRRG was conducted as of April 20, 2006.

This first regular examination of the Company consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the Delaware Insurance Department.

HISTORY

MTIRRG was incorporated in the State of Delaware on March 29, 2006. The purpose and activity of the Company is the assuming and spreading of liability exposures as provided by 18 DEL C.69 and 18 DEL C.80 of the Delaware Insurance Code and the U.S. Liability Risk Retention Act of 1986. The Company's Certificate of Incorporation authorizes the issuance of 1,000 shares of \$.01 par value common stock. MTIRRG's incorporator was Delaware Corporate Services, located at 222 Delaware Ave., Wilmington, Delaware.

GROWTH OF COMPANY

The Company commenced operations in 2006 and has reported the following data to the Delaware Insurance Department:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets	\$4,115,583	\$3,868,060	\$3,123,867
Policyholder Surplus	1,288,675	1,168,796	1,121,721
Underwriting gain (loss)	122,801	7,724	2,641
Net Income	115,525	36,229	(30,909)
Direct Premiums	2,158,517	2,612,750	2,572,931
Assumed Premiums	<u>0</u>	<u>0</u>	<u>0</u>
Gross Premiums	2,158,517	2,612,750	2,572,931
Ceded Premiums	<u>739,261</u>	<u>930,122</u>	<u>940,120</u>
Net Premiums	<u>\$1,419,256</u>	<u>\$1,682,628</u>	<u>\$1,632,811</u>

As noted, the Company's premiums decreased from 2007 to 2008. Company management has ascribed the decline in premiums to a by-product of the recession, whereby the Company's members/policyholders have been utilizing fewer trucks than expected (see the Territory and Plan of Operation section of this report for information on the Company's business plan).

MANAGEMENT AND CONTROL

At the Annual Members Meeting held October 30, 2008, the following were elected directors of the Company:

<u>Name and Address</u>	<u>Employer and Position</u>
Kent J. Lisenby Fort Worth, Texas	President, The Lisenby Law Firm, P.C.

MAKE Transportation Insurance, Inc.,
A Risk Retention Group

John D. Glidewell
Fort Worth, Texas

President,
Sunset Logistics, Inc.

Robert J. Van Til II
Fort Worth, Texas

Vice President,
Sunset Logistics, Inc.

Stephen D. Kantner
Wilmington, Delaware

Accounting Manager,
Wilmington Trust SP Services,
Inc.

At the Board of Directors meeting, also held October 30, 2008, the following officers were elected:

<u>Name</u>	<u>Position</u>
John D. Glidewell	Chairman and Treasurer
Kent J. Lisenby	President
Robert J. Van Til II	Secretary

CORPORATE RECORDS

The Company's Certificate of Incorporation and bylaws were reviewed, with no exceptions noted. A review of MTIRRG's stock register noted the following members/stockholders of the Company:

Sunset Carriers Inc.	Sunset Ennis Inc.
Sunset Transportation Inc.	Sunset Prosper Inc.
Sunset Logistics Inc.	Sunset Transit Inc.
Sunset Houston Express Inc.	Sunset San Antonio Express Inc.
Sunset Waco Express Inc.	

Each of the above stockholders has executed a Subscription and Stockholder Agreement, which details all the rights and responsibilities of the stockholders. The Subscription and Stockholder Agreements clearly state that only stockholders can insure risks through MTIRRG.

TERRITORY AND PLAN OF OPERATIONS

MTIRRG was granted a Certificate of Authority as an industrial captive risk retention group. Under the Insurance Code, such captives insure the risks of the industrial insureds that comprise the “Industrial Insured Group”.

In the case of MTIRRG, the Industrial Insured Group shall consist of the nine “Sunset” companies noted in the previous section.

According to the application for a certificate of authority, MTIRRG was created by a small group of Texas commercial trucking companies that predominately haul rocks, cement, cement pipe and sand. Insuring this type of business in the commercial insurance market has been a challenge, and therefore a decision was made to form a captive.

MTIRRG writes only commercial auto liability insurance and operates exclusively in the State of Texas.

For 2008, the Company covered the following number of vehicles:

January	421	February	413
March	379	April	385
May	395	June	383
July	397	August	392
September	382	October	363
November	342	December	326

For most of these trucks, MTIRRG wrote \$1 million in casualty insurance, with a portion of the exposure being reinsured (See the next section of this report). Because one of the customers of the Industrial Insured Group required higher coverage amounts, MTIRRG wrote \$2 million in coverage on approximately fifty-seven (57) delivery trucks, with most of that amount being reinsured.

Loss adjusting services for MTIRRG are performed by The Lisenby Law Firm, P.C. This firm is headed by Kent Lisenby, Esq., the President of the Company.

REINSURANCE

At the Company's Board of Directors meetings held March 29, 2006, the Board reviewed and approved ceded reinsurance terms offered by MaxRe, a Bermuda domiciled insurer.

The ceded reinsurance with MaxRe began June 1, 2006, on an Excess of Loss basis. The ceded reinsurance covers Commercial Automobile liability and Private Passenger Auto liability Coverage in two sections:

Section 1: \$750,000 each and every loss, each and every insured, excess of 250,000 ultimate net loss, each and every insured.

Section 2: Up to \$1 million, each and every loss, each and every insured, excess of a retention of \$1 million ultimate net loss, each and every insured.

As noted in the previous section of this report, Section 1 applies to all the delivery trucks and executive cars the Company insures. Section 2 of the reinsurance coverage applies to approximately 57 trucks whose customers require at least \$2 million in liability insurance coverage.

The Company's reinsurance contract was renewed in 2007 and 2008. While the renewals adjusted the premium structure, the coverage remained the same. The reinsurer was renamed Max Bermuda, Ltd. in 2007.

ACCOUNTS AND RECORDS

The Delaware Insurance Code allows captive insurers to prepare and file its financial statements on a Generally Accepted Accounting Principles basis. The Delaware Insurance Code also permits captive insurers to satisfy the minimum capital and surplus requirements of the Code through the posting of a letter of credit in favor of the Insurance Commissioner.

MAKE Transportation Insurance, Inc.,
A Risk Retention Group

The Company files its federal taxes as part of a consolidated return with the lead company in the group, Sunset Carriers, Inc. This consolidation is done without the benefit of an agreement.

It is recommended the Company enter into an inter-company federal tax agreement with Sunset Carriers, Inc. to govern the consolidation of MTIRRG's federal tax return.

FINANCIAL STATEMENTS

The Company's financial position on December 31, 2008 and the results of operations for 2008 are presented in the following statement:

	<u>ASSETS</u>		
		Nonadmitted	Net
	<u>Assets</u>	<u>Assets</u>	<u>Admitted</u>
			<u>Assets</u>
Cash, Cash Equivalents, Short-Term Investments	\$2,578,304		\$2,578,304
Investment Income Due and Accrued	1,809		1,809
Uncollected Premiums:			
In Course of Collection	823,073		823,073
Net Deferred Tax Asset	65,997		65,997
Deferred Policy Acquisition Costs	19,296		19,296
Prepaid Expenses and Other Receivable	15,051		15,051
Electronic Data Processing Equip.	475		475
Furniture and Equipment	11,578		11,578
Letter of Credit (Note #2)	600,000		600,000
	<hr/>		<hr/>
Totals	<u>\$4,115,583</u>	<u>\$0</u>	<u>\$4,115,583</u>

LIABILITIES

Losses (Note #1)	\$1,136,262
Loss Adjustment Expenses (Note #1)	662,020
Commissions Payable	-19,968
Other Expenses	67,001
Taxes, Licenses and Fees	12,472
Current Federal Income Taxes	46,242
Unearned Premiums	575,289
Amts Withheld for the Account of Others	10,000
Ceded Reinsurance Premiums Payable	<u>337,590</u>
 Total Liabilities	 <u>\$2,826,908</u>
 Common Capital Stock	 \$10
Letter of Credit	600,000
Gross Paid In and Contributed Surplus	501,823
Unassigned Funds	<u>186,842</u>
 Surplus as Regards Policyholders (Note #3)	 <u>\$1,288,675</u>
 Total Liabilities and Surplus as Regards Policyholders	 <u>\$4,115,583</u>

STATEMENT OF INCOME

Premiums Earned	<u>\$1,553,377</u>
Losses Incurred	\$227,169
Loss Adjustment Expenses Incurred	940,539
Other Underwriting Expenses Incurred	<u>262,868</u>
Total Underwriting Deductions	<u>\$1,430,576</u>
Net Underwriting Gain	\$122,801
Net Investment Income Earned	40,527
Miscellaneous Income	<u>500</u>
Net Income before Federal Taxes	\$163,828
Federal Taxes Incurred	<u>48,303</u>
Net Income	<u>\$115,525</u>
Surplus as Regards Policyholders - PY	\$1,168,796
Net income	115,525
Change in net deferred income tax	<u>4,354</u>
Change in Surplus as Regards Policyholders	<u>\$119,879</u>
Surplus as Regards Policyholders - CY	<u>\$1,288,675</u>

EXAMINATION ADJUSTMENTS

The examination will propose no adjustments.

NOTES TO THE FINANCIAL STATEMENTS

Note #1 Loss and Loss Adjustment Expenses

MTIRRG reported the following components of the reserve for Losses at year-end 2008:

Reported Losses:	
Direct	\$747,389
Assumed	0
Ceded	<u>- 120,039</u>
Net Reported Losses	<u>\$627,350</u>
Incurred But Not Reported Losses (IBNR)	
Direct	\$908,122
Assumed	0
Ceded	<u>-399,210</u>
Net IBNR	<u>\$508,912</u>
Total accrual for Losses	<u>\$1,136,262</u>

MTIRRG reported the accrual amount of \$662,020 for Loss Adjustment Expenses as of year-end 2008. This entire amount was allocated to the Defense and Cost containment component of LAE. The Company made no accrual for the Adjusting and Other Unpaid component of LAE. (The Adjusting and Other Unpaid component of LAE is commonly known as Unallocated Loss Adjustment Expenses). It is the Company's contention that its monthly payment to The Lisenby Law Firm, P.C. for processing all claims satisfies the Adjusting and Other Unpaid component. However, INT 02-21 requires that a liability for unpaid LAE be established regardless of any payments made to third party administrators, management companies or other entities.

It is recommended that the Company comply with NAIC Accounting Practices and Procedures INT 02-21 and accrue a reserve for Adjusting and Other Unpaid Loss Adjustment Expenses on all financial statements.

The Company's accruals for Losses and Loss Adjustment Expenses (LAE) are reviewed on an annual basis by the actuarial firm of Towers Perrin. The year-end 2008 review by Towers Perrin noted a redundancy in the combined reserves for Losses and LAE that offset the needed accrual for Adjusting and Other Unpaid LAE; therefore, no financial adjustment is being proposed in this report of examination. No exceptions in the testing of the Company's Loss and LAE data were noted. The Company's reported amounts for Losses and LAE are accepted for purposes of this report.

Note #2 Letter of Credit

The examiner confirmed a Letter of Credit in the amount of \$600,000 issued by the Frost Bank of Euless, Texas. The Insurance Commissioner of Delaware is named as the beneficiary of the Letter of Credit.

Note #3 Capital and Surplus

Section 6905 (a) (4), Minimum capital and surplus; letter of credit, states that in the case of a risk retention group, the minimum capital and surplus shall be \$1,000,000.

As per the financial statement included in this report, MTIRRG has complied with the minimum capital and surplus requirements of the Delaware Insurance Code.

RECOMMENDATIONS

The Company's attention is directed to the following:

(1) It is recommended the Company enter into an inter-company federal tax agreement with Sunset Carriers, Inc. to govern the consolidation of MTIRRG's federal tax return.

(2) It is recommended that the Company accrue a reserve for Adjusting and Other Unpaid Loss Adjustment Expenses on all financial statements.

SUMMARY COMMENTS

MTIRRG is a captive insuring the liability risks of nine affiliated trucking companies located in the State of Texas. The business written by the Company is commercial automobile insurance. The Company retains \$250,000 each and every loss, each and every insured, and has obtained reinsurance for all losses above its retention.

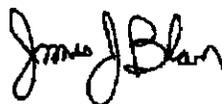
CONCLUSION

This is the first regular examination of the Company. The following schedule shows the results of the examination:

<u>Description</u>	<u>Examination</u>
Assets	\$4,114,583
Liabilities	\$2,826,908
Surplus as regards policyholders	\$1,288,675

The examination was conducted by the undersigned.

Respectfully submitted,



James J. Blair Jr., CPA, CFE
Examination Supervisor
Insurance Department
State of Delaware

SUBSEQUENT EVENTS

Effective March 1, 2010, the Company entered into an additional ceded reinsurance contract with Max Bermuda, Ltd. The new contract will provide coverage of \$125,000 for each and every loss, each and every insured, in excess of the Company's net retention of \$125,000, each and every loss, each and every insured. The contract contains an annual aggregate deductible of \$250,000.