



FOLEY & LARDNER LLP

March 3, 2011

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Jody Baux  
Ambac Clerk, Dane County Circuit Court  
Dane County Courthouse  
215 South Hamilton Street  
Madison, Wisconsin 53703

Re: *In the Matter of the Rehabilitation of Segregated Account of Ambac Assurance Corporation*; Dane County Circuit Court Case No. 10 CV 1576

Dear Ms. Baux:

Enclosed for filing in the above-referenced matter are the following documents:

1. Motion to Approve Settlement with One State Street, LLC;
2. Notice of Hearing on Rehabilitator's Motion to Approve Settlement With One State Street, LLC; and
3. Proposed Order Approving Rehabilitator's Motion for Approval to Proceed with Settlement Agreement With One State Street, LLC.

Thank you for your attention to this matter.

Very truly yours,

FOLEY & LARDNER LLP



Michael B. Van Sicklen

Enclosures

cc: Honorable William D. Johnston (with enclosures, via first-class mail)  
All Counsel of Record (with enclosures via email)

BOSTON  
BRUSSELS  
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DETROIT

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In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

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**MOTION TO APPROVE SETTLEMENT WITH ONE STATE STREET, LLC**

**By the Commissioner of Insurance of the State of Wisconsin,  
as Rehabilitator of the Segregated Account of Ambac Assurance Corporation**

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The Commissioner of Insurance of the State of Wisconsin, as court-appointed rehabilitator (the "Rehabilitator") of the Segregated Account ("Segregated Account") of Ambac Assurance Corporation ("Ambac") moves the Court to approve the Segregated Account's participation in a Settlement, Discontinuance and Release Agreement (the "Settlement Agreement") made as of March 1, 2011 by and among One State Street, LLC ("OSS"); Ambac Financial Group, Inc., a Delaware corporation, as debtor in possession ("AFG" and, together with the Segregated Account and Ambac, the "Ambac Parties"); Ambac, a Wisconsin insurance company; and the Segregated Account. A true and correct copy of the Settlement Agreement (without exhibits) is attached as Exhibit One. Capitalized terms used herein shall have the meanings ascribed thereto by the Settlement Agreement unless otherwise indicated in this Motion.

1. OSS (as assignee of South Ferry Building Company) and AFG (as assignee of Ambac) are parties to a Lease dated as of January 1, 1992 (as amended or modified, the "Present Headquarters Lease") with respect to the premises currently occupied by Ambac and AFG personnel at One State Street Plaza, New York, New York (the "Existing Premises"), and OSS

has asserted, and Ambac and the Segregated Account have denied, that Ambac is a primary obligor under the Present Headquarters Lease (the “Contingent Disputed Lease Liabilities”).

2. The liabilities of Ambac allocated to the Segregated Account on March 24, 2010 include the Contingent Disputed Liabilities.

3. On March 24, 2010 and November 8, 2010, this Court entered Orders for Injunctive Relief (the “Injunctions”) which, among other things, provided that this Court would have exclusive jurisdiction over, among other things, matters relating to the rehabilitation of the Segregated Account before this Court (case no. 10 CV 1576) (the “Rehabilitation Proceeding”), including any Contingent Disputed Liabilities.

4. On November 8, 2010 (the “Petition Date”), AFG filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*, which case (the “Bankruptcy Case”) is currently pending in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). The Settlement Agreement is subject to approval by both the Bankruptcy Court and this Court.

5. OSS has challenged in this Court the allocation of the Contingent Disputed Lease Liabilities to the Segregated Account, the effectiveness as to OSS of the Injunctions, and the jurisdiction of this Court over it and the Contingent Disputed Lease Liabilities, and objected to this Court’s confirmation by Order entered January 24, 2011 of the Plan of Rehabilitation of the Segregated Account filed by the Rehabilitator on October 8, 2010 (as amended or otherwise modified through the date hereof, the “Plan of Rehabilitation”). Ambac, the Wisconsin Office of the Commissioner of Insurance (“OCI”) and the Rehabilitator have opposed the challenges and objections from OSS. Certain of those challenges and objections are subject to a Stipulation

among counsel for Ambac, OCI, the Rehabilitator and OSS dated December 9, 2010 filed with the Wisconsin Court of Appeals.

6. It is explicitly agreed in the Settlement Agreement that, upon it becoming effective, OSS, on the one hand, and the Ambac Parties, on the other hand, are releasing one another from any Claim that such party ever had, now has or may in the future have against the released party, but excluding, (x) in the case of the release provided by OSS, the Committee Claim, the OSS Administrative Claim, the Allowed Claim and any Indemnified OSS Claims, (y) in the case of the release provided by the Ambac Parties, Claims for contribution and indemnification arising from or in connection with any Indemnified OSS Claims, and (z) Claims arising by reason of any violation of any obligations under, issued under or incurred pursuant to, or actions required by, the Settlement Agreement, including (i) Claims arising or obligations incurred under the new lease to be entered into by Ambac and OSS with respect to the Existing Premises, other than floors 19 and 20 (the “New Headquarters Lease”); (ii) the OSS Segregated Account Claim (as defined below); and (iii) the OSS Junior Surplus Notes (as defined below).

7. Briefly summarized, the main differences between the Present Headquarters Lease and the New Headquarters Lease are as follows:

- The New Headquarters Lease reflects an approximately thirty percent (30%) reduction in the amount of leased space as compared to the Present Headquarters Lease.
- The New Headquarters Lease reflects an approximately thirty-seven percent (37%) reduction in the average annual cost per square foot as compared to the Present Headquarters Lease.
- The New Headquarters Lease reflects a total savings of approximately \$36.7 million (discounted to present value using a rate of 7% per annum) as compared to the Present Headquarters Lease.

8. The Settlement Agreement provides that, upon the Effective Date, the Present Headquarters Lease will be terminated in full and be of no further force or effect, and no party

will owe any amounts or have any termination or payment obligations or any other obligations in respect of such agreement; provided, however, that all contribution and indemnification claims of the Parties in respect of the Present Headquarters Lease relating to or in connection with Indemnified OSS Claims will survive and not be terminated.

9. Upon the Effective Date, OSS will be granted an allowed general unsecured claim (the "Allowed Claim") against AFG in the Bankruptcy Case in the amount of \$14,302,367.

10. Upon the Effective Date, OSS will be granted a Permitted General Claim (as defined in the Plan of Rehabilitation) against the Segregated Account (the "OSS Segregated Account Claim") in the amount of \$36,664,952 consisting of: (i) the aggregate amount of all fixed lease payments, additional rent and any other sums payable pursuant to the Present Headquarters Lease for floors 15-19, which but for the termination of the Present Headquarters Lease OSS claims would be due to OSS from the Effective Date through and including September 30, 2019, less (ii) the aggregate amount of all fixed lease payments, additional rent, and any other sums due payable to OSS pursuant to the New Headquarters Lease from the Effective Date through December 31, 2015, in the case of both (i) and (ii) discounted to present value using a rate of 7% per annum from the due date of payment.

11. Upon the Effective Date, the Segregated Account will issue two junior surplus notes to OSS (the "OSS Junior Surplus Notes") in the aggregate principal amount of, and in full satisfaction and payment of, the OSS Segregated Account Claim. The OSS Junior Surplus Notes will be on terms and conditions consistent with the terms and conditions of the form of junior surplus note attached to the Plan of Rehabilitation as Exhibit D, except as described in paragraph 13 hereof. One of such notes (the "Non-reducing Surplus Note") will be in the initial

principal amount of \$11,690,491 and the other of such notes (the "Reducing Surplus Note") will be in the initial principal amount of \$24,974,461.

12. The Settlement Agreement provides that the Allowed Claim, the OSS Segregated Account Claim, the initial principal amount of the Non-reducing Surplus Note, and the initial principal amount of the Reducing Surplus Note have been calculated assuming the Effective Date occurs on March 1, 2011, and agree that if the Effective Date occurs after March 1, 2011, such amounts shall be subject to adjustment in the manner described in the Settlement Agreement.

13. To the extent that rent is paid pursuant to the New Headquarters Lease from and after December 31, 2015, the principal amount of the Reducing Surplus Note will be reduced automatically by the amount of such rent paid discounted from the date of payment thereof to the Effective Date at the rate of 7% per annum. The principal amount of the Reducing Surplus Note will be further reduced automatically by 83.33% of the "value" (as set forth in the Settlement Agreement) of any distribution that OSS receives on account of the Allowed Claim from time to time from the AFG estate pursuant to the Bankruptcy Case.

14. The Effective Date will occur when various conditions have been satisfied, including, without limitation: approval of the Settlement Agreement by the Rehabilitator, this Court, the Bankruptcy Court and the holder of the mortgage on the Existing Premises.

15. In the event that there is a dispute between the Parties arising under the Settlement Agreement, this Court will be the exclusive forum to seek any remedy or to assert any claim. Each of the Parties have agreed in the Settlement Agreement that they will submit to the personal jurisdiction and venue of this Court for the purposes thereof and will expressly waive any claim of lack of personal jurisdiction and improper venue and any claim that this Court is an

inconvenient forum. To the extent the Rehabilitation Proceeding is pending, the exclusive forum to seek any such remedy or assert any such claims will be the Rehabilitation Proceeding.

16. The Rehabilitator believes that the Settlement Agreement is in the best interests of policyholders of the Segregated Account. In the prior proceedings in this Court, the present value of the total monetary claim asserted by OSS against the Segregated Account (referred to above as the “Contingent Disputed Lease Liabilities”) was estimated by the Rehabilitator, Ambac and OSS to be approximately \$94 million. The consideration to be paid by the Segregated Account to OSS pursuant to the Settlement Agreement is, as detailed above in paragraph 10, \$36,364,952 in the form of junior surplus notes, with no separate cash payment from the Segregated Account. At the same time, also as noted above, Ambac and OSS will enter into the New Headquarters Lease with respect to the Existing Premises. The New Headquarters Lease will also benefit the Segregated Account in that it will result in substantially reduced rental costs allocable to the Segregated Account relating to the Existing Premises, when compared to the costs allocable to the Segregated Account relating to the Present Headquarters Lease.


17. The Settlement Agreement also is in the best interests of the Segregated Account and policyholders because it will resolve OSS’s objections to the Injunctions, to the allocation of the Contingent Disputed Lease Liabilities to the Segregated Account, and to the Plan of Rehabilitation, and OSS’s participation in appeals taken from orders of this Court in regard to those matters. The Settlement Agreement is beneficial to the Segregated Account because it includes releases and dismissals of claims and appeals and related litigation on the terms and conditions set forth therein.

WHEREFORE, the Rehabilitator respectfully requests that the Court grant the Rehabilitator and the Segregated Account approval to proceed to close and consummate the settlement with OSS on the terms and conditions set forth in the Settlement Agreement, a copy of which is attached as Exhibit One.

Dated this 3rd day of March 2011.

FOLEY & LARDNER LLP

By:

  
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*Attorneys for Commissioner of Insurance of  
the State of Wisconsin, as Rehabilitator of  
the Segregated Account of Ambac Assurance  
Corporation*



# **EXHIBIT ONE**

**SETTLEMENT, DISCONTINUANCE AND RELEASE AGREEMENT**

THIS SETTLEMENT, DISCONTINUANCE AND RELEASE AGREEMENT (this "Agreement") is made as of March 1, 2011 by and among ONE STATE STREET, LLC ("OSS"), AMBAC FINANCIAL GROUP, INC., a Delaware corporation, as debtor in possession ("AFG"), AMBAC ASSURANCE CORPORATION, a Wisconsin insurance company ("Ambac"), and the SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION (the "Segregated Account"; and together with AFG and Ambac, collectively the "Ambac Parties" and each individually an "Ambac Party"). OSS and the Ambac Parties are also referred to herein each as a "Party" and collectively as the "Parties."

**RECITALS**

A. OSS (as assignee of South Ferry Building Company) and AFG (as assignee of Ambac) are parties to that certain Lease dated as of January 1, 1992 (as amended or modified, the "Headquarters Lease") with respect to the premises currently occupied by Ambac and AFG personnel at One State Street, New York, New York (the "Existing Premises"), and OSS has asserted, and Ambac has denied, that Ambac is a primary obligor under the Headquarters Lease (the "Contingent Disputed Liabilities").

B. On March 24, 2010, Ambac established the Segregated Account under Wisconsin insurance law and the Circuit Court of Dane County, Wisconsin (the "Rehabilitation Court") entered an Order for Rehabilitation (the "Rehabilitation Order") which, *inter alia*, (i) placed the Segregated Account into rehabilitation (the "Rehabilitation Proceeding") and (ii) authorized the Wisconsin Commissioner of Insurance, as Rehabilitator (the "Rehabilitator"), to administer the Segregated Account, pursuant to the Wisconsin Insurers Rehabilitation and Liquidation Act (Chapter 645 of the Wisconsin Statutes).

C. The liabilities of Ambac allocated to the Segregated Account include the Contingent Disputed Liabilities.

D. On March 24, 2010, the Rehabilitation Court entered an Order for Temporary Injunctive Relief (the "TRO") which, among other things, provided that the Rehabilitation Court would have exclusive jurisdiction over, among other things, matters relating to the Rehabilitation Proceeding and the Segregated Account, including any Contingent Disputed Liabilities.

E. On November 8, 2010 (the "Petition Date"), AFG filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (the "Bankruptcy Code"), which case (the "Bankruptcy Case") is currently pending in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court").

F. OSS has challenged in the Rehabilitation Court the allocation of the Contingent Disputed Liabilities to the Segregated Account, the effectiveness as to it of the TRO, and the jurisdiction of the Rehabilitation Court over it and the Contingent Disputed Liabilities, and has objected to the confirmation of the Plan of Rehabilitation of the Segregated Account filed by the Rehabilitator on October 8, 2010 (as amended or otherwise modified through the date hereof, the "Plan of Rehabilitation") with the Rehabilitation Court (case no. 10 CV 1576), and Ambac, the Wisconsin Office of the Commissioner of Insurance ("OCI") and the Rehabilitator have opposed the challenges and objections from OSS. Certain of such challenges and objections are subject to a Stipulation among counsel for Ambac, OCI, the Rehabilitator and OSS dated December 9, 2010 and filed with the Wisconsin Court of Appeals on such date.

G. The Parties desire to resolve their differences without further resort to litigation and without admission of any fault, liability or determination as to proper court jurisdiction with respect to the above-referenced matters and, as a result of the Parties' good faith and arm's length negotiations, have agreed to the settlement set forth herein.

## AGREEMENT

In consideration of the foregoing, the Parties agree as follows:

### 1. General Releases and Other Agreements

(a) As of the Effective Date (as defined below), but subject to subsection 1(d) below, OSS, for good and valuable consideration, the sufficiency of which is hereby acknowledged, hereby forever releases each of the Ambac Parties and each of the respective parents, subsidiaries, officers, directors, employees, attorneys, successors, transferees, assigns, subrogees, representatives and agents of the Ambac Parties, whether or not such party is subject to the Bankruptcy Case or Rehabilitation Proceeding (collectively, the "Released Ambac Parties" and each individually a "Released Ambac Party"), from any and all claims and including, without limitation, as defined in section 101(5) of the Bankruptcy Code, defaults, obligations, rights, damages, causes of action, demands, suits, judgments, remedies, setoffs, recoupments, defenses, debts, and liabilities of any kind or nature whatsoever, under any legal theory, including under contract, tort, or otherwise, whether at law, in equity, or otherwise, whether known or unknown, matured or unmatured, fixed or contingent, liquidated or unliquidated, disputed or undisputed, asserted or unasserted, suspected or unsuspected, foreseen or unforeseen, direct or indirect, choate or inchoate, now existing or hereafter arising (each a "Claim" or collectively, "Claims") that OSS may now have, have ever had or may in the future have, against a Released Ambac Party, as a result of any transactions or proceedings occurring, actions taken or omissions to act occurring on or prior to the Effective Date involving a Released Ambac Party, including, but not limited to, under or in relation to the Headquarters Lease, the Rehabilitation Proceeding or the Bankruptcy Case, but excluding the (x) Committee Claim (as defined in Section 2 hereof), the OSS Administrative Claim (as defined in Section 2 hereof), the Allowed Claim (as defined in Section 4 hereof) and any Claims against AFG under the Headquarters Lease for contribution and indemnification arising out of third-party claims against OSS, but solely to the extent such Claims for contribution and indemnification (i) arise before the Petition Date and are recoverable solely from the proceeds of insurance and not from AFG or (ii) arise after the Petition Date and before the Effective Date and would have constituted allowed claims in the Bankruptcy Case if AFG had rejected the Headquarters Lease (such Claims for contribution and indemnification being referred to as "Indemnified OSS Claims").

(b) As of the Effective Date, but subject to subsection 1(d) below, the Ambac Parties, for good and valuable consideration, the sufficiency of which is hereby acknowledged, hereby forever release OSS and each of its parents, subsidiaries, officers, directors, employees, attorneys, successors, transferees, assigns, subrogees, representatives and agents (collectively, the "Released OSS Parties" and each individually a "Released OSS Party"), from any and all Claims, that an Ambac Party may now have, have ever had or may in the future have, against a Released OSS Party as a result of any transactions or proceedings occurring, actions taken or omissions to act occurring on or prior to the Effective Date involving a Released OSS Party, including, but not limited to, under or in relation to the Headquarters Lease, the Rehabilitation Proceeding or the Bankruptcy Case, but excluding any Claims against OSS or any other Person for contribution and indemnification arising from or in connection with any Indemnified OSS Claims.

(c) The Parties intend that the obligations incurred under this Agreement, consideration for which is expressly acknowledged, will be in full and final disposition of any and all manner of actions,

arbitrations, causes of action, claims, counterclaims, cross-claims, demands, or suits which have been or could have been asserted by OSS, on the one hand, or the Ambac Parties, on the other hand, against one another in connection with the Rehabilitation Proceeding or the Bankruptcy Case, including, without limitation, all claims asserted by OSS challenging or objecting to the TRO, the Rehabilitation Proceeding, the jurisdiction of the Rehabilitation Court, the Segregated Account, the allocation of the Contingent Disputed Liabilities to the Segregated Account or the Plan of Rehabilitation, all of which are hereby released upon the Effective Date.

(d) Notwithstanding the foregoing, it is explicitly agreed and understood that the Parties are not releasing, acquitting, discharging or waiving any Claim of any nature whatsoever that such Party ever had, now has or can, shall or may have, by reason of any breach or violation of, or failure to comply with, any obligations under, issued under or incurred pursuant to, or actions required by, this Agreement, including, without limitation, (i) Claims arising or obligations incurred under a new lease to be entered into pursuant to this Agreement by Ambac and OSS with respect to the Existing Premises, other than floors 19 and 20, in the form annexed hereto as Exhibit A (the "New Headquarters Lease"), (ii) the Allowed Claim, (iii) the Committee Claim, (iv) the OSS Administrative Claim, (v) the OSS General Claim, (vi) the Indemnified OSS Claims and (vii) the OSS Junior Surplus Notes (as defined in Section 5 hereof).

(e) No Party will provide material assistance in pursuit of or pursue indirectly through any trustee or similar agent any Claims that such Party has released pursuant to the terms and conditions of this Agreement.

(f) The Parties agree promptly after the Effective Date to make such filings and take such further actions in the Rehabilitation Proceeding, the Bankruptcy Case and otherwise, including, without limitation, such filings and actions as are necessary or advisable to dismiss any appeals pending in Wisconsin of orders of the Rehabilitation Court, as are reasonably necessary or advisable to effectuate the intent and purpose of this Section 1, including, without limitation, subsection (c) hereof.

2. **No Claims in Bankruptcy Case** With the exceptions of the Allowed Claim, any claim for out-of-pocket expenses (other than attorneys' fees and expenses) that OSS is entitled to recover as a member of the Official Committee of Unsecured Creditors appointed in the Bankruptcy Case (the "Committee Claim") and any administrative claim for unpaid rent for the Existing Premises under the Existing Lease between the Petition Date and the Effective Date (the "OSS Administrative Claim," it being acknowledged by OSS that as of the date hereof such amount is zero and that such amount will continue to be zero as long as an Ambac Party continues to pay rent accruing under the Headquarters Lease until the Effective Date), upon the Effective Date, all Claims (whether secured, unsecured, scheduled, priority, non-priority or administrative) filed or asserted in the Bankruptcy Case by or on behalf of any of the OSS Released Parties shall be voluntarily withdrawn in their entirety. No such Claims shall thereafter be filed or asserted by or on behalf of any of the OSS Released Parties.

3. **The Headquarters Lease** Without limiting to any extent the scope of the general releases and other agreements herein, including under Sections 4 and 5 below, each Party agrees that upon the Effective Date, the Headquarters Lease shall be terminated in full and be of no further force or effect, and no Party shall owe any amounts or have any termination or payment obligations or any other obligations in respect of such agreement; provided that all contribution and indemnification claims of the Parties in respect of the Headquarters Lease relating to or in connection with Indemnified OSS Claims shall survive and not be terminated pursuant to this Section 3.

**4. Allowed Claim of OSS in the Bankruptcy Case**

(a) Upon the Effective Date, OSS shall be granted an allowed general unsecured claim (an "Allowed Claim") in the Bankruptcy Case in the amount of \$14,302,367, being the lesser of:

(i) (x) the aggregate amount of all fixed lease payments, additional rent (including, without limitation, all Additional Charges, Tax Payments and Operating Payments (as such terms are defined in the Headquarters Lease)), and any other sums payable pursuant to the Headquarters Lease, which in each case, but for the termination of the Headquarters Lease pursuant to Section 3 hereof, would be due and payable to OSS from the Effective Date through and including September 30, 2019 under the terms of such lease (the "Remaining Headquarters Lease Rental"), plus (y) all unpaid rent and any other amounts that were due and owing under the Headquarters Lease as of the Petition Date, less (z) the aggregate amount of all fixed lease payments, additional rent (including, without limitation, all Additional Charges, Tax Payments and Operating Payments (as such terms are defined in the New Headquarters Lease)), and any other sums payable pursuant to the New Headquarters Lease, in each case due and payable to OSS under the terms of the New Headquarters Lease during the period (the "Initial Term") commencing on the Effective Date and ending on December 31, 2015 of the New Headquarters Lease (the "Remaining New Headquarters Lease Rental"), and

(ii) the amount permitted under 11 U.S.C. Sec. 502(b)(6), it being understood and agreed that the parties have calculated the maximum amount of the Allowed Claim under 11 U.S.C. Sec 502(b)(6) as equal to \$14,302,367.

**5. Allowed General Claim of OSS in the Rehabilitation Proceeding**

(a) Upon the Effective Date, OSS shall be granted a Permitted General Claim (as defined in the Plan of Rehabilitation) against the Segregated Account (the "OSS General Claim") in the amount of \$36,664,952, consisting of: (i) the Remaining Headquarters Lease Rental for floors 15-19, less (ii) the Remaining New Headquarters Lease Rental, in the case of both (i) and (ii), discounted to present value using a rate of 7% per annum from the due date of payment.

(b) Upon the Effective Date, the Segregated Account agrees it shall issue two junior surplus notes to OSS (the "OSS Junior Surplus Notes") in the aggregate principal amount of, and in full satisfaction and payment of, the OSS General Claim, which notes, subject to subsection (c) hereof, will be on terms and conditions consistent with the terms and conditions of the form of junior surplus note attached to the Plan of Rehabilitation as Exhibit D. One of such notes (the "Non-Reducing Surplus Note") shall be in the initial principal amount of \$11,690,491 and the other of such notes (the "Reducing Surplus Note") shall be in the initial principal amount of \$24,974,461.

(c) To the extent that rent is paid pursuant to the New Headquarters Lease from and after the end of the Initial Term (the "Extension Term Rent Payments"), the principal amount of the Reducing Surplus Note shall be reduced automatically by an amount equal to any Extension Term Rent Payments discounted from the date of payment thereof to the Effective Date at the rate of 7% per annum (the sum of all such Extension Term Rent Payments, as discounted in accordance with this Section 5(c), being the "Extension Term Reduction Amount"). The principal amount of the Reducing Surplus Note shall be further reduced automatically by 83.33% of the "value" of any distribution that OSS receives on account of the Allowed Claim from time to time from the AFG estate pursuant to the Bankruptcy Case (the sum of such percentage of the value of all such distributions being the "Bankruptcy Distribution Reduction Amount"). For purposes of this subsection (c), the "value" of any distribution shall equal the sum of (a) any cash distributed to OSS and (b) if publicly-traded stock, that is (x) non-restricted stock is distributed to OSS, the average publicly-reported value of such non-restricted stock as of thirty (30), forty-five (45)

and sixty (60) days following the date of distribution thereof to OSS or (y) restricted stock is distributed to OSS, the value of such restricted stock based on the determination of an independent valuation firm reasonably acceptable to all parties, in each case as of thirty (30), forty-five (45) and sixty (60) days following the date of distribution thereof to OSS.

(d) The initial principal amount of the Reducing Surplus Note is based on a maximum Extension Term Reduction Amount of \$13,056,298 (the "Extension Term Reduction Allocation") and a maximum Bankruptcy Distribution Reduction Amount of \$11,918,162 (the "Bankruptcy Distribution Reduction Allocation"). The Extension Term Reduction Allocation and the Bankruptcy Distribution Reduction Allocation shall be subject to adjustment as set forth in this Section 5(d) and Section 6(d) consistent with the methodology and calculations set forth on Exhibit C hereto. The Segregated Account agrees that the Extension Term Reduction Allocation and the Bankruptcy Distribution Reduction Allocation shall be reduced by the Extension Term Excess Amount (as defined below) and the Bankruptcy Distribution Excess Amount (as defined below), respectively, following specific written requests therefor from OSS, which requests may be made solely following each of (i) the date the amount of space of the Existing Premises, if any, to be leased by AAC after the Initial Term is determined in accordance with the New Headquarters Lease and such determination causes the Extension Term Reduction Allocation to exceed the maximum potential Extension Term Reduction Amount (such excess amount, as agreed between OSS and the Segregated Account, arising at any time for any reason, being the "Extension Term Excess Amount"), (ii) the date on which the AFG Plan (as defined below) is fully consummated, the amount, if any, by which the Bankruptcy Distribution Reduction Allocation exceeds the maximum potential Bankruptcy Distribution Reduction Amount (such excess amount, as agreed between OSS and the Segregated Account, being the "Bankruptcy Distribution Excess Amount"), and (iii) any other date on which there shall exist an Extension Term Excess Amount and/or the Bankruptcy Distribution Excess Amount which has not been reflected in an adjustment pursuant to this Section 5(d), all of which adjustments pursuant to (i), (ii) and (iii) above shall not occur more than once in the aggregate in any consecutive twelve-month period. The Segregated Account further agrees to enter into amendments to each of the Reducing Surplus Note and the Non-Reducing Surplus Note to increase the outstanding principal amount of the Non-Reducing Surplus Note and to decrease the outstanding principal amount of the Reducing Surplus Note, in each case by the Extension Term Excess Amount and/or the Bankruptcy Distribution Excess Amount, as the case may be. The Segregated Account further agrees, following a specific written request therefor from OSS, (i) to enter into an amendment to the Reducing Surplus Note to eliminate the provision therein requiring reduction in the principal amount thereof to reflect distributions from the AFG estate, as contemplated in preceding Section 5(c), provided that as of the date of both such request and amendment, the Distribution Completion Date shall have occurred, and (ii) to exchange the Reducing Surplus Note for an OSS Junior Surplus Note in the same outstanding principal amount as of such date of exchange as the Reducing Surplus Note and in the same form as the Non-Reducing Surplus Note provided that as of the date of both such request and exchange: (x) the Distribution Completion Date shall have occurred and (y) there shall be no further Extension Term Rent Payments due or payable under the New Headquarters Lease. For purposes of this Section 5(d), the term "Distribution Completion Date" shall mean the earliest date on which all of the following shall have occurred: (A) the plan of reorganization or liquidation of the AFG estate pursuant to the Bankruptcy Case (the "AFG Plan") shall have been fully consummated, (B) no further distributions shall be payable under the AFG Plan and (C) all distributions under the AFG Plan in reduction of the principal amount of the Reducing Surplus Note pursuant to Section 5(c) shall have been fully accounted for.

(e) Ambac and the Segregated Account agree to provide written notice to OSS of: (i) any Alternative Resolution that proposes to resolve a Claim that is, or could reasonably be viewed as, a General Claim by (a) re-classifying such Claim, in whole or in material part, as an Administrative Claim or as a Policy Claim, or (b) providing, in whole or in part, for the payment of cash or issuance of Surplus Notes, or any other form of consideration that is to be paid prior to the OSS Junior Surplus Notes; and (ii)

any alteration, amendment, or modification of the Plan of Rehabilitation that proposes the creation of any class of Claims, other than Policy Claims and Administrative Claims as currently defined in the Plan of Rehabilitation, with priority over General Claims, except that in the case of either (i) or (ii), notice need not be provided relative to any Alternative Resolution or amendment to the Plan of Rehabilitation relating to (A) Claims made by the federal government of the United States or (B) Claims that are being satisfied by the payment of cash or issuance of Surplus Notes or other form of consideration in an amount equal to \$1,000,000 or less. In any such event, OSS shall be provided at least five (5) Business Days after receipt of written notice in which to file an objection with the Rehabilitation Court (each an "Alternative Resolution Objection"). For the avoidance of doubt, the releases contained in Section 1 hereof shall not preclude or impair OSS from filing or prosecuting an Alternative Resolution Objection. All capitalized terms used but not defined in this Section 5(e) and which are defined in the Plan of Rehabilitation shall have the meaning given thereto by the Plan of Rehabilitation.

(f) In the event that, following the execution and delivery of this Agreement and consummation of the transactions contemplated herein, including, without limitation, the effectiveness of this Agreement and the New Headquarters Lease and the mutual releases of the Parties hereto, a court of competent jurisdiction determines pursuant to a final non-appealable order that the OSS Junior Surplus Notes or the Segregated Account are invalid and Ambac has neither succeeded to or assumed liability for such OSS Junior Surplus Notes nor issued new junior surplus notes with a similar priority under Wis. Stat. Section 645.68, then OSS's claim against Ambac and the Segregated Account in the amount of the OSS General Claim (less any reduction in the principal amount of the Reducing Surplus Note pursuant to Section 5(c) hereof which occurred or would have occurred thereafter), and all rights and remedies of Ambac and the Segregated Account in respect of such claim, including, without limitation, the right to dispute and deny the existence of such claim, shall be reinstated in full as if such OSS Junior Surplus Notes had not been issued, *provided*, that nothing in this Section 5(f) shall affect the rights and obligations of Ambac or OSS under the New Headquarters Lease.

(g) Ambac agrees that it shall not allocate its liabilities under the New Headquarters Lease to any segregated account established pursuant to Section 611.24 of the Wisconsin Statutes, including, without limitation, the Segregated Account, but that if such allocation occurs and such segregated account is subject to a proceeding under Chapter 645 of the Wisconsin Statutes, then OSS shall have no rights or remedies as a result thereof provided the liability so allocated is treated as an "administration cost" under Section 645.68(1) of the Wisconsin Statutes.

(h) For the avoidance of doubt, the covenants in Sections 5(c) through 5(g) *inclusive* shall be effective upon and subject to occurrence of the Effective Date.

## **6. Conditions to Effectiveness; Effective Date; Cooperation**

(a) As used in this Agreement, the term Effective Date shall be the date on which all of the following shall have occurred: (i) this Agreement shall have been approved by the Rehabilitator, the Rehabilitation Court and the Board of Directors of AFG (and AFG agrees to promptly notify OSS of such board approval), and this Agreement and the New Headquarters Lease shall have been approved by OCI and the Board of Directors of AAC (and AAC agrees to promptly notify OSS of such board approval), (ii) this Agreement shall have been approved by an order of the Bankruptcy Court, unless any objection to such order shall have been properly made and overruled, in which case the time for filing a notice of appeal from such order shall have lapsed without any stay in effect or notice of appeal having been filed, or if any notice of appeal has been filed, such appeal has been finally adjudicated and denied or dismissed, (iii) Ambac shall have vacated floors 19 and 20 of the Existing Premises and delivered them broom clean, reasonable wear and tear excepted, to OSS (except for any furniture left on such floors as set forth in Section 6(c) below) and (iv) any approval required from the holder of the mortgage on the Existing

Premises (the "Mortgage") shall have been obtained and the Mortgagee shall have executed and delivered an NDA Form (as defined in the New Headquarters Lease) as contemplated by the New Headquarters Lease (the "Mortgage Approval Condition"); provided, however, that (x) OSS shall not be obligated to close the transactions contemplated herein to be consummated on the Effective Date (and shall give prompt written notice of its determination not to so close) if, as of such date, AFG shall not have paid rent under the Headquarters Lease with respect to the period commencing on the date hereof and ending on the day immediately preceding the Effective Date, and (y) no Party shall have any further obligations to any other Party under this Agreement, and this Agreement shall be null and void, if the Effective Date shall not have occurred by June 30, 2011, subject in the case of either part (x) or (y) to any claims of any Party for breach by any other Party of covenants, agreements or representations and warranties made or to be performed or observed prior to the Effective Date, which claims shall survive. In the event that all conditions required for the Effective Date have occurred other than the Mortgagee Approval Condition, OSS shall provide Ambac with a credit against Ambac's obligations under the New Headquarters Lease in the amount of (x) the aggregate amount of all fixed lease payments and additional rent payments under the Headquarters Lease that are paid for the period between the date upon which all conditions to the Effective Date other than the Mortgagee Approval Condition have been satisfied and the date on which the Mortgagee Approval Condition is satisfied (the "Credit Period"), less (y) the aggregate amount of all fixed lease payments and additional rent payments that would have been payable pursuant to the New Headquarters Lease for the Credit Period but for the fact that the Mortgagee Approval Condition had not been satisfied.

(b) Each of the Parties covenants and agrees to use its commercially reasonable best efforts to cooperate with each other in order to obtain, as soon as practicable following the date hereof, approvals of OCI, the Rehabilitator, the Bankruptcy Court and the Mortgagee to the terms of this Agreement and to defend against any appeals of any order approving this Agreement. Each of the Parties agrees that the effectiveness of the New Headquarters Lease may in accordance with its terms be subject to the occurrence of the Effective Date.

(c) AFG agrees that following the Effective Date all furniture located on floors 19 and 20 of the Existing Premises, other than the furniture identified on Exhibit B hereto, will remain in place on such floors. AFG further agrees that in removing the furniture identified on Exhibit B hereto it shall leave floors 19 and 20 in broom clean condition, reasonable wear and tear excepted, it being understood and agreed that AFG shall have no obligation to remove Specialty Alterations (as defined in the New Headquarters Lease) or otherwise restore the Existing Premises (provided this Section 6(c) shall not affect any restoration obligations of AAC under the New Headquarters Lease).

(d) The Parties confirm that the Allowed Claim, the OSS General Claim, the initial principal amount of the Non-Reducing Surplus Note, and the initial principal amount of the Reducing Surplus Note (consisting of the Extension Term Reduction Allocation and the Bankruptcy Distribution Reduction Allocation), have been calculated assuming the Effective Date occurs on March 1, 2011, and agree that if the Effective Date occurs after March 1, 2011, such amounts shall be subject to such adjustment as shall be required to reflect the Remaining Headquarters Lease Rental (or portion thereof, as the case may be) and the Remaining New Headquarters Lease Rental, in each case as of such later Effective Date, consistent with the methodology and calculations set forth on Exhibit C hereto.



**7. Representations and Warranties of the Parties**

Each of the Ambac Parties (other than, in respect of subsection (i) below, the Segregated Account), jointly and severally, represents and warrants to OSS, and OSS represents and warrants to the Ambac Parties, in each case as follows, but subject, in the case of AFG and AAC, to approvals of their respective Boards of Directors as described in Section 6(a)(i):

(i) such Party is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all necessary power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby to be consummated by it, including, without limitation, the New Headquarters Lease (the "Transactions");

(ii) the execution, delivery and performance by such Party of its obligations hereunder and consummation by such Party of the Transactions have been duly authorized by all necessary actions on the part of such Party, and as of the Effective Date, all required regulatory approvals have been obtained;

(iii) this Agreement constitutes a legal, valid and binding obligation of such Party enforceable against such Party in accordance with its terms; and

(iv) the execution, delivery and performance by such Party of its obligations hereunder do not and will not, (x) violate, conflict with or result in the breach of any provision of the organizational documents of such Party, (y) conflict with or violate any applicable law or order of any governmental authority currently in effect with respect to such Party or any of its properties or assets, or (z) subject to the satisfaction of the Mortgagee Approval Condition, conflict with, or result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any rights of termination, amendment, acceleration, suspension, revocation or cancellation of, any note, bond, mortgage or indenture, contract, agreement, lease, sublease, license, permit, franchise or other instrument or arrangement to which such Party is a Party or by which such Party is bound.

**8. Counterparts** This Agreement may be executed in several counterparts (including by facsimile transmission or electronic transmission of a portable document format file), each of which shall be an original and all which together shall constitute a single agreement.

**9. Amendments** No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including writing evidenced by facsimile transmission or electronic transmission of a portable document format file) and executed by each of the Parties.

**10. Severability** If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced under any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect for so long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to either Party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner so that the Transactions are consummated as originally contemplated to the greatest extent possible.

11. **Entire Agreement** This Agreement sets forth the entire understanding and agreement between the Parties as to the matters covered herein and supersedes and replaces any prior understanding, agreement or statement of intent, in each case, written or oral.

12. **Binding Nature** The terms and provisions of this Agreement shall be binding in all respects on, and shall inure to the benefit of, the Parties, their estates and their respective successors and assigns, including any trustee, receiver, conservator, rehabilitator, liquidator, or superintendent relating to the reorganization, rehabilitation, liquidation, conservation or dissolution of any of the Parties.

13. **Joint Drafting** This Agreement is the product of negotiations between the Parties and any rule of construction that ambiguities are to be resolved against the drafting Party shall not apply in the interpretation of this Agreement.

14. **No Admissions** This Agreement reflects a compromise of disputed claims and shall not be construed as an admission against any Party's interest and shall not be used as or deemed to be evidence of any liability by any Party in any proceeding before the Bankruptcy Court, the Rehabilitation Court or any other court, except in a proceeding to enforce the terms of this Agreement.

15. **Waiver of Trial by Jury**. Each Party irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the transactions contemplated hereby or the actions of the Parties in the negotiation, performance or enforcement in respect of any of the foregoing.

16. **Jurisdiction; Governing Law** In the event that there is a dispute between the Parties arising under this Agreement, the Parties (i) agree that the exclusive forum to seek remedy or assert any claims shall be the Circuit Court of the State of Wisconsin located in the County of Dane, and (ii) hereby expressly submit to the personal jurisdiction and venue of such courts for the purposes thereof and expressly waive any claim of lack of personal jurisdiction and improper venue and any claim that such courts are an inconvenient forum. The Parties further agree that, to the extent the Rehabilitation Proceeding is pending, the exclusive forum to seek any such remedy or assert any such claims shall be the Rehabilitation Proceeding. Each Party hereby irrevocably consents to the service of process of any of the aforementioned court in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the address of the Parties set forth below their signatures, such service to become effective ten (10) days after such mailing. This Agreement shall be governed by, and construed and enforced in accordance with the laws of the State of Wisconsin applicable to contracts to be performed entirely within such jurisdiction. Nothing contained in this Section 16 shall be construed to limit or otherwise affect (i) the governing law and jurisdiction provisions of the New Headquarters Lease with respect to any dispute that may arise under the terms of the New Headquarters Lease or (ii) the law governing or jurisdiction regarding the Committee Claim, the OSS Administrative Claim or the Allowed Claim.

17. **Confidentiality**. Each of the Parties hereto shall maintain and shall cause each of its officers, directors, employees, advisors and other representatives (collectively, its "**Representatives**") to maintain the confidentiality of this Agreement and its substance herein, except that each such Party and its Representatives may disclose such information (i) to any governmental, judicial or regulatory authorities or agencies with authority over such party or otherwise in connection with the approvals required pursuant to Section 6 hereof, (ii) to extent required by applicable law, rule or regulation, (iii) in connection with any action to enforce this Agreement or any provision of this Agreement, (iv) in the case of AFG, to its Official Committee of Unsecured Creditors appointed in the Bankruptcy Case and counsel therefor, and (v) to any current or future or actual or potential mortgagee, lender, purchaser, investor, partner, member, successor, or permitted transferee or assign, provided such party shall be advised of and

instructed to comply with the confidentiality provisions hereof (except to the extent such information shall already be in the public domain as contemplated in part (vi) hereof) and (vi) to the extent such information shall be in the public domain without breach by any Party of its obligations hereunder.

[Rest of page intentionally left blank; signatures to follow]

IN WITNESS WHEREOF, OSS and the Ambac Parties each caused this Agreement to be signed in its name by its duly authorized representative, as of the date first above written.


ONE STATE STREET, LLC  
One State Street Plaza  
New York, New York 10004  
Attention: Eli Levitin  
Email: eli@wolfsongroup.com  
Facsimile: (212) 363-3459



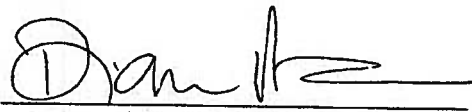
By: \_\_\_\_\_  
Name: Abraham Wolfson  
Title: Authorized Representative

SEGREGATED ACCOUNT OF AMBAC ASSURANCE  
CORPORATION


By Ambac Assurance Corporation, as Management  
Services Provider for the Segregated Account  
of Ambac Assurance Corporation  
One State Street Plaza  
New York, New York 10004  
Attention: Diana N. Adams, Senior Managing Director  
Email: [dadams@ambac.com](mailto:dadams@ambac.com)  
Facsimile: (212) 208-3131

By:   
Name: Diana Adams  
Title: Senior Managing Director

AMBAC FINANCIAL GROUP, INC.  
One State Street Plaza  
New York, New York 10004  
Attention: Diana N. Adams, Senior Managing Director  
Email: [dadams@ambac.com](mailto:dadams@ambac.com)  
Facsimile: (212) 208-3131

By:   
Name: Diana Adams  
Title: Senior Managing Director

AMBAC ASSURANCE CORPORATION  
One State Street Plaza  
New York, New York 10004  
Attention: Diana N. Adams, Senior Managing Director  
Email: [dadams@ambac.com](mailto:dadams@ambac.com)  
Facsimile: (212) 208-3131

By:   
Name: Diana Adams  
Title: Senior Managing Director and Chief Administrative Officer

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In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

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**NOTICE OF HEARING ON REHABILITATOR'S MOTION TO APPROVE  
SETTLEMENT WITH ONE STATE STREET, LLC**

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TO: All Interested Parties

PLEASE TAKE NOTICE that a hearing on the above-referenced motion of the Commissioner of Insurance of the State of Wisconsin, as Court-appointed Rehabilitator of the Segregated Account of Ambac Assurance Corporation, to approve a settlement with One State Street has been scheduled by the Court for Thursday, March 24, 2011 at 9:00-10:30 a.m., before the Honorable William D. Johnston, presiding by judicial appointment. The hearing will take place in the main courtroom of the Lafayette County Courthouse, located at 626 Main Street, Darlington, Wisconsin. The hearing will be conducted in open court and will be open to the public and to all parties-in-interest.

PLEASE TAKE FURTHER NOTICE that any objections to approval of the Rehabilitator's motion should be filed and served by no later than the close of business on Friday, March 18, 2011. Any such objection should specify the basis for the objection. If any such objections are filed, the Rehabilitator reserves the right to elicit testimony at the hearing or submit further materials at or before the hearing in support of the motion. If no objections are timely filed and served, the Rehabilitator also reserves the right to ask the Court to cancel the hearing and enter the proposed form of order granting the Rehabilitator's motion for approval.

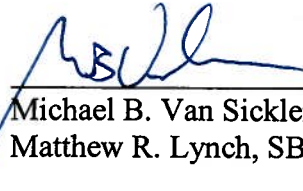
The motion and other documents pertaining to it have all been posted on the court-approved website for this proceeding, <http://ambacpolicyholders.com>. Consistent with Paragraph 2 of the Court's March 24, 2010 Order Regarding Form of Notice, the website serves as the official, court-approved means for effecting notice of all filings, orders, notices and hearings. Any policyholders and counterparties who lack regular access to either the Internet or a computer printer may receive a mailed hard copy of the motion or any other document posted on the website by mailing a request for "hard copy" service to:

Heidi Ernst  
Foley & Lardner LLP  
P.O. Box 1497  
Madison, WI 53701-1497

Dated this 3rd day of March, 2011.

FOLEY & LARDNER LLP

By:

  
\_\_\_\_\_  
Michael B. Van Sicklen, SBN 1017827  
Matthew R. Lynch, SBN 1066370

Michael B. Van Sicklen  
Matthew R. Lynch  
150 East Gilman Street  
Post Office Box 1497  
Madison, Wisconsin 53701  
Telephone: (608) 257-5035  
Facsimile: (608) 258-4258

*Attorneys for Commissioner of Insurance of the  
State of Wisconsin, as Rehabilitator of the  
Segregated Account of Ambac Assurance  
Corporation*

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In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

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**ORDER APPROVING REHABILITATOR'S MOTION FOR APPROVAL TO  
PROCEED WITH SETTLEMENT AGREEMENT  
WITH ONE STATE STREET, LLC**

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This matter came before the Court on the Rehabilitator's motion seeking approval to proceed with the terms of a written settlement agreement with One State Street, LLC (the "Settlement Agreement").

For good cause shown, the Rehabilitator's motion for approval to proceed with the Settlement Agreement is hereby approved. The Court hereby authorizes the Rehabilitator and the Segregated Account to proceed to close and consummate the Settlement Agreement on the terms and conditions set forth in the Settlement Agreement.

Dated this \_\_\_\_ day of \_\_\_\_\_, 2011.

BY THE COURT:

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Honorable William D. Johnston  
Lafayette County Circuit Court Judge  
Presiding by Judicial Appointment