
In the Matter of the Rehabilitation of:

SEGREGATED ACCOUNT OF
AMBAC ASSURANCE CORPORATION

Case No. 10-CV-1576

STATEMENT REGARDING REHABILITATOR'S MAY 2012 MOTIONS

Aurelius Capital Management, LP, Fir Tree, Inc., King Street Capital, L.P., King Street Capital Master Fund, Ltd., Monarch Alternative Capital LP, and Stonehill Capital Management LLC (the "RMBS Holders"), in their capacity as owners of or managers of funds that own residential mortgage-backed securities insured by Ambac Assurance Corporation ("Ambac"),¹ by their attorneys, hereby file this statement (the "Statement") in response to the Rehabilitator's Amended Motion to Approve Purchase of Surplus Notes (the "Surplus Notes Motion"), Motion for Approval to Commence Making Interim Cash Payments on Permitted Policy Claims (the "Claims Payment Motion"), and Motion to Authorize the Rehabilitator and the Segregated Account to Proceed with Proposed Settlement Agreement with the United States (the "IRS Settlement Motion," and together with the Surplus Notes Motion and the Claims Payment Motion, the "Motions").²

1. In the Surplus Notes Motion, the Rehabilitator asks this Court "to approve Ambac's purchase of approximately \$789 million in par amount of Ambac surplus notes ("Surplus Notes" or "Notes"), pursuant to the exercise of call options that were issued by two

¹ The RMBS Holders are not fiduciaries for any other creditors or equity holders of Ambac or its affiliates nor are they insiders of Ambac or its affiliates for any purpose.

² Capitalized terms used herein but undefined shall have the meanings given to them in the Motions.

banks to Ambac as part of a June 7, 2010 settlement agreement.” (Surplus Notes Motion at 2, the “Surplus Notes Motion Relief.”)

2. In the Claims Payment Motion, the Rehabilitator asks this Court “for approval to commence making interim payments on policy claims submitted to the Segregated Account in an amount, in cash, equal to 25% of the permitted amount of each policy claim, as approved for payment by the Rehabilitator.” (Claims Payment Motion at 2, the “Claims Payment Motion Relief.”)

3. In the IRS Settlement Motion, the Rehabilitator asks for:

“this Court’s approval for the Rehabilitator and the Segregated Account to proceed with a proposed settlement between the United States of America on behalf of the Internal Revenue Service (the “United States”), Ambac, Ambac’s parent company Ambac Financial Group, Inc. (“AFG”), and the Official Committee of Unsecured Creditors of AFG (the “Creditors Committee”) (collectively the “Settlement Parties”), with respect to certain disputes and litigation relating, *inter alia*, to certain tax refunds in the principal amount of approximately \$708 million (the “Tax Refunds”), and to the tax treatment of several billion dollars of net operating losses (“NOLs”) claimed by AFG, Ambac and other members of their consolidated tax group.”

(IRS Settlement Motion at 2, the “IRS Settlement Motion Relief.”)

4. The RMBS Holders previously have appealed from orders entered by this Court in these rehabilitation proceedings, and those appeals currently are pending in the Wisconsin Court of Appeals. (*See* Wis. Ct. App., Appeal Nos. 2010 AP 1291, 2011 AP 561, and 2011 AP 2708.) Because the Wisconsin Court of Appeals has exclusive jurisdiction over those matters,³ this Court’s entry of the proposed orders granting the Surplus Notes Motion Relief, Claims Payment Motion Relief, and IRS Settlement Motion Relief does not affect the RMBS Holders’ pending appeals. (*See* Wis. Stat. § 808.075; *State ex rel. Freeman Printing Co. v. Luebke*, 36 Wis. 2d 298, 303, 152 N.W.2d 861, 863 (Wis. 1967) (explaining a trial court only retains the

³ In Appeal No. 2011 AP 2708, the question of the Wisconsin Court of Appeals’ jurisdiction over that matter has been fully briefed and is awaiting a decision from that court.

power to hear matters that are not directly concerned with the appeal, but are still part of the case.) Nonetheless, out of an abundance of caution, the RMBS Holders file this Statement to preserve their rights in their pending appeals and their rights in any future matters in these rehabilitation proceedings or any other proceedings, including any proceedings involving Ambac, the Segregated Account, or any of their affiliates.

5. The RMBS Holders reserve the right to request judicial relief, to object to other relief requested by the Rehabilitator or any other entity, and to continue to pursue the RMBS Holders' pending appeals from the prior orders of this Court. In addition, the RMBS Holders reserve the right to oppose the Rehabilitator's statements in the Motions in connection with any matter, and the RMBS Holders do not waive any arguments or objections the RMBS Holders have made or may make in this Court, the Wisconsin Court of Appeals, or elsewhere, including, without limitation, with respect to Wisconsin's absolute priority rule in Wis. Stat. § 645.68.

Dated this 31st day of May, 2012.

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