

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF ALBANY

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In the Matter of : Index No.: 97-06
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the Rehabilitation of :
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FRONTIER INSURANCE COMPANY : **VERIFIED PETITION**
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BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State
of New York, as Rehabilitator (the “Rehabilitator”) of Frontier Insurance Company
 (“Frontier”) hereby petitions this court, pursuant to Article 74 of the New York Insurance
Law, for an order approving his Plan of Rehabilitation (the “Plan”) for Frontier and, in
support thereof, states upon information and belief:

Frontier Insurance Company

1. Frontier is a stock property/casualty insurer that was authorized to
transact business in all 50 states, the District of Columbia, Puerto Rico and the Virgin
Islands. Frontier was incorporated in New York under the name P.T.F. Health Insurance
Company on November 2, 1962. It was licensed on August 17, 1966 and changed its name
to Frontier Insurance Company on February 17, 1977.
2. Frontier’s principal place of business is 195 Lake Louise Marie Road, Rock
Hill, New York 12775-8000. Approximately 50 employees currently work at Frontier in
furtherance of the rehabilitation effort.

3. Frontier's business consisted chiefly of medical malpractice liability, workers compensation (primary and excess), and general liability policies. Frontier also issued surety and bail bonds. Frontier wrote in excess of \$266 million of direct premiums in 2000, its last full year of operation.

The Rehabilitation of Frontier

4. This rehabilitation proceeding was initiated on August 27, 2001, when the Supreme Court of the State of New York, County of New York entered a Temporary Rehabilitation Order. The definitive Rehabilitation Order, which was signed on October 10, 2001, directed the Rehabilitator to, among other things, take possession of Frontier's property, conduct Frontier's business, and take such steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary. *See also* N.Y. Insurance Law §7403. The Rehabilitation Order also authorized the Rehabilitator to settle claims in his sole discretion. A copy of the Rehabilitation Order is annexed as Exhibit A.

The July 15, 2010 Order

5. On July 15, 2010, this Court signed an Order directing that the Rehabilitator: (i) submit an accounting of his progress since October 10, 2001 in removing the causes and conditions that have made this proceeding necessary; and (ii) develop and submit to the Court for its approval a detailed plan of rehabilitation for restoring Frontier to solvency, including an assessment of how long such efforts are expected to take. The Court originally directed that the accounting and plan be submitted by October 10, 2010. However, on a series of applications by the Rehabilitator, the Court provided for quarterly reporting of Frontier's financial condition and extended the date for submission of a plan to January 9, 2012.

The Rehabilitator's Accounting and Plan of Rehabilitation

6. The Rehabilitator's efforts to remove the causes and conditions of insolvency are set forth in the Plan, which is annexed as Exhibit B (*see* §§ 2.3-2.6). Because of Frontier's current financial condition, this Plan does not set forth a detailed timetable for restoring solvency. Instead, it provides for an ongoing run-off of Frontier's liabilities, with additional protections for Claimants under Policies (*see* §4.8) and milestones for reducing Frontier's negative surplus by the end of 2017 (*see* §§ 4.9-4.11). The Rehabilitator respectfully submits that further efforts to rehabilitate are warranted in order to ascertain whether Frontier's liabilities for Claims under Policies and then its other liabilities can be satisfied out of the company's assets.

Notice

7. The July 15, 2010 Order directs that notice of this submission "be provided to Interested Parties through publication at least once per week for three consecutive weeks in the *Wall Street Journal* and *Business Insurance*, by posting on the internet web page maintained by the Liquidation Bureau of the State Insurance Department, and by first-class mail where the identity of Interested Persons or entities may be determined through a diligent search of Frontier's books and records." The proposed Order to Show Cause submitted with this Verified Petition effectuates the Court's specifications regarding notice, except: (i) it provides for publication in "three consecutive issues of *Business Insurance*" because that publication occasionally skips a week; and (ii) it omits the provision for publication in the *Wall Street Journal*. The Rehabilitator respectfully requests to be relieved from the latter provision because, when he previously published a notice in the *Wall Street Journal* (regarding the Terramar/bar date application), it cost the estate \$55,590. Given that he will be mailing notice to all Interested Persons, including all claimants with open claims, the

Rehabilitator submits that publication on the New York Liquidation Bureau website and in *Business Insurance* should be sufficient.

Request for Relief

8. Accordingly, the Rehabilitator requests that the Court issue an order:
 - a. approving the Plan of Rehabilitation; and
 - b. providing such other and further relief as the Court deems just and proper;
9. No previous application has been made to this or any other Court for the relief requested herein.

WHEREFORE, Petitioner respectfully requests that the accompanying Order to Show Cause be granted and that a hearing be scheduled at a date convenient to the Court and that, upon the hearing, the Court issue an order granting the relief sought in this Verified Petition.

Dated: New York, New York
January 9, 2012

William F. Costigan
DORNBUSH SCHAEFFER STRONGIN & VENAGLIA, LLP
747 Third Avenue
New York, NY 10017
Tel No: (212) 759-3300

Attorneys for Petitioner

VERIFICATION

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

JONATHAN L. BING, being duly sworn, deposes and says:

That he has read the foregoing Verified Petition and knows the contents thereof, and that the same is true to his own knowledge except as to the matters therein stated upon information and belief, and as to those matters he believes it to be true; that the reason this petition is verified by this deponent rather than by the Superintendent of Financial Services is that deponent is the duly appointed Special Deputy Superintendent and an Agent with authority to act with respect to all matters related to Frontier Insurance Company, in Rehabilitation and as such is acquainted with the facts stated therein.

Deponent further says that the sources of his information and the grounds of his belief as to the matters stated in said Petition to be alleged upon information and belief are records, books and papers of said company in the possession of the Rehabilitator and communications made to deponent by employees and attorneys of the Rehabilitator and/or Frontier.


JONATHAN L. BING

Sworn to before me this
9th day of January 2012


NOTARY PUBLIC

LISA LEATH
Notary Public, State of New York
No. 022456314331
Qualified in New York County
Commission Expires October 13, 2014

EXHIBIT A

ORDER OF REHABILITATION, DATED OCTOBER 10, 2001 AND ENTERED
OCTOBER 15, 2001 [16-19]

212 751 4257

ATLAS Part 19 of the Supreme Court
of the State of New York, County of
New York, at the Courthouse, 60
Centre Street, New York, New York
on the 10th day of October, 2001.

PRESENT:

HON. EDWARD E. LEENER

JUSTICE

In the Matter of

Index No.: 405090/C

The Application of

ORDER OF
REHABILITATION

GREGORY V. SERIO, as Superintendent of Insurance
of the State of New York, for an order to take
possession of the property of and rehabilitate

FRONTIER INSURANCE COMPANY

FILED
OCT 15 2001
NEW YORK
COUNTY CLERK'S OFFICE

Petitioner, Gregory V. Serio, Superintendent of Insurance of the State of New York (the "Superintendent"), having moved this Court for an order to take possession of the property of and rehabilitate Frontier Insurance Company ("Frontier");

NOW, upon reading and filing the order to show cause signed August 27, 2001, the petition of Gregory V. Serio, Superintendent of Insurance, by Kevin Rampe, First Deputy Superintendent, duly verified August 24, 2001 and the emergency affidavit of Kevin Rampe sworn to on August 27, 2001; (the exhibits annexed thereto); the cross motion by Frontier Insurance Group dated September 7, 2001, the annexed proposed petition, the affidavit of Suzanne Loughlin sworn to on September 7, 2001, the exhibits annexed thereto; the affirmation in opposition by Mary Nicholls dated September 7, 2001; the affirmation in opposition by Adam J. Gian dated September 7, 2001; the affidavit of Kevin Rampe sworn to on October 3, 2001, and the exhibits annexed thereto;

and the reply affidavit of Joseph Tammini sworn to on October 3, 2001 and it appearing to my satisfaction that:

1. Frontier was incorporated in New York as a stock property/casualty insurer on November 2, 1962 and commenced business on August 17, 1966;
2. Frontier's principal place of business is located at 195 Lake Louise Marie Road, Rock Hill, New York in Sullivan County. Frontier's tax ID number is 13-2559805;
3. Frontier is subject to the New York Insurance Law and particularly to article 74 thereof;
4. Frontier is insolvent;
5. Frontier has failed to cure its impairment of capital or minimum surplus to policyholders;
6. Frontier has consented to the entry of the order of rehabilitation; and
7. It is in the best interest of Frontier's policyholders, creditors and the general public that the Superintendent be directed to take possession of Frontier's property and to rehabilitate its business and affairs;

And, the Petitioner, having appeared by the Hon. Eliot Spitzer, Attorney General of the State of New York, and due deliberation having been had;

NOW, on motion of Hon. Eliot Spitzer, Attorney General of the State of New York, it is ORDERED as follows:

1. The petition is granted and the cross-motion is withdrawn;
2. Gregory V. Serio, Superintendent, and his successors in office as Superintendent, is appointed Rehabilitator of Frontier and is authorized and directed to immediately take possession of its property, conduct its business, including but not limited to settling claims within his sole discretion, take such steps toward the removal of the causes and conditions which made this proceeding necessary as he shall deem wise and expedient, and deal with the property and business of Frontier in its name or in the name of the Superintendent as Rehabilitator;

3. Notice to all persons having claims against Frontier to file or present their claims to the Superintendent as Rehabilitator is deferred until further order of this court;
4. Frontier, its officers, directors, depositories, trustees, agents, servants, employees, and all other persons, having any property or records belonging or relating to Frontier, including, but not limited to insurance policy, loss claim and legal files are directed, upon request of the Superintendent as Rehabilitator to assign, transfer, set over and deliver to him all such property or records;
5. Any persons, firms, corporations, or associations having any books, papers or records relating to the business of Frontier shall preserve them and submit them to the Superintendent as Rehabilitator for examination and copying at all reasonable times;
6. All persons including, but not limited to the officers, directors, shareholders, trustees, agents, servants, employees, attorneys, and managers of Frontier, are enjoined and restrained from the transaction of Frontier's business, the waste or disposition of its property, interfering with the Superintendent as Rehabilitator in the possession, control and management of Frontier's property or in the discharge of his duties;
7. All persons are enjoined and restrained from commencing or prosecuting any actions, lawsuits, or proceedings against Frontier, or the Superintendent as Rehabilitator;
8. All persons are enjoined and restrained from obtaining preferences, judgments, attachments or other liens or making any levy against Frontier's assets or any part thereof.
9. All parties to actions, lawsuits, and special or other proceedings in which Frontier is obligated to defend a party pursuant to an insurance policy, bond, contract or otherwise are enjoined and restrained from proceeding with any discovery, court conferences including but not limited to pre-trial conference, trial, application for judgment or proceedings on settlements or judgments for a period of one hundred and eighty days from the date of entry of this order.
10. Those persons who may have first-party or New York Comprehensive Automobile Insurance Reparations Act (No-Fault) policyholder loss claims against Frontier coming within the purview of Article 76 of the Insurance Law are enjoined from presenting and filing such claims in this proceeding for 90 days from the date of entry of this order.

- 11. In addition to the powers enumerated above and those delegated to the Rehabilitator in the New York Insurance Law, the Rehabilitator, by Order to Show Cause on notice to interested parties, including without limitation Frontier's sole shareholder, and subject to court approval, may sell or otherwise dispose of all or any part of the real and personal property of Frontier, sell any line of insurance, and take such other actions as set forth in Section 7428 of the New York Insurance Law.
- 12. That the Superintendent of Insurance, as Rehabilitator, may at any time make further application at the foot of this Order to this Court for such further and different relief as he sees fit.
- 13. All further papers in this proceeding shall bear the caption:

In the Matter of
 The Rehabilitation of
 FRONTIER INSURANCE COMPANY

E N T E R 

 J.S.C.

RehOrder 1

FILED
 OCT 15 2001
 NEW YORK
 COUNTY CLERK'S OFFICE

EXHIBIT B

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF ALBANY

In the Matter of the Rehabilitation of
FRONTIER INSURANCE COMPANY,

Index No. 97-06

**REHABILITATION PLAN
FOR FRONTIER INSURANCE COMPANY, IN REHABILITATION**

BENJAMIN M. LAWSKY
Superintendent of Financial Services of the
State of New York, as Rehabilitator of
Frontier Insurance Company
New York Liquidation Bureau
110 William Street
New York, NY 10038-3901

ARTICLE I
INTRODUCTION

1.1 The Plan.

This Plan of Rehabilitation (the "Plan") is filed by Benjamin M. Lawskey, Superintendent of Financial Services of the State of New York, in his capacity as Rehabilitator (the "Rehabilitator") of Frontier Insurance Company ("Frontier") pursuant to N.Y. Insurance Law, Article 74 and the order of the Supreme Court of the State of New York, County of Albany dated July 15, 2010 (and successive orders extending the date for submission). The Rehabilitator, who acceded to office on October 3, 2011 with the creation of the New York State Department of Financial Services, proposes this Plan as a measure to reshape the rehabilitation of Frontier in accordance with his vision for the company.

Although the pathway to solvency will depend in no small measure on future developments that the Rehabilitator can only partially control, the Rehabilitator respectfully submits that this Plan is in the best interests of the policyholders of Frontier, its creditors and the public, as compared to an immediate liquidation of the Frontier estate. As detailed in this Plan, the Rehabilitator's judgment is informed by:

The existence of an experienced staff at Frontier with a track record of operating in an efficient manner, and which has developed and maintains a significant institutional knowledge of the claims and other issues critical to the operations of the estate now and into the future;

The ability in rehabilitation to effectively coordinate and thus increase the efficiency of the payment of claims and collections of reinsurance; and

Consideration of the alternative liquidation scenarios that could delay policy payments to large numbers of policyholders and that could have adverse impacts on the public good.

1.2 Definitions. Unless otherwise expressly indicated in this Plan, the definitions contained in the N.Y. Insurance Law shall apply herein. Additional definitions applicable to this Plan include:

- (a) "Allowed" refers to the amount of a claim that has been allowed by the Rehabilitator or the Court as provided in the Plan.
- (b) "Article 74" refers to Article 74 of the N.Y. Insurance Law.
- (c) "Claims under Policies" refers to claims under policies of insurance, including such claims of the federal or any state or local government for losses incurred, third party claims, claims for unearned premiums, and all claims of a security fund, guaranty association or the equivalent except claims arising under reinsurance contracts.
- (d) "Estate" refers to the receivership estate of Frontier Insurance Company.
- (e) "Frontier" refers to Frontier Insurance Company.
- (f) "Plan" refers to this Rehabilitation Plan for Frontier Insurance Company, in Rehabilitation.
- (g) "Rehabilitation Court" refers to the Supreme Court of the State of New York, County of Albany, except in relation to prior periods when the rehabilitation proceeding was venued in New York County and in Sullivan County, respectively. For such periods, "Rehabilitation Court" refers to the Supreme Court sitting in such respective counties.
- (h) "Rehabilitation Order" refers to the definitive Order of Rehabilitation entered in this proceeding on October 15, 2001.
- (i) "Rehabilitation Proceeding" refers to *In the Matter of the Rehabilitation of Frontier Insurance Company*, Index No. 97/06 currently pending in the Rehabilitation Court.
- (j) "Rehabilitator" refers to the Superintendent of Financial Services of the State of New York, in his capacity as Rehabilitator of Frontier Insurance Company. For the period prior to October 3, 2011, "Rehabilitator" refers to the Superintendent of Insurance of the State of New York acting in the same capacity.
- (k) "Security Fund" refers to a property and casualty security fund, guaranty association or the equivalent established to pay, subject to statutory conditions and limits, certain Claims under Policies in the event of an insurer's insolvency or liquidation.
- (l) "Superintendent" refers to the Superintendent of Financial Services of the State of New York in his capacity as Regulator of the business of insurance. For the period prior to October 3, 2011, "Superintendent" refers to the Superintendent of Insurance of the State of New York acting in the same capacity.

1.3 Purpose of the Plan.

The Plan provides for a continuation of the runoff of liabilities of Claims under Policies issued by Frontier. The Rehabilitation Order authorizes the Rehabilitator to settle claims in his sole discretion. The Rehabilitator proposes this Plan in lieu of initiating a liquidation of Frontier because he believes that an orderly runoff of the Claims under Policies of Frontier is in the public interest and could result in a larger distribution of Estate assets to creditors and claimants.

The Plan provides for payment of Allowed amounts of Claims under Policies and authorizes the Rehabilitator to take other actions to preserve, protect and/or increase the assets of the Estate. As Claims under Policies against the Estate are resolved and/or mature and assets are marshaled, Frontier's financial condition will become more certain.

Where feasible, the Rehabilitator will also negotiate resolutions of other claims against Frontier, but will only pay out settlements with prior court approval. This requirement of prior court approval of settlements of claims other than Claims under Policies is intended to assure that the Plan will treat all claimants no less favorably than they would be treated in the event of a liquidation of Frontier.

1.4 Approval of the Plan / Deadline for Objections.

The Rehabilitation Court has entered a scheduling order that sets April 6, 2012 at 9:30 a.m. as the date and time at which it will consider approval of the Plan. The scheduling order further provides that any objections to the Plan must be filed with the Rehabilitation Court and served on the Rehabilitator and his counsel on or before March 16, 2012. Service of objections on the Rehabilitator is accomplished by e-mailing or hand-delivering them to the Rehabilitator and its counsel at the following addresses:

Frontier Insurance Company, in Rehabilitation
Attention: Al Escobar, Chief Executive Officer
195 Lake Louise Marie Road
Rock Hill, New York 12775-8000
aescobar@frins.com

and to

William F. Costigan, Esq.
Dornbush Schaeffer Strongin & Venaglia, LLP
747 Third Avenue
New York, New York 10017
costigan@dssvllaw.com

A complete copy of the scheduling order setting the Plan approval date and objection deadline, as well as all pleadings filed with the Rehabilitation Court with respect to the rehabilitation of Frontier, may be viewed on the Rehabilitator's website www.ny1b.org.

ARTICLE II

BACKGROUND

2.1 Company History.

Frontier is a stock property/casualty insurer that was authorized to transact business in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. Frontier was incorporated in New York under the name P.T.F. Health Insurance Company on November 2, 1962. It was licensed on August 17, 1966 and changed its name to Frontier Insurance Company on February 17, 1977.

Frontier's principal place of business is 195 Lake Louise Marie Road, Rock Hill, New York 12775-8000.

Frontier owns two insurance subsidiaries, Frontier Pacific Insurance Company ("FPIC") and United Capitol Insurance Company ("UCIC"), which are in liquidation in California and Illinois, respectively.

2.2 Frontier Insurance Coverages.

Frontier's business consisted chiefly of medical malpractice liability, workers compensation (primary and excess), and general liability policies. Frontier also issued surety and bail bonds. Frontier wrote in excess of \$266 million of direct premiums in 2000, its last full year of operation.

2.3 Overview of Frontier Insurance Company's Rehabilitation.

This rehabilitation proceeding was initiated on August 27, 2001, when the Supreme Court of the State of New York, County of New York entered a Temporary Rehabilitation Order. The definitive Rehabilitation Order, which was signed on October 10, 2001, directed the Rehabilitator to, among other things, take possession of Frontier's property, conduct Frontier's business, and take such steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary. The Rehabilitation Order also authorized the Rehabilitator to settle claims in his sole discretion.

In the course of the proceeding, Frontier has paid Claims under Policies and surety claims in excess of \$783 million through September 30, 2011. A breakdown of the Company's payment of claims and loss adjustment expenses by year and line of business is as follows:

Period	WORKERS				TOTAL
	GL	MED MAL	COMP	SURETY	
Q4 2001	7,012,986	5,998,095	7,023,389	6,870,444	26,904,914
2002	75,938,869	34,416,909	41,565,640	16,623,227	168,544,645
2003	62,227,015	50,238,881	24,909,561	14,567,682	151,943,139
2004	51,426,230	43,396,142	19,810,581	9,914,313	124,547,266
2005	31,867,537	32,634,894	14,343,568	11,009,928	89,855,927
2006	24,524,864	31,250,413	11,247,288	1,184,321	68,206,886
2007	13,168,268	22,672,212	10,733,407	991,066	47,564,953
2008	14,083,817	8,912,272	9,095,153	3,619,154	35,710,396
2009	10,104,531	7,790,357	10,094,593	1,294,011	29,283,492
2010	3,423,917	10,540,910	6,536,960	1,538,866	22,040,653
Q1 2011	1,444,974	1,565,949	983,075	40,853	4,034,850
Q2 2011	2,254,447	2,615,679	1,963,342	1,180,368	8,013,836
Q3 2011	3,078,301	3,397,319	2,717,668	856,551	10,049,839
	<u>300,555,756</u>	<u>252,032,713</u>	<u>161,024,225</u>	<u>69,690,784</u>	<u>783,303,477</u>

During this period, Frontier's loss and loss adjustment expense reserves have decreased \$729.6 million from \$847.3 million to \$117.7 million. The number of open claims has been reduced by over 87%, leaving 1,596 open claims.

2.4 Resolution of Significant Issues.

During the period of rehabilitation, the Rehabilitator has, among other things: (i) with Rehabilitation Court approval, restructured the company's most significant reinsurance relationship with National Indemnity Company ("NICO") to obtain a \$45 million cash infusion and forgiveness of approximately \$145 million of debt arising out of a separate contract; (ii) with Rehabilitation Court approval, resolved a morass of litigation by and against the Clarendon Group, Inc. and its affiliated insurers in relation to the parties' respective obligations under a series of program agreements, with a consequent approximate \$30 million improvement in the company's statutory surplus; (iii) settled his lawsuit against the company's former directors and officers for \$15 million. The Rehabilitator believes that he can continue to take and pursue actions that inure to the benefit of the Estate.

2.5 Significant Unresolved Issues.

The largest claimant against Frontier is the U.S. Government, with claims under various customs and immigration bonds. The federal claims exceed \$45 million (excluding claimed interest and penalties). The Rehabilitator is advised by specialist counsel that Frontier has defenses to the federal claims and has sought to negotiate a resolution of them. Those efforts remain ongoing.

As noted above, Frontier's principal reinsurer is NICO. By letter dated July 6, 2010, NICO notified the Rehabilitator that it is suspending payment of any reinsurance claims under its Aggregate Reinsurance Agreement ("ARA") until the Rehabilitator and FPIC, which is also covered under the ARA, allocate the remaining reinsurance cover limit between themselves.

FPIC's claims against NICO under the ARA have been the subject of a recently concluded arbitration between FPIC and NICO, which has resulted in an award to FPIC of approximately \$13 million plus interest of \$4.7 million. FPIC has asserted that there are additional amounts due under the ARA for approximately \$3 million for items not included in the arbitration plus any future claim payments made on current open claims. Until such time that these remaining items are resolved, the Rehabilitator is unable to determine the full impact of this controversy on Frontier's reinsurance recoverable from NICO under the ARA. Further, the company's ultimate parent, Lancer Financial Group, Inc. ("Lancer"), likely will be enlisted to provide assistance with the collection of reinsurance recoverables.¹

2.6 Significant Asset Collections.

In addition to a history of successfully resolving Claims under Policies and many surety claims, the Rehabilitator has been able to make significant collections of reinsurance proceeds, whether by billing for losses in the ordinary course of business or by negotiating commutations. Reinsurance collections since the inception of rehabilitation through September 30, 2011 total \$392,967,266. During the first three quarters of 2011 FIC has collected \$4,476,995. The success of this reinsurance collection process is one of the factors which, in the judgment of the Rehabilitator, warrants a continuation of the rehabilitation process through the Plan.

ARTICLE III

FINANCIAL CONDITION OF THE ESTATE

3.1 Balance Sheet as of September 30, 2011.

A comparison of FIC's unaudited balance sheet as of September 30, 2011 and December 31, 2010 is presented below:

¹ Lancer has also represented that it may be willing to assist in reducing certain administrative expenses currently borne by Frontier (see *infra* §4.3) and to assist with regard to claims settlements. However, the Plan does not contemplate that Lancer will make any cash infusion to Frontier or provide any direct financial support aimed at reducing the size of the current insolvency.

FINANCIAL STATEMENTS

Balance Sheet

	<u>Unaudited</u> <u>Sept 30, 2011</u>	<u>Unaudited</u> <u>Dec 31, 2010</u>
Admitted assets		
Cash and invested assets		
Bonds, at amortized cost or fair market value	\$ 27,863,936	\$ 16,837,161
Common stocks, at fair market value	50,000	50,000
Home office building and improvements, net of allowance	6,142,364	6,593,570
Cash and short-term investments	14,059,398	17,100,726
Other invested assets	1,176,193	1,459,725
	49,291,891	42,041,182
Agents' balances and uncollected premiums	12,049,570	11,689,951
Less: Allowance for agents' balances and uncollected premiums	(12,049,570)	(11,689,951)
Net Agents' balances and uncollected premiums	-	-
Reinsurance recoverables on paid losses and loss adjustment expenses	22,716,409	23,480,007
Less: Allowance for uncollectible reinsurance recoverables	(2,848,519)	(2,848,519)
Net Reinsurance balance recoverable on paid losses and loss adjustment expenses	19,867,890	20,631,488
Electronic data processing equipment	2,389	6,426
Accrued investment income	213,261	295,986
Other admitted assets	505,338	2,963,007
Total admitted assets	\$ 69,880,769	\$ 65,938,089
Liabilities		
Reserves		
Unpaid losses	\$ 95,465,032	\$ 74,609,807
Unpaid loss adjustment expenses	22,188,603	25,171,623
Total reserves on unpaid loss and loss adjustment expenses	117,653,635	99,781,430
Reinsurance balances payable	5,552,606	7,167,023
Provision for reinsurance	12,761,677	12,761,677
Accounts payable and accrued expenses	19,569,401	19,405,399
Reinsurance payable on paid losses and loss adjustment expenses	12,910,005	12,909,964
Funds held under reinsurance agreements	161,201	161,201
Taxes, licenses and fees	1,381,968	1,381,968
Amounts withheld for account of others	545,895	546,452
Retroactive reinsurance reserves – ceded	(21,324,193)	(21,324,193)
Other liabilities	516,122	52,358,711
Total liabilities	149,728,317	185,149,632
Capital and Deficit		
Common stock, par value \$20 per share authorized, issued and outstanding – 250,000 shares	5,000,000	5,000,000
Aggregate write in for special surplus	12,330,055	12,330,055
Paid-in surplus	265,974,592	265,974,592
Unassigned deficit	(363,152,195)	(402,516,190)
Total capital and deficit	(79,847,548)	(119,211,543)
Total liabilities and capital and deficit	\$ 69,880,769	\$ 65,938,089

As the comparative balance sheet demonstrates, the company's negative surplus figure improved by almost \$30 million in the first nine months of 2011. This was due to the D & O settlement (a non-recurring event) and the accounting changes associated with taking the Milliman Report into account (see §3.2 *infra*).

3.2 Summary of Ability of Estate to Pay Claims.

An important factor in the judgment of the Rehabilitator to propose the Plan is an evaluation of whether Claims under Policies can be fully paid. The Rehabilitator has engaged the specialist actuarial firm, Milliman, Inc. ("Milliman"), to study Frontier's reserves for liabilities owed to policyholders, as well as to surety claimants. Milliman issued an Evaluation of Unpaid Loss and Loss Adjustment Expenses as of December 31, 2010 on or about August 16, 2011 (the "Milliman Report"). As previously indicated, the Rehabilitator will be moving separately to file the Milliman Report with the Court under seal.

Based on Milliman's analysis as of December 31, 2010, and taking into account intervening activity, the Rehabilitator estimates Frontier's liability for Claims under Policies at \$93.2 million as of September 30, 2011. The Rehabilitator recognizes that Frontier's \$69.9 million of admitted assets and the earnings thereon, when matched with administrative expenses and Claims under Policies estimated to become due, may not prove sufficient to pay such claims in full. He believes, however, that at this juncture it is premature to reach a final conclusion on that point. Accordingly, the Rehabilitator proposes that the rehabilitation continue under the terms and with the policyholder protections advanced in this Plan.

As discussed below, the Plan establishes annual milestones for reducing the current financial impairment, the achievement or non-achievement of which will guide the Superintendent's future discretion about whether or not to petition the Rehabilitation Court to convert the proceeding to a liquidation.

In addition to Claims under Policies, based on Milliman's analysis as of December 31, 2010, and taking into account intervening activity, the Rehabilitator estimates Frontier's liability for surety claims at \$24.5 million (including customs and immigration bonds) as of

September 30, 2011.² In the event that the run-off develops favorably, and funds are available for the favorable settlement of surety and other claims that are not Claims under Policies, the Rehabilitator will enter into such settlements subject to Rehabilitation Court approval.

As indicated, the Rehabilitator's analysis utilizes the actuarial analysis and opinion by Milliman with regard to quantification of Frontier's liability for Claims under Policies and surety claims that are unpaid and/or incurred but not reported.

ARTICLE IV
ELEMENTS OF THE REHABILITATOR'S PLAN

4.1 The Rehabilitator.

The Rehabilitator shall retain under this Plan and have all of the rights, powers and defenses, and in discharging those rights shall be subject to the duties, of a Rehabilitator under Article 74 to recover, liquidate, otherwise deal with and protect property of the Estate, regardless whether such rights, powers and defenses are enumerated in this Plan.

Except as set forth herein or in any approval order entered by the Rehabilitation Court, nothing in this Plan shall limit the authority or rights granted to the Rehabilitator pursuant to applicable New York law, including Article 74, the Rehabilitation Order, and any order previously entered by the Rehabilitation Court. Pursuant to this Plan, the Rehabilitator retains the title to all of Frontier's property, contracts, and rights of action, wherever located.

4.2 Baseline for Measuring Progress.

The Rehabilitator's ability to pay administrative expenses and Claims under Policies may improve or deteriorate over time. In order to establish a baseline for measuring progress, the Rehabilitator will as soon as practicable prepare a statutory balance sheet for Frontier as at year-

² This figure is based on the more favorable of two methodologies employed by Milliman -- i.e., a methodology based upon the assumed continuation of the Rehabilitator's practice of achieving discounted settlements of surety claims, which only can be fostered in a rehabilitation.

end 2011 and designate an accounting firm to confirm progress (achievement of milestones) under this Plan.

4.3 Conservation of Administrative Expenses.

As noted above, Frontier's ultimate parent company is Lancer Financial Group, Inc. Lancer has suggested that it may form another company to operate out of the Rock Hill facility, and so enable Frontier to achieve administrative savings through a cost-sharing arrangement. When Lancer files its license application with the Department of Financial Services and authority for such new business is approved the Rehabilitator will consider its prospects for shifting administrative costs that would otherwise be borne by Frontier. The Rehabilitator's consideration of, or ultimate agreement to, such a proposal will not relieve Lancer of the obligation to obtain any regulatory approvals for its new company that would otherwise be required.

In any event, the Rehabilitator intends to reduce staff to the level necessary to conduct the run-off of Frontier's liabilities. In doing so, he will consult with Lancer in order to ascertain whether any terminated employees can be taken on by Lancer or by a company formed by Lancer to operate out of the Rock Hill facility.

4.4 Frontier's Rock Hill Facility.

The Rehabilitator will, in consultation with Lancer: (i) continue his efforts to attract rentals to offset the facility's overhead; and (ii) list for sale the Rock Hill building (perhaps with the objective of leasing back all or part of the portion currently occupied by the rehabilitation staff). Subject to Court approval, he will proceed with the option that maximizes value to the Frontier estate.

4.5 Reinsurance.

The Rehabilitator will continue to negotiate with NICO and FPIC toward achieving a

release of additional NICO reinsurance cover. Further, the Rehabilitator will continue to pursue other reinsurance collections (including negotiating commutations or initiating litigation as is advisable in his judgment).

4.6 Other Assets.

The Rehabilitator will continue to marshal the estate's other assets by, among other things, recovering state statutory deposits and seeking to reclaim certain assessments paid to Security Funds.

4.7 Payment of Claims.

The Rehabilitator will continue to pay administrative expenses as they are incurred.

The Rehabilitator will continue to pay Claims under Policies on an ongoing basis and so avoid triggering Security Funds.

4.8 Other Claims.

Where he sees a sufficient advantage to the estate, the Rehabilitator may negotiate settlements of claims other than Claims under Policies and pay them, but only with Court approval.

4.9 Milestones.

To sustain the Plan, Frontier's negative surplus must be reduced relative to the year-end 2011 statutory balance sheet (as per point §4.2 above) by \$5 million by December 31, 2012 and by an additional \$15 million for each year thereafter. The designated accounting firm must certify within 60 days of each measuring date that the milestone has been met.

4.10 Conversion of Proceeding to Liquidation.

If the designated accounting firm does not timely certify that the Plan is on target, the Superintendent may petition for liquidation pursuant to N.Y. Insurance Law §7403(c).

4.11 Termination of this Rehabilitation Proceeding.

If Frontier is restored to solvency by 2017, the Rehabilitator or any interested person may petition the Court to terminate the rehabilitation under NY Ins. Law §7403(d).

ARTICLE V

LIQUIDATION ANALYSIS AND COMPARISON

5.1 Legal Standard.

A rehabilitation plan generally should provide claimants with no less favorable treatment of a claim or class of claims than would occur in liquidation. *See Neblett v. Carpenter*, 305 U.S. 297, 59 S.Ct. 355 (1938) (constitutional due process standard for insurer rehabilitations).

The Rehabilitator respectfully submits that the Plan satisfies this requirement because, for the duration of the Plan, Claims under Policies will be paid in full whenever feasible and any other payments will be subject to Court approval.

5.2 Impact of Liquidation on Financial Condition.

A liquidation of Frontier would likely reduce the assets available to pay claims because Frontier would experience decreased asset collections and increased expenses to the Estate.

In rehabilitation, claims paid by Frontier are reported to the reinsurer for payment. In liquidation, claims are transferred out of the Estate to the various Security Funds, which then file reports with the Estate after claims are paid. This information is then reported to the reinsurer by the Estate. These additional steps can impede timely collection of reinsurance proceeds, as well as the timely execution of any related audits by reinsurers.

Liquidation triggers Security Funds' responsibilities to review and pay only "covered claims" under insurance policies. Because some of Frontier's Claims under Policies will exceed the Security Funds' payment limitations or otherwise be excluded because they do not meet the definition of "covered claims," the Rehabilitator will remain obligated to process such claims or

components of claims. While the Security Fund limitations vary, they can include limits on the total amount payable, residency requirements, non-duplication of recovery exclusions, requirements to exhaust other insurance, and net worth exclusions. Any portion of a Claim under a Policy that is not covered by a Security Fund would be processed by the liquidation estate under the provisions of Article 74 and distributions would be made upon approval by the Court. Therefore, some claims will have to be reviewed by both the estate and a Security Fund. There would be additional costs resulting from handling the claim twice. Both the Rehabilitator's and Security Funds' costs would ultimately be billed to the estate, as each Security Fund would have a claim against the estate for its costs. In comparison, rehabilitation would permit the adjudication of claims by the estate in a single, uniform process, and avoid the necessity of triggering Security Funds in numerous jurisdictions.

5.3 Impact of Liquidation on Claims.

Based on experience with other insurance liquidations, the process for approving and paying claims that are not covered by Security Funds can take longer in a liquidation context because payments can only be effectuated via *pro rata* distributions that occur after all or nearly all such claims have been adjudicated.

5.4 Summary.

Because the Estate may prove able to pay all Allowed Claims under Policies in full, it does not appear that claimants will benefit more from immediate liquidation than under the Plan.

ARTICLE VI
GENERAL PROVISIONS

6.1 Continuation of Prior Receivership Orders.

For the duration of the rehabilitation plan and beyond, except as otherwise specified by the Rehabilitation Court, the Rehabilitation Order entered on October 15, 2001 shall remain in effect.

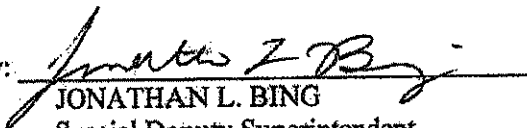
6.2 New York Law Governs Interpretation and Implementation of Plan.

The Plan shall be governed by the substantive law of the State of New York, without giving effect to any choice of law provisions thereunder.

Dated: January 9, 2012

Respectfully submitted,

BENJAMIN M. LAWSKY, Superintendent of
Financial Services of the State of New York as
Rehabilitator of FRONTIER INSURANCE
COMPANY

By: 
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