

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

**NOTICE OF MOTION TO APPROVE RELEASE AGREEMENT
WITH JPMORGAN CHASE BANK, N.A., AND TO MODIFY
MARCH 24, 2010 ORDER FOR TEMPORARY INJUNCTIVE RELIEF CONSISTENT
WITH RELEASE AGREEMENT**

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

TO: All Parties-in-Interest

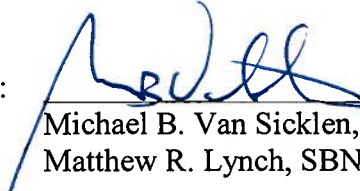
PLEASE TAKE NOTICE that the Commissioner of Insurance of the State of Wisconsin, as Rehabilitator of the Segregated Account of Ambac Assurance Corporation, has scheduled a hearing on Thursday, October 28, 2010, at 1:00 p.m. before Judge William D. Johnston at the Lafayette County Courthouse, 626 Main Street, Darlington, Wisconsin, at which time the Rehabilitator will ask the Court to approve a Release Agreement with JPMorgan Chase Bank, N.A. and to modify the March 24, 2010 Order for Temporary Injunctive Relief consistent with the Release Agreement, as detailed more fully in the Rehabilitator's accompanying Motion requesting such approval.

It is respectfully requested that any objection to the Motion be filed and served, with a courtesy copy provided to Judge Johnston, by no later than noon October 27, 2010.

Dated this 13th day of October, 2010.

FOLEY & LARDNER LLP

By:


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Segregated Account of Ambac Assurance
Corporation*

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MARCH 24, 2010 ORDER FOR TEMPORARY INJUNCTIVE RELIEF CONSISTENT
WITH RELEASE AGREEMENT**

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

By this motion, the Commissioner of Insurance of the State of Wisconsin, as court-appointed rehabilitator (the “Rehabilitator”) of the Segregated Account (the “Segregated Account”) of Ambac Assurance Corporation (“Ambac”), seeks: (a) court approval of a Release Agreement dated September 28, 2010 between Ambac, the Segregated Account and JPMorgan Chase Bank, N.A. (“JPMorgan”), which relates to certain swap surety obligations that were allocated to the Segregated Account on March 24, 2010; and (b) modification of the March 24, 2010 Order for Temporary Injunctive Relief (the “Injunction”) entered in this proceeding consistent with the terms of the Release Agreement.

In support of this motion, the Rehabilitator states as follows:

1. The background facts relating to Ambac, the creation of the Segregated Account, and the rehabilitation of the Segregated Account are set forth in Findings of Fact Nos. 1-6, 19-32, 36 of this Court’s May 27, 2010 Findings of Fact and Conclusions of Law (Dkt. 136), and are incorporated here by reference.

2. JPMorgan—either as the original executing party or by virtue of the merger of Bear Stearns Financial Products, Inc. (“Bear”), as the original executing party, into JPMorgan—

is a party to certain interest rate swap transactions with certain counterparties (the “Swap Transactions”). The Swap Transactions are memorialized in interest rate swap agreements, using the ISDA Master Agreement form, a Schedule thereto, a Credit Support Annex (in some cases) and one or more related Confirmations (collectively “Swap Documents”).

3. For each Swap Transaction, Ambac issued a Surety Bond (the “Ambac Swap Surety Policies”) for Swap Agreement to JPMorgan (or Bear) as beneficiary, guaranteeing certain payments required to be made by the obligor to JPMorgan (or Bear), under the Swap Documents. A list of the Ambac Swap Surety Policies affected by the JPMorgan Release Agreement is attached here as Exhibit A.

4. The obligations related to the Ambac Swap Surety Policies were allocated to the Segregated Account and the Segregated Account was placed into rehabilitation on March 24, 2010.

5. By the terms of the Injunction, JPMorgan is prohibited from exercising certain rights and remedies under the Swap Documents and the Ambac Swap Surety Policies.

6. Under the Release Agreement, JPMorgan agrees to release the Segregated Account and Ambac from any obligations and liabilities under, or related to, the Ambac Swap Surety Policies. The Release Agreement also provides that, as a result of JPMorgan’s agreement, the Rehabilitator will seek modification of the Injunction to permit JPMorgan to exercise its rights and remedies under the Swap Documents, subject to the terms and conditions of the Release Agreement.

7. The Release Agreement provides, in relevant part:

- (a) the Ambac Swap Surety Policies will remain in the Segregated Account, and JP Morgan waives any rights to object to the allocation of the Ambac Swap Surety Policies to the Segregated Account (§ 3.1);

- (b) JPMorgan waives and releases all rights related to the Ambac Swap Surety Policies, including without limitation, any right to make a claim under, or receive payment pursuant to, or otherwise seek to enforce, the terms of the Ambac Swap Surety Policies (§§ 2.1, 2.2);
- (c) The Segregated Account and Ambac waive and release the rights and remedies they hold under the Swap Documents, including but not limited to any right to consent to amendments to the Swap Documents or the termination of the Swap Transactions (§ 3.2);
- (d) JPMorgan waives any rights or remedies under the Swap Documents against the Obligor or any other person, arising from, based upon or in any way related to, the existence of, or allocation of the Ambac Swap Surety Policies or any other liabilities to the Segregated Account, or the occurrence or any effect of the Rehabilitation of the Segregated Account, the Injunction or the Plan of Rehabilitation (provided that the treatment of the position of JPMorgan with respect to the Ambac Swap Surety Policies and Swap Transactions in the Plan of Rehabilitation is not inconsistent with the terms of this Agreement) (§ 3.3)
- (e) The Rehabilitator agrees to seek modification, as it is doing pursuant to this motion, of the Injunction such that it no longer applies to the Swap Transactions described in the Swap Documents, subject to the terms and conditions in the Release Agreement. (§ 1.1)
- (f) JPMorgan will return the Ambac Swap Surety Policies to Ambac or provide Ambac with a lost policy affidavit (§ 2.3).

8. The Release Agreement is final and effective, subject only to this Court's approval.

9. The Rehabilitator believes that the Release Agreement, and associated modification of the Injunction, is in the best interests of policyholders and the Segregated Account for the following reasons:

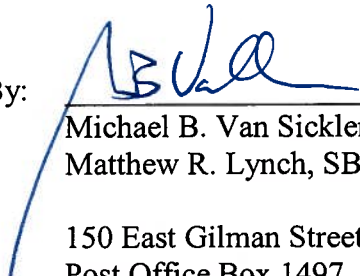
- Under the Release Agreement, JPMorgan is waiving all rights or claims with respect to the Ambac Swap Surety Policies allocated to the Segregated Account, *at no cost* to the Segregated Account or Ambac. This benefits all other policyholders because it reduces the total number and amount of claims and preserves claims-paying resources.
- The modification of the Injunction to permit JPMorgan to pursue its contractual rights and remedies under the Swap Documents will not impair or prejudice any policyholders of the Segregated Account, the Segregated Account or the Rehabilitator's anticipated Plan of Rehabilitation.
- The deadline for filing objections to the Injunction was June 22, 2010. JPMorgan indicated an intention to file objections, and the Rehabilitator and Ambac agreed to an extension of time in order to accommodate the negotiations which ultimately resulted in the Release Agreement. An additional benefit of the Release Agreement is that it will moot any objection that JPMorgan would raise with respect to the scope of the Injunction, and avoid the time, expense and disruption associated with litigating that issue.

WHEREFORE, the Rehabilitator respectfully requests that the Court grant the Rehabilitator's motion to approve the Rehabilitator's entry into Release Agreement on behalf of the Segregated Account and to modify the Injunction to permit JPMorgan to pursue its rights and remedies under the Swap Documents. A proposed order is attached.

Dated this 13th day of October, 2010.

FOLEY & LARDNER LLP

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EXHIBIT A

List of Ambac Swap Surety Policies Affected by JPMorgan Release Agreement

SW0141BE
SW0401BE
SW0147BE
SW0148BE
SW0184BE
SW0285BE
SW0209BE
SW0156BE
SW0233BE

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**ORDER APPROVING THE REHABILITATOR'S MOTION
TO APPROVE RELEASE AGREEMENT WITH JPMORGAN CHASE BANK, N.A.,
AND TO MODIFY MARCH 24, 2010 ORDER FOR TEMPORARY INJUNCTIVE
RELIEF CONSISTENT WITH RELEASE AGREEMENT**

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

This matter came before the Court on the Motion of the Commissioner of Insurance of the State of Wisconsin, as court-appointed rehabilitator of the Segregated Account of Ambac Assurance Corporation. The Court has reviewed and considered the Rehabilitators' Motion, together with the files and prior Court proceedings in this rehabilitation case, and based thereon finds and concludes that the relief sought in the Motion is supported by good cause and advances the best interest of the Segregated Account and this rehabilitation.

NOW, THEREFORE, for good cause shown, it is hereby ordered as follows:

1. The Court hereby grants the Rehabilitator's Motion and approves the entry by the Rehabilitator and the Segregated Account into that certain Release Agreement dated September 28, 2010 between Ambac Assurance Corporation and the Segregated Account (collectively the "Ambac Parties") and JPMorgan Chase Bank, N.A. ("JPMorgan") which relates to those certain Ambac Swap Surety Policies identified in Exhibit A to the Motion, and the parties are hereby authorized and directed to proceed in accordance with said Release Agreement.

2. This Court's March 24, 2010 Order for Temporary Injunctive Relief (the "Injunction Order") is hereby permanently modified to comport with the terms and conditions of

the Release Agreement as to those Swap Transactions, Swap Documents and Ambac Swap Surety Policies specifically identified in the Release Agreement and Exhibit A to the Rehabilitator's Motion. Specifically, and among other things, on the terms and conditions specified in the Release Agreement: (i) the Ambac Parties waive and relinquish any rights or remedies they hold pursuant to the Swap Documents and Swap Transactions, and JPMorgan releases the Ambac Parties from all claims and liabilities arising under, or related to, the Ambac Swap Surety Policies; and (ii) the Injunction Order will not apply to the Swap Documents and Swap Transactions or to the exercise by any of the non-Ambac Parties of any and all rights and remedies thereunder with respect to parties other than the Ambac Parties.

Dated this ____ day of October, 2010.

BY THE COURT:

The Honorable William D. Johnston, Presiding