

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

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IN RE AMBAC FINANCIAL GROUP, INC.  
SECURITIES LITIGATION:  
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Case No. 08-cv-00411-NRB

**NOTICE OF PENDENCY OF CLASS ACTION AND PROPOSED SETTLEMENTS, FINAL APPROVAL HEARING,  
AND MOTION FOR ATTORNEYS' FEES AND REIMBURSEMENT OF LITIGATION EXPENSES**

***A Federal Court authorized this Notice.***

***This is not a solicitation from a lawyer.***

**NOTICE OF PENDENCY OF CLASS ACTION:** Please be advised that your rights may be affected by a class action lawsuit pending in this Court (the "Action") if you purchased or otherwise acquired any securities of Ambac Financial Group, Inc. ("Ambac" or the "Company"), including Ambac equity or debt securities or options thereon, or any Structured Repackaged Asset-Backed Trust Securities, Callable Class A Certificates, Series 2007-1, STRATS(SM) Trust for Ambac Financial Group, Inc. Securities, Series 2007-1 ("STRATS") (collectively, "Ambac Securities"), during the period from October 19, 2005, through and including July 18, 2009.

**NOTICE OF SETTLEMENT:** Please also be advised that the Court-appointed Lead Plaintiffs, Public School Teachers' Pension & Retirement Fund of Chicago, Arkansas Teacher Retirement System and Public Employees' Retirement System of Mississippi (collectively, "Lead Plaintiffs") and Painting Industry Insurance and Annuity Funds, Stanley Tolin and Edward Walton (collectively, "Plaintiffs"), on behalf of the Class (as defined in ¶1 below), have reached proposed settlements of this Action for a total of \$33 million in cash that will resolve all claims in the Action (the "Settlements").<sup>1</sup>

This Notice explains important rights you may have, including your possible receipt of cash from the Settlements. Your legal rights will be affected whether or not you act. Please read this Notice carefully and in its entirety!

1. **Description of the Litigation and the Class:** This Notice relates to the pendency and proposed settlements of a class action lawsuit against (i) Ambac Financial Group, Inc. ("Ambac" or the "Company")<sup>2</sup>; (ii) certain present or former officers or directors of Ambac; and (iii) Citigroup Global Markets, Inc., UBS Securities LLC, Goldman, Sachs & Co., J.P. Morgan Securities Inc., HSBC Securities (USA) Inc., Merrill Lynch, Pierce, Fenner, & Smith Incorporated, and Wachovia Capital Markets, LLC, now known as Wells Fargo Securities, LLC (collectively, the "Underwriter Defendants"). Also covered by the settlements are nineteen individuals who are named in the Action or one or more related securities or derivative actions. These nineteen individuals are Michael A. Callen ("Callen"), Jill M. Considine ("Considine"), Robert J. Genader ("Genader"), W. Grant Gregory ("Gregory"), Philip B. Lassiter ("Lassiter"), Sean T. Leonard ("Leonard"), Thomas C. Theobald ("Theobald"), John W. Uhlein, III ("Uhleln"), Laura S. Unger ("Unger"), Henry D.G. Wallace ("Wallace"), David W. Wallis ("Wallis"), Gregg L. Bienstock ("Bienstock"), Kevin J. Doyle ("Doyle"), Philip Duff ("Duff"), Thomas J. Gandolfo ("Gandolfo"), Kathleen McDonough ("McDonough"), William T. McKinnon ("McKinnon"), Douglas C. Renfield-Miller ("Renfield-Miller"), and Robert G. Shoback ("Shoback"); (collectively, "Individual Defendants," and together with Ambac, the "Ambac Defendants"). The Ambac Defendants and the Underwriter Defendants are collectively referred to as the "Settling Defendants."<sup>3</sup> Plaintiffs and the Settling Defendants are collectively referred to herein as the "Settling Parties." The proposed Settlements, if approved by the Court, will settle certain claims of all persons and entities who purchased or otherwise acquired Ambac Securities from October 19, 2005, through and including July 18, 2009 (the "Class Period").

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<sup>1</sup> Capitalized terms not defined herein shall have the meaning defined in the Stipulations of Settlement that are on file with the Court and available at [www.AmbacSecuritiesLitigation.com](http://www.AmbacSecuritiesLitigation.com).

<sup>2</sup> On November 8, 2010, Ambac commenced a voluntary case under Chapter 11 of Title 11 of the United States Code. The Ambac Settlement is conditioned, among other conditions, on receiving an order of the Bankruptcy Court approving Ambac's participation in the Settlement.

<sup>3</sup> Credit Suisse Securities (USA) LLC, Banc of America Securities LLC, Keefe, Bruyette & Wood, Inc., and KPMG LLP also were Defendants in this consolidated action. Plaintiffs' claims against these defendants were dismissed on February 22, 2010 in connection with the Court's dismissal of Plaintiffs' claims relating to the March 2008 Offering. Lehman Brothers Inc. is also a defendant in the Action; all claims against Lehman Brothers Inc. have been stayed pursuant to section 362(a) of the Bankruptcy Code. These defendants are not included within the definition of Settling Defendants.

The "Class" consists of all persons who purchased or otherwise acquired any Ambac Securities in the period from October 19, 2005, through and including July 18, 2009.

The "Underwriter Class" means all persons or entities who purchased or acquired Ambac securities in or traceable to the February 2007 Directly-Issued Subordinated Capital Securities offering. The "Underwriter Class" is included in the Class and unless otherwise indicated herein, "Class" refers to both the Class and the Underwriter Class. Excluded from the Class are: (a) Ambac; (b) the Defendants; (c) members of the immediate families of any Defendant; and (d) the legal representatives, heirs, successors, or assigns of any of the foregoing excluded persons or entities. Also excluded from the Class are any persons who exclude themselves by filing a timely and valid request for exclusion in accordance with the requirements set forth in the Notice.

2. **Breakdown of Settlements:** Subject to Court approval and, as described more fully below, Plaintiffs, on behalf of the Class, have agreed to settle all claims related to the purchase or other acquisition of Ambac Securities that were or could have been asserted against the Settling Defendants and other Released Parties in the Action in exchange for settlement payments totaling \$33,000,000 to be deposited into an interest-bearing escrow account (the "Settlement Fund").<sup>4</sup>

The Settlement Fund will consist of the following sub-funds: (1) a \$27,100,000 settlement fund established pursuant to the settlement with the Ambac Defendants (the "Ambac Settlement Fund");<sup>5</sup> and (2) a \$5,900,000 settlement fund established pursuant to the settlement with the Underwriter Defendants (the "Underwriter Settlement Fund"), with any interest income allocated proportionately between the sub-funds.<sup>6</sup>

The \$27,100,000 Ambac Settlement Fund will be paid as follows: certain Directors' and Officers' insurance carriers ("D&O Insurers") shall pay \$24,600,000 and, subject to Bankruptcy Court approval, Ambac will pay the additional \$2,500,000. If approved by the Bankruptcy Court, the entire \$2,500,000 paid by Ambac will be used to compensate Authorized Claimants with respect to any Class Period purchases or other acquisitions of Ambac Debt Securities.<sup>7</sup> Further, 25% of the \$24,600,000 paid by Ambac's insurance carriers, or \$6,150,000, will be used to compensate Authorized Claimants with respect to any Class Period purchases or other acquisitions of Ambac Debt Securities. The \$2,500,000 paid by Ambac, if approved, and the \$6,150,000 paid by the insurers, or a total of \$8,650,000, shall be the "Ambac Debt Securities Settlement Fund". The remaining 75% of the \$24,600,000 paid by the insurers, or \$18,450,000, plus any interest earned thereon, shall be the "Ambac Common Stock Fund," and will be used to compensate Authorized Claimants with respect to any purchases or other acquisitions of Ambac Common Stock and/or Ambac Call Options during the Class Period and/or any Ambac Put Options written during the Class Period.

The Underwriter Settlement Fund will be used to compensate Authorized Claimants with respect to their purchases or other acquisitions of Ambac DISCS either in the initial offering of the security or in the open market from February 12, 2007 to July 18, 2009.

3. **Statement of Class' Recovery:** The Net Settlement Fund (the Settlement Fund less taxes, notice and administration costs, and attorneys' fees and certain Litigation Expenses awarded to Lead Counsel) will be distributed in accordance with a plan of allocation (the "Plan of Allocation") that will be approved by the Court and will determine how the Net Settlement Fund shall be allocated to the members of the Class. The proposed Plan of Allocation is included in this Notice at pp. 8-15, and may be modified by the Court without further notice.

4. **Statement of Average Amount of Damages Per Share:** The Settlement Fund consists of a total of \$33 million plus interest earned. Your recovery will depend on the number of Ambac Securities you purchased or otherwise acquired and the timing of those transactions. It will also depend on the number of valid claim forms that members of the Class submit and the amount of such claims. Assuming that all of the investors who purchased or otherwise acquired Ambac Securities during the

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<sup>4</sup> As used in this Notice, the terms "Released Party" or "Released Parties" shall include both the "Released Ambac Parties" and the "Released Underwriter Parties" (defined herein at ¶¶ 80, 86).

<sup>5</sup> The settlement with the Ambac Defendants (the "Ambac Settlement") encompasses the settlement of the action entitled *Tolin v. Ambac Financial Group, Inc. et al.*, No. 08-cv-11241-CM (S.D.N.Y.) ("Tolin Action"), filed in December 2008. The Tolin Action will be dismissed with prejudice upon the Effective Date of the Ambac Settlement.

<sup>6</sup> The Ambac Settlement was negotiated separately and independently from the settlement between Plaintiffs and the Underwriter Defendants (the "Underwriter Settlement"). Pursuant to each Stipulation of Settlement, the Ambac Settlement and the Underwriter Settlement shall proceed separately and the termination or lack of approval of one settlement by the Court shall not affect the other settlement and such settlement shall proceed without further notice.

<sup>7</sup> "Ambac Debt Securities" as used herein include affected Ambac Debentures (listed herein), Ambac DISCS and Ambac STRATS.

Class Period and suffered damages thereby participate in the Settlements, Lead Counsel estimates that the estimated average distribution will be approximately \$0.118 per damaged share of Ambac common stock, \$3.60 per damaged DISCS security, \$0.024 per damaged share of Ambac STRATS, \$0.0005 per damaged call option<sup>8</sup>, and \$0.003 per damaged put option, before the deduction of Court-approved fees and Litigation Expenses as described below and the cost of notice and claims administration. With respect to the debentures, Lead Counsel estimates that the average distribution per damaged debenture will be approximately as follows before the deduction of Court-approved fees and Litigation Expenses as described below and the cost of notice and claims:

- a. Ambac \$200 million 5.95% Debentures Due 2/28/2103: \$0.039 per \$25 of par value
- b. Ambac \$175 million 5.875% Debentures Due 3/19/2103: \$0.036 per \$25 of par value
- c. Ambac \$150 million 9.375% Debentures Due 8/1/2011: \$0.448 per \$1000 of par value
- d. Ambac \$400 million 5.95% Debentures Due 12/5/2035: \$0.967 per \$1000 of par value.<sup>9</sup>

Historically, less than all eligible investors submit claims, resulting in higher average distributions per share.

5. **Statement of the Parties' Positions on Damages:** The Settling Defendants deny all claims of wrongdoing, deny that they are liable to Plaintiffs and/or the Class and deny that Plaintiffs or other members of the Class suffered any injury. Moreover, the parties do not agree on the amount of recoverable damages or on the average amount of damages per share that would be recoverable if Plaintiffs were to prevail on each of their claims. The issues on which the parties disagree include, but are not limited to: (1) whether the statements made or facts allegedly omitted were material, false or misleading, or whether the Settling Defendants are otherwise liable under the securities laws for those statements or omissions; (2) the amount by which the prices of Ambac Securities were allegedly inflated (if at all) during the Class Period; and (3) the effect of various market forces influencing the trading prices of Ambac Securities at various times during the Class Period.

6. **Statement of Attorneys' Fees and Expenses Sought:** Lead Counsel will apply to the Court for an award of attorneys' fees from the Settlement Fund of 17% of the total Settlement Fund, plus interest earned at the same rate and for the same period as earned by the Settlement Fund. In addition, Lead Counsel also will apply for the reimbursement of certain Litigation Expenses paid or incurred in connection with the prosecution and resolution of the Action in an amount not to exceed \$1,500,000 plus interest earned at the same rate and for the same period as earned by the Settlement Fund. Litigation Expenses may include reimbursement of the expenses of Plaintiffs in accordance with 15 U.S.C. § 78u-4(a)(4). If the Court approves Lead Counsel's fee and expense application, the average cost per damaged share of Ambac common stock will be approximately \$0.025, per damaged DISCS security will be approximately \$0.776, per damaged share of Ambac STRATS will be approximately \$0.005, per damaged call option will be approximately \$0.0001<sup>10</sup>, and per damaged put option will be approximately \$0.001. With respect to the debentures, the average cost per damaged debenture will be approximately as follows:

- a. Ambac \$200 million 5.95% Debentures Due 2/28/2103: \$0.008 per \$25 of par value
- b. Ambac \$175 million 5.875% Debentures Due 3/19/2103: \$0.008 per \$25 of par value
- c. Ambac \$150 million 9.375% Debentures Due 8/1/2011: \$0.097 per \$1000 of par value
- d. Ambac \$400 million 5.95% Debentures Due 12/5/2035: \$0.208 per \$1000 of par value.<sup>11</sup>

7. **Identification of Attorney Representatives:** Plaintiffs and the Class are being represented by Steven B. Singer, Esq. of Bernstein Litowitz Berger & Grossmann LLP, and Frederic S. Fox, Esq. of Kaplan Fox & Kilsheimer LLP, the Court-appointed Lead Counsel. Any questions regarding the Settlements should be directed to Steven B. Singer, Esq. at Bernstein Litowitz Berger & Grossmann LLP, 1285 Avenue of the Americas, 38<sup>th</sup> Floor, New York, NY 10019, (866) 648-2524, or Frederic S. Fox, Esq. at Kaplan Fox & Kilsheimer LLP, 850 Third Avenue, 14<sup>th</sup> Floor, New York, NY 10022, (212) 687-1980.

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<sup>8</sup> Average damages for options are quoted in terms of equivalent shares. To get average damages per option contract, multiply average damage per option by 100.

<sup>9</sup> Due to a lack of trading data, Lead Counsel is unable to estimate the average distribution per damaged debenture for the Ambac \$75 million 7.5% Debentures Due 5/1/2023 and the Ambac \$250 million 9.5% Senior Notes Due 2/15/2021.

<sup>10</sup> Average costs for options are quoted in terms of equivalent shares. To get average costs per option contract, multiply average cost per option by 100.

<sup>11</sup> Due to a lack of trading data, Lead Counsel is unable to estimate the average cost per damaged debenture for the Ambac \$75 million 7.5% Debentures Due 5/1/2023 and the Ambac \$250 million 9.5% Senior Notes Due 2/15/2021.

<b>YOUR LEGAL RIGHTS AND OPTIONS IN THE SETTLEMENT:</b>	
<b>REMAIN A MEMBER OF THE CLASS AND SUBMIT A VALID CLAIM FORM</b>	This is the only way to receive a payment. If you wish to obtain a payment as a member of the Class, you will need to file a claim form (the "Claim Form"), which is included with this Notice, postmarked no later than October 24, 2011.
<b>EXCLUDE YOURSELF FROM THE CLASS BY SUBMITTING A WRITTEN REQUEST FOR EXCLUSION SO THAT IT IS <i>RECEIVED</i> NO LATER THAN SEPTEMBER 7, 2011</b>	Receive no payment. This is the only option that allows you to ever be part of any other lawsuit against any of Defendants or the other Released Parties concerning the Settled Claims Against Ambac and Individual Defendants and the Settled Claims Against Underwriter Defendants (defined below).
<b>OBJECT TO THE SETTLEMENTS BY SUBMITTING WRITTEN OBJECTIONS SO THAT THEY ARE <i>RECEIVED</i> NO LATER THAN SEPTEMBER 7, 2011</b>	Write to the Court and explain why you do not like the Settlements, the proposed Plan of Allocation, or the request for attorneys' fees and reimbursement of expenses. You cannot object to the Settlements unless you are a member of the Class and do not validly exclude yourself.
<b>FILE A NOTICE OF INTENTION TO APPEAR AT THE FINAL APPROVAL HEARING SO THAT IT IS <i>RECEIVED</i> NO LATER THAN SEPTEMBER 7, 2011 AND ATTEND THE HEARING.</b>	Ask to speak in Court about the fairness of the Settlements, the proposed Plan of Allocation, or the request for attorneys' fees and reimbursement of expenses.
<b>DO NOTHING</b>	Receive no payment, remain a Class Member, give up your rights and be bound by the Final Order and Judgment entered by the Court if it approves the Settlements, including the Release of the Settled Claims Against Ambac and Individual Defendants and the Settled Claims Against Underwriter Defendants.

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## WHY DID I GET THIS NOTICE?

8. This Notice is being sent to you pursuant to an Order of the United States District Court for the Southern District of New York (the "Court") because you or someone in your family may have purchased or otherwise acquired Ambac Securities during the Class Period. The Court has directed us to send you this Notice because, as a potential Class Member, you have a right to know about your options before the Court rules on the proposed settlements of this case. Additionally, you have the right to understand how a class action lawsuit may generally affect your legal rights. If the Court approves the Settlements, a claims administrator selected by Plaintiffs and approved by the Court will make payments pursuant to the Settlements after any objections and appeals are resolved.

9. In a class action lawsuit, the Court selects one or more people, known as class representatives, to sue on behalf of all people with similar claims, commonly known as the class or the class members. In this Action, the Court has appointed the Public School Teachers' Pension & Retirement Fund of Chicago, Arkansas Teacher Retirement System and Public Employees' Retirement System of Mississippi as Lead Plaintiffs under a federal law governing lawsuits such as this one, and approved Lead Plaintiffs' selection of the law firms of Bernstein Litowitz Berger & Grossmann LLP and Kaplan Fox & Kilsheimer LLP as lead counsel (collectively, "Lead Counsel") to serve as Lead Counsel in the Action. Lead Plaintiffs are the Class Representatives. A class action is a type of lawsuit in which the claims of a number of individuals are resolved together, thus providing the class members with both consistency and efficiency. Once the class is certified, the Court must resolve all issues on behalf of the class members, except for any persons who choose to exclude themselves from the class. (For more information on excluding yourself from the Class, please read "What If I Do Not Want To Be A Part Of The Settlements? — How Do I Exclude Myself?" located on page 18 of this Notice.)

10. The class action case brought on behalf of purchasers of Ambac Securities is known as *In re Ambac Financial Group, Inc. Securities Litigation*, and the court in which it is pending is the United States District Court for the Southern District of New York. The Judge presiding over this case is the Honorable Naomi Reice Buchwald, United States District Judge. The people who are suing are called plaintiffs, and those who are being sued are called defendants. In this case, the three plaintiffs are referred to as the Lead Plaintiffs, on behalf of themselves and the Class, and Defendants are Ambac, the Underwriter Defendants, and certain of the Individual Defendants. This settlement also resolves a putative class action brought on behalf of purchasers of Ambac STRATS, which is known as *Tolin v. Ambac*, which is also pending in the United States District Court for the Southern District of New York.

11. This Notice explains the lawsuit, the two Settlements, your legal rights, what benefits are available, who is eligible for them, and how to receive them. The purpose of this Notice is to inform you of this case, that it is a class action, how you might be affected, and how to exclude yourself from the Class if you wish to do so. It also is being sent to inform you of the terms of the proposed Settlements, and of a hearing to be held by the Court to consider the fairness, reasonableness and adequacy of the proposed Settlements, the fairness and reasonableness of the proposed Plan of Allocation, and the application by Lead Counsel for attorneys' fees and reimbursement of expenses (the "Final Approval Hearing" or "Settlement Hearing").

12. The Final Approval Hearing will be held on September 28, 2011 at 10:00 a.m., before the Honorable Naomi Reice Buchwald, at the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, Courtroom 21A, New York, NY 10007, to determine:

- whether the Court should grant final certification of the Class solely for purposes of the Settlements;
- whether the proposed Settlements are fair, reasonable, adequate and in the best interests of the Class and should be approved by the Court;
- whether certain claims against the Settling Defendants and the other Released Parties should be dismissed with prejudice and fully and finally released by Plaintiffs and the Class as set forth in the Stipulation of Settlement entered into by Plaintiffs and the Ambac Defendants on May 4, 2011 (the "Stipulation") and Plaintiffs and the Underwriter Defendants on May 4, 2011 (collectively, the "Stipulations");
- whether the proposed Plan of Allocation is fair and reasonable and should be approved by the Court; and
- whether Lead Counsel's request for an award of attorneys' fees and reimbursement of certain litigation expenses should be approved by the Court.

13. This Notice does not express any opinion by the Court concerning the merits of any claim in the Action, and the Court still has to decide whether to approve the Settlements. If the Court approves the Settlements, payments to Authorized Claimants (defined below) will be made after any appeals are resolved and other remaining conditions to the Settlements, if any, are met, and after the completion of all claims processing. Please be patient.

## WHAT IS THIS CASE ABOUT? — WHAT HAS HAPPENED SO FAR?

14. On January 16, 2008, a putative class action complaint was filed against Ambac and Individual Defendants Genader, Lassiter, Leonard and Gandolfo, in the United States District Court for the Southern District of New York, asserting claims under §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder.

15. Pursuant to the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), notice to the public was issued setting forth the deadline by which putative class members could move the Court to be appointed to act as lead plaintiff.

16. Following a hearing, by Order dated May 9, 2008, the Court appointed Lead Plaintiffs as lead plaintiffs, and Bernstein Litowitz Berger & Grossmann LLP and Kaplan Fox & Kilsheimer LLP as lead counsel (together, “Lead Counsel”).

17. On August 25, 2008, Plaintiffs filed the operative complaint in this action, the Consolidated Amended Class Action Complaint (the “Complaint”), asserting claims under §§ 11, 12 and 15 of the Securities Act of 1933 and §§ 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder against Defendant Ambac and certain of the Individual Defendants.

18. On October 21, 2008, Ambac, the Individual Defendants named in the Complaint, the Underwriter Defendants, and KPMG moved to dismiss the Complaint.

19. On December 24, 2008, the initial complaint in the Tolin Action, which alleged violations of the federal securities laws based on certain factual allegations similar to certain of the factual allegations in the Ambac Class Action, but on behalf of a different class of purchasers, was filed. An Amended Class Action Complaint in the Tolin Action was filed on January 20, 2009, asserting violations of the federal securities laws against Ambac, Genader and Leonard, on behalf of a putative class of persons who purchased or acquired Ambac STRATS.

20. On July 15, 2009, upon application of all parties, the Court ordered Defendants’ pending motions to dismiss withdrawn without prejudice to re-filing motions to dismiss.

21. On August 27, 2009, Defendants renewed their motions to dismiss the Complaint.

22. Following a hearing held on December 17, 2009, by Order dated February 22, 2010, the Court granted in part and denied in part Defendants’ motions to dismiss the Ambac Complaint in the Ambac Class Action, sustaining claims under the Exchange Act and claims under the Securities Act with respect to Ambac’s February 2007 DISCS Offering, and dismissing claims under the Securities Act with respect to Ambac’s March 2008 Offering. All claims against Defendants KPMG LLP, Philip Duff, Credit Suisse Securities (USA) LLC, Banc of America Securities LLC, and Keefe, Bruyette & Wood, Inc. in the Ambac Class Action were dismissed.

23. On December 23, 2009, Judge McMahon initially denied defendants’ motion to dismiss in the Tolin Action. The defendants in that action filed a motion for reconsideration or certification for interlocutory appeal on January 6, 2010, and on February 2, 2010 Judge McMahon recalled her prior opinion and on February 5, 2010 granted reargument on the motion to dismiss. Judge McMahon thereafter heard oral argument on the motion to dismiss on August 5, 2010. The motion to dismiss in the Tolin Action remained pending as of the time Judge McMahon was advised that the parties had reached an agreement in principle to settle the Tolin Action.

24. On May 7, 2010, certain Defendants filed Answers to the Complaint.

25. On December 3, 2010, after considerable negotiation, Lead Plaintiffs and the Underwriter Defendants executed a Memorandum of Understanding reflecting an agreement to settle claims in the Ambac Class Action against the Underwriter Defendants and their related parties.

26. On December 8, 2010, after considerable negotiation, Lead Plaintiffs, the plaintiffs in the Tolin Action, Ambac, the Individual Defendants, and the D&O Insurers executed a Memorandum of Understanding reflecting an agreement to settle the claims in the Ambac Class Action and Tolin Action against Ambac, the Individual Defendants named therein, and their related parties (the “Ambac/Individuals MOU”). In the Ambac/Individuals MOU, the parties also contemplated the resolution, release and bar of certain claims that have been or could be brought by Ambac or any shareholder or creditor of Ambac (including any claims purportedly brought derivatively on behalf of Ambac) against any of Ambac’s current or former officers, directors or employees, including those related to the subject matter of the Securities Actions or the subject matter of the claims asserted in the Derivative Actions (as defined in the Ambac Stipulation of Settlement).

27. Lead Counsel and Tolin’s Counsel have conducted an extensive investigation relating to the claims and the underlying events and transactions alleged in the Complaints. Lead Counsel and Tolin’s Counsel have analyzed evidence adduced during their investigations and in discovery and have researched the applicable law with respect to the claims of Plaintiffs and the Class against Defendants, as well as the potential defenses thereto.

28. Based upon their investigation, Lead Counsel and Tolin’s Counsel have concluded that the terms and conditions of the Stipulation are fair, reasonable and adequate to Plaintiffs and the Class, and in their best interests, and have agreed to settle the claims raised in the Securities Actions pursuant to the terms and provisions of the Stipulation, after considering (i) the substantial benefits that Plaintiffs and the members of the Class will receive from resolution of the Securities Actions as against the Defendants,

(ii) the attendant risks of litigation, and (iii) the desirability of permitting the Settlement to be consummated as provided by the terms of the Stipulation.

29. On June 13, 2011, the Court preliminarily approved both Settlements, preliminarily certified the Class, authorized this Notice to be sent to potential members of the Class, and scheduled the Final Approval Hearing to consider whether to grant final approval to the Settlements.

#### HOW DO I KNOW IF I AM AFFECTED BY THE SETTLEMENTS?

30. If you are a member of the Class, you are subject to the Settlements unless you timely request to be excluded. The Class consists of all persons and entities who purchased or otherwise acquired the Ambac Securities during the period between October 19, 2005 through and including July 18, 2009, including Ambac Securities in or traceable to the February 2007 Directly-Issued Subordinated Capital Securities offering. See ¶ 1 for Exclusions from Class. (also see “What If I Do Not Want To Be a Part of The Settlements? — How Do I Exclude Myself?” on page 18 of this Notice).

**RECEIPT OF THIS NOTICE DOES NOT NECESSARILY MEAN THAT YOU ARE A CLASS MEMBER OR THAT YOU ARE ELIGIBLE TO RECEIVE PROCEEDS FROM THE SETTLEMENTS. IF YOU WISH TO PARTICIPATE IN THE SETTLEMENTS, YOU MUST SUBMIT THE ENCLOSED CLAIM FORM POSTMARKED NO LATER THAN OCTOBER 24, 2011.**

#### WHAT ARE THE SETTLING PARTIES’ REASONS FOR THE SETTLEMENTS?

31. Plaintiffs and Lead Counsel believe that the claims asserted against the Settling Defendants have merit. Plaintiffs and Lead Counsel recognize, however, the expense and length of continued proceedings necessary to pursue their claims against the Settling Defendants through trial and appeals, as well as the difficulties in establishing liability for allegations of fraud. Plaintiffs and Lead Counsel have considered the uncertain outcome and trial and appellate risk in complex lawsuits like this one.

32. In light of the amount of the Settlements and the immediacy of recovery to the Class, Plaintiffs and Lead Counsel believe that the proposed Settlements are fair, reasonable and adequate, and in the best interests of the Class. Plaintiffs and Lead Counsel believe that the Settlements provide a substantial benefit now, namely \$33 million (less the various deductions described in this Notice), as compared to the risk that the claims in the Complaint would produce a similar, smaller, or no recovery after summary judgment, trial and appeals, possibly years in the future.

33. Settling Defendants have denied and continue to deny each and all of the claims alleged by Plaintiffs in the Action. Settling Defendants expressly denied and continue to deny all charges of wrongdoing or liability against them arising out of any of the conduct, statements, acts or omissions alleged, or that could have been alleged, in the Action. Settling Defendants also denied and continue to deny, among other things, the allegations that Plaintiffs or the Class have suffered any damage, that the price of Ambac Securities were artificially inflated by reasons of alleged misrepresentations, non-disclosures or otherwise, or that Plaintiffs or the Class were harmed by the conduct alleged in the Complaint. The Settling Defendants have taken into account the uncertainty and risks inherent in any litigation, especially in a complex case such as this. Nonetheless, the Settling Defendants have concluded that further conduct of the Action would be protracted and expensive, and that it is desirable that the Action be fully and finally settled in the manner and upon the terms and conditions set forth in the Stipulations. The Settlements shall in no event be construed or deemed to be evidence of or an admission or concession on the part of any Settling Defendant with respect to any claim or of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that the Settling Defendants have or could have asserted. Settling Defendants expressly deny that Plaintiffs have asserted a valid claim and deny any and all allegations of fault, liability, wrongdoing or damages whatsoever.

#### WHAT MIGHT HAPPEN IF THERE WERE NO SETTLEMENTS?

34. If there were no Settlements and Plaintiffs failed to establish any essential legal or factual element of its claims, neither Plaintiffs nor the Class would recover anything from the Settling Defendants. Also, if the Settling Defendants were successful in proving any of their defenses, the Class likely would recover substantially less than the amount provided in the Settlements, or nothing at all.

#### HOW MUCH WILL MY PAYMENT BE?

35. The \$33 million total settlement amount, and the interest earned thereon, shall be the Gross Settlement Fund. The Gross Settlement Fund, less all taxes, approved costs, fees and expenses (the “Net Settlement Fund”), shall be distributed based on the acceptable Claim Forms submitted by members of the Class (“Authorized Claimants”). The Net Settlement Fund will be distributed to Authorized Claimants who submit timely Claim Forms under the Plan of Allocation described below, or as otherwise ordered by the Court.

36. Your share of the Net Settlement Fund will depend on the total number of Ambac Securities represented by valid Claim Forms that members of the Class submit to the Claims Administrator, and the aggregate amount of those claims relative to the Net Settlement Fund, how many Ambac Securities you held, what type, and when you bought and sold them. A payment to any

Authorized Claimant that would amount to less than \$20.00 in total will not be included in the calculation of the Net Settlement Fund, and no payment to these members of the Class will be made.

37. For purposes of determining the amount an Authorized Claimant may recover under the Plan of Allocation, Lead Counsel conferred with a damages consultant in order to prepare a plan for equitable distribution of the Net Settlement Fund among damaged Class Members.

38. Settling Defendants have denied and continue to deny, among other things, the characterization that Plaintiffs or the Class have suffered any damages.

39. If approved by the Court, the plan of allocation set forth below (the "Plan of Allocation") will determine how the net proceeds of the Settlements achieved to date will be distributed to Class Members who submit timely and valid Claim Forms. For purposes of this Plan of Allocation only, "Class Member" shall refer to any member of the Class.

40. At this time, it is not possible to make any determination as to how much a Class Member may receive from the Settlements.

#### **THE PROPOSED PLAN OF ALLOCATION: GENERAL PROVISIONS**

41. Settling Defendants shall not have any liability, obligation, or responsibility for the administration of the Settlements or disbursement of the Net Settlement Fund or the Plan of Allocation.

42. Approval of the Settlements is independent from approval of the Plan of Allocation. Any determination as to the Plan of Allocation will not affect the Settlements, if approved.

43. Only those Class Members who (i) purchased or otherwise acquired common stock of Ambac (CUSIP No. 023139108) ("Ambac Common Stock"), (ii) purchased or otherwise acquired Ambac DISCS (CUSIP No. 023139AF5), (iii) purchased or otherwise acquired Ambac STRATS (CUSIP No. 784786204), (iv) purchased or otherwise acquired Ambac Debentures (CUSIP Nos. 023139504, 023139603, 023139AA6, 023139AE8, 023139AB4, and 023139AG3 ("Ambac Debentures" or "Debentures"), (v) purchased or otherwise acquired Call Options on Ambac Common Stock, or (vi) wrote Put Options on Ambac Common Stock, during the Class Period will be eligible to share in the distribution of the Net Settlement Fund.<sup>12</sup> Each person wishing to participate in the distribution must timely submit a valid Proof of Claim and Release form ("Claim Form") establishing membership in the Class, and including all required documentation, postmarked no later than October 24, 2011, to the address set forth in the Claim Form. Unless the Court otherwise orders, any Class Member who fails to submit a Claim Form postmarked no later than October 24, 2011 shall be forever barred from receiving payments pursuant to the Settlements but will in all other respects remain a Class Member and be subject to the provisions of the applicable Stipulations, including the terms of any Judgments entered and releases given.

44. The Court has reserved continuing jurisdiction to allow, disallow, or adjust the Claim of any Class Member on equitable grounds.

45. The Court has also reserved the right to modify the Plan of Allocation without further notice to Class Members. Any Orders regarding a modification of the Plan of Allocation will be posted on the Settlement website, [www.AmbacSecuritiesLitigation.com](http://www.AmbacSecuritiesLitigation.com).

46. Payment pursuant to the Plan of Allocation approved by the Court shall be conclusive against all Authorized Claimants. No person shall have any claim against the Settling Defendants, the Settling Defendants' Counsel, Lead Plaintiffs, Lead Counsel, the Claims Administrator or other agent designated by Lead Counsel arising from distributions made substantially in accordance with the Stipulations, the Plan of Allocation, or further orders of the Court. Lead Plaintiffs, Settling Defendants, their respective counsel, and all other Released Persons shall have no responsibility or liability whatsoever for the investment or distribution of the Total Settlement Fund, the Net Settlement Fund, the Plan of Allocation, or the determination, administration, calculation, or payment of any claim or nonperformance of the Claims Administrator, the payment or withholding of taxes owed by the Total Settlement Fund, or any losses incurred in connection therewith.

47. Each Claimant shall be deemed to have submitted to the jurisdiction of the United States District Court for the Southern District of New York with respect to his, her or its Claim Form.

48. **PLEASE NOTE:** Persons and entities that exclude themselves from the Class will not be eligible to receive a distribution from the Net Settlement Fund and should not submit Claim Forms.

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<sup>12</sup> One additional Ambac security was traded during the Class Period, Ambac 7.00% Debentures, Due May 1, 2023, but this security is not eligible for recovery under the Plan of Allocation because the 7.00% Debentures were redeemed in full prior to the first corrective disclosure.



49. Each Claim Form **must** provide all of the information requested therein and provide sufficient supporting documentation as set forth therein. Failure to provide **all** of the information, transactions and/or required documentation as requested in the Claim Form may result in the rejection of your claim.

50. A “Recognized Loss Amount” will be calculated for each purchase or acquisition of Ambac Common Stock, DISCS, Debentures, STRATS, and Call Options during the Class Period, and for each Ambac Put Option written during the Class Period, that is listed in the Claim Form and for which adequate documentation is provided. The total of a Claimant’s Recognized Loss Amounts shall be the Claimant’s Recognized Claim.

51. The objective of the Plan of Allocation is to equitably distribute the Net Settlement Fund to those Class Members who suffered economic losses as a result of the alleged violations of the federal securities laws, as opposed to losses caused by market and industry factors or Company-specific factors not related to those alleged violations.<sup>13</sup> The Plan of Allocation reflects Lead Plaintiffs’ damages expert’s analysis undertaken to that end, including a review of publicly available information regarding Ambac and statistical analyses of the price movements of Ambac Securities and the price performance of relevant market and industry indices during the Class Period. For purposes of this Plan of Allocation, Lead Plaintiffs’ damages expert has estimated the artificial inflation in Ambac Common Stock, Ambac STRATS and each of the Ambac Debentures during the Class Period. The artificial inflation for Ambac Common Stock is shown in **TABLE A**. The artificial inflation for Ambac STRATS is shown in **TABLE B**. The artificial inflation for each of the Ambac Debentures is shown in **TABLE C** through **TABLE F**. Recognized Loss Amounts for Ambac DISCS are addressed in paragraph 57 below.

52. The Plan of Allocation generally measures the amount of loss that a Class Member can claim for purposes of making *pro rata* allocations of the cash in the Net Settlement Fund to Authorized Claimants. The Plan of Allocation is not a formal damage analysis.

53. For Ambac Common Stock, STRATS, Ambac Debentures, and Call and Put Options on Ambac Common Stock, Recognized Loss Amounts are calculated according to a damage analysis consistent with Section 10(b) of the Securities and Exchange Act of 1934 and Rule 10b-5 promulgated thereunder (“Section 10(b)").<sup>14</sup> For Ambac Common Stock, STRATS, Debentures, and Call Options on Ambac Common Stock, Recognized Loss Amounts are based on the change in the level of alleged artificial inflation in the price of the securities at the time of purchase or acquisition and at the time of sale as calculated by Plaintiffs’ damages expert. For Put Options on Ambac Common Stock, Recognized Loss Amounts are based on the change in the level of alleged artificial inflation in the price of the Option at the time the Option was written and at the time the position in the Option was closed out as calculated by Plaintiffs’ damages expert. Recognized Loss Amounts for Ambac DISCS are addressed in paragraph 57 below.

54. For Ambac DISCS, Recognized Loss Amounts are based on a statutory damage analysis consistent with Section 11 of the Securities Act of 1933 (“Section 11”).<sup>15</sup>

### **SPECIFIC RECOGNIZED LOSS AMOUNTS**

55. In the calculations below, if the Recognized Loss Amount calculates to a negative number, the Recognized Loss Amount shall be zero. If an Ambac Security purchased or acquired during the Class Period is sold for a gain (or, for Put Options, exercised or closed out for a gain), the Recognized Loss Amount for that purchase or acquisition shall be \$0.00. Further, the total Recognized Loss Amounts calculated with respect to transactions where there is no corrective disclosure between the purchase/acquisition date and sale date (or for Put Options, where there is no corrective disclosure between the date the Put Option is written and the date the open interest in the Put Option is closed out) shall not exceed \$10,000 per each Settlement Fund.

56. **AMBAC COMMON STOCK** (CUSIP No. 023139108)

(i) For each share of Ambac Common Stock purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008, and:

(a) Sold at a loss prior to the close of trading on October 23, 2007, the Recognized Loss Amount shall be \$0.01.

(b) Sold at a loss between October 24, 2007 and the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**: (1) the amount of artificial inflation per share as set forth in **Table A** at time of purchase *minus* the amount of artificial inflation per share as set forth in **Table A** on the date of the sale; (2) purchase price *minus* the

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<sup>13</sup> The Settling Defendants take no position on the Plan of Allocation and, as stated above, continue to deny that Ambac Securities were ever artificially inflated in price.

<sup>14</sup> Ambac Common Stock, STRATS, Ambac Debentures, and Call and Put Options on Ambac Common Stock have only Section 10(b) claims. The claims asserted with respect to Ambac Common Stock under Section 11 of the Securities Act have been dismissed by the Court.

<sup>15</sup> Ambac DISCS have both Section 11 claims and Section 10(b) claims.

sale price; or (3) the purchase price minus the average closing price between January 16, 2008 and the earlier of (y) the date of sale; or (z) April 15, 2008.<sup>16</sup>

(c) Held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**: (1) the amount of artificial inflation per share as set forth in **Table A** at the time of purchase; or (2) the purchase price minus the average closing price between January 16, 2008 and April 15, 2008.

(ii) For each share of Ambac Common Stock purchased or otherwise acquired between January 16, 2008 and the close of trading on July 18, 2009 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be \$0.01 per share.

(iii) For each share of Ambac Common Stock purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009 and whose Recognized Loss Amount under paragraph 56(i)(b) or (c) is \$0.00, the Recognized Loss shall be \$0.01 per share.

57. **Ambac DISCS** (CUSIP No. 023139AF5)

(i) For each Ambac DISC security purchased or otherwise acquired between February 12, 2007<sup>17</sup> and the close of trading on January 15, 2008, inclusive and

(a) Sold at a loss between February 12, 2007 and the close of trading on July 25, 2008, the Recognized Loss Amount shall be **the lesser of**:

- (x) the purchase/acquisition price *minus* the sale price or
- (y) the issue price *minus* the sale price.

(b) Sold at a loss between July 26, 2008 and the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**:

- (x) the purchase/acquisition price *minus* the greater of (1) the sale price or (2) \$26.35 (the price on the date of suit) or
- (y) the issue price *minus* the greater of (1) the sale price or (2) \$26.35 (the price on the date of suit).

(c) Held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**:

- (x) the purchase/acquisition price *minus* \$26.35 (the price on the date of suit) or
- (y) the issue price *minus* \$26.35 (the price on the date of suit).

(ii) For each Ambac DISC security purchased or otherwise acquired between January 16, 2008 and the close of trading on July 18, 2009 inclusive and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be \$0.01 per security.

(iii) For each Ambac DISC security purchased or otherwise acquired between February 12, 2007 and January 15, 2008 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009 and whose Recognized Loss under paragraph 57(i) is \$0.00, the Recognized Loss shall be \$0.01 per security.

58. **Ambac STRATS** (CUSIP No. 784786204)

(i) For each Ambac STRATS security purchased or otherwise acquired between July 11, 2007<sup>18</sup> and the close of trading on January 15, 2008, and:

(a) Sold at a loss prior to the close of trading on October 23, 2007, the Recognized Loss Amount shall be \$0.01.

(b) Sold at a loss between October 24, 2007 and the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**: (1) the amount of artificial inflation per security as set forth in **Table B** at time of purchase *minus* the amount of artificial inflation per security as set forth in **Table B** on the date of the sale; (2) purchase price *minus* the sale price; or (3) the purchase price minus the average closing price between January 16, 2008 and the earlier of (y) the date of sale; or (z) April 15, 2008.

(c) Held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**: (1) the amount of artificial inflation per security as set forth in **Table B** at the time of purchase; or (2) the purchase price minus the average closing price between January 16, 2008 and April 15, 2008.

(ii) For each Ambac STRATS security purchased or otherwise acquired between January 16, 2008 and the close of trading on July 18, 2009 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be \$0.01 per share.

(iii) For each Ambac STRATS security purchased or otherwise acquired between July 11, 2007 and the close of trading on January 15, 2008 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July

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<sup>16</sup> Pursuant to the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), April 15, 2008 is the last day of the 90-day look-back period.

<sup>17</sup> Date of DISCS offering. (Source: Prospectus issued in connection with DISC offering)

<sup>18</sup> July 11, 2007 is the offering date for the STRATS. (Source: Bloomberg)

18, 2009 and whose Recognized Loss under paragraph 58(i)(b) or (c) is \$0.00, the Recognized Loss shall be \$0.01 per security.

59. **Ambac \$200 million 5.95% Debenture Due 2/28/2103 (“Ambac 5.95%-2103 Debenture”)** (CUSIP No. 023139504)
- (i) For each Ambac 5.95%-2103 Debenture (face value \$25) purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008 and:
- (a) Sold at a loss prior to the close of trading on October 23, 2007, the Recognized Loss Amount shall be \$0.01.
- (b) Sold at a loss between October 24, 2007 and the close of trading on July 18, 2009, the Recognized Loss Amount shall be ***the lesser of***: (1) the amount of artificial inflation per \$25 of par value as set forth in **Table C** at time of purchase *minus* the amount of artificial inflation per \$25 of par value as set forth in **Table C** on the date of the sale; (2) purchase price *minus* the sale price; or (3) the purchase price *minus* the average closing price between January 16, 2008 and the earlier of (y) the date of sale; or (z) April 15, 2008.
- (c) Held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be ***the lesser of***: (1) the amount of artificial inflation per \$25 of par value as set forth in **Table C** at the time of purchase; or (2) the purchase price *minus* the average closing price between January 16, 2008 and April 15, 2008.
- (ii) For each Ambac 5.95%-2103 Debenture purchased or otherwise acquired between January 16, 2008 and the close of trading on July 18, 2009 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be \$0.01 per \$25 of par value.
- (iii) For each Ambac 5.95%-2103 Debenture purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009 and whose Recognized Loss under paragraph 59(i)(b) or (c) is \$0.00, the Recognized Loss shall be \$0.01 per \$25 of par value.
- (iv) The Recognized Loss Amount as calculated in paragraph 59(i)-(iii) shall be further reduced by 50% to reflect additional barriers for a purchaser of an Ambac 5.95%-2103 Debenture to ultimately obtain a damages judgment in this matter. In particular, this discount is intended to reflect a lower likelihood that purchasers of an Ambac 5.95%-2103 Debenture would be entitled to the fraud-on-the-market presumption of reliance.
60. **Ambac \$175 million 5.875% Debentures Due 3/19/2103 (“Ambac 5.875%-2103 Debenture”)** (CUSIP No. 023139603)
- (i) For each Ambac 5.875%-2103 Debenture (face value \$25) purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008 and:
- (a) Sold at a loss prior to the close of trading on January 15, 2008, the Recognized Loss Amount is \$0.01.
- (b) Sold at a loss between January 16, 2008 and the close of trading on July 18, 2009, the Recognized Loss Amount shall be ***the lesser of***: (1) the amount of artificial inflation per \$25 of par value as set forth in **Table D** at time of purchase *minus* the amount of artificial inflation per \$25 of par value as set forth in **Table D** on the date of the sale; (2) purchase price *minus* the sale price; or (3) the purchase price *minus* the average closing price between January 16, 2008 and the earlier of (y) the date of sale; or (z) April 15, 2008.
- (c) Held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be ***the lesser of***: (1) the amount of artificial inflation per \$25 of par value as set forth in **Table D** at the time of purchase; or (2) the purchase price *minus* the average closing price between January 16, 2008 and April 15, 2008.
- (ii) For each Ambac 5.875%-2103 Debenture purchased or otherwise acquired between January 16, 2008 and the close of trading on July 18, 2009 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be \$0.01 per \$25 of par value.
- (iii) For each Ambac 5.875%-2103 Debenture purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009 and whose Recognized Loss under paragraph 60(i)(b) or (c) is \$0.00, the Recognized Loss shall be \$0.01 per \$25 of par value.
- (iv) The Recognized Loss Amount as calculated in paragraph 60(i)-(iii) shall be further reduced by 50% to reflect additional barriers for a purchaser of an Ambac 5.875%-2103 Debenture to ultimately obtain a damages judgment in this matter. In particular, this discount is intended to reflect a lower likelihood that purchasers of an Ambac 5.875%-2103 Debenture would be entitled to the fraud-on-the-market presumption of reliance.
61. **Ambac \$150 million 9.375% Debentures Due 8/1/2011 (“Ambac 9.375%-2011 Debenture”)** (CUSIP No. 023139AA6)
- (i) For each Ambac 9.375%-2011 Debenture (face value \$1000) purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008 and:
- (a) Sold at a loss prior to the close of trading on January 15, 2008, the Recognized Loss Amount is \$0.01.
- (b) Sold at a loss between January 16, 2008 and the close of trading on July 18, 2009, the Recognized Loss Amount shall be ***the lesser of***: (1) the amount of artificial inflation per \$1000 of par value as set forth in **Table E** at time of purchase *minus* the amount of artificial inflation per \$1000 of par value as set forth in **Table E** on the date of the sale; (2) purchase price *minus* the sale price; or (3) the purchase price *minus* the average closing price between January 16, 2008 and the earlier of (y) the date of sale; or (z) April 15, 2008.

(c) Held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**: (1) the amount of artificial inflation per \$1000 of par value as set forth in **Table E** at the time of purchase; or (2) the purchase price minus the average closing price between January 16, 2008 and April 15, 2008.

(ii) For each Ambac 9.375%-2011 Debenture purchased or otherwise acquired between January 16, 2008 and the close of trading on July 18, 2009 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be \$0.01 per \$1000 of par value.

(iii) For each Ambac 9.375%-2011 Debenture purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009 and whose Recognized Loss under paragraph 61(i)(b) or (c) is \$0.00, the Recognized Loss shall be \$0.01 per \$1000 of par value.

(iv) The Recognized Loss Amount as calculated in paragraph 61(i)-(iii) shall be further reduced by 50% to reflect additional barriers for a purchaser of an Ambac 9.375%-2011 Debenture to ultimately obtain a damages judgment in this matter. In particular, this discount is intended to reflect a lower likelihood that purchasers of an Ambac 9.375%-2011 Debenture would be entitled to the fraud-on-the-market presumption of reliance.

62. **Ambac \$400 million 5.95% Debentures Due 12/5/2035 (“Ambac 5.95%-2035 Debenture”)** (CUSIP No. 023139AE8)

(i) For each Ambac 5.95%-2035 Debenture (face value \$1000) purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008 and:

(a) Sold at a loss prior to the close of trading on October 23, 2007, the Recognized Loss Amount is \$0.01.

(b) Sold at a loss between October 24, 2007 and the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**: (1) the amount of artificial inflation per \$1000 of par value as set forth in **Table F** at time of purchase *minus* the amount of artificial inflation per \$1000 of par value as set forth in **Table F** on the date of the sale; (2) purchase price *minus* the sale price; or (3) the purchase price minus the average closing price between January 16, 2008 and the earlier of (y) the date of sale; or (z) April 15, 2008.

(c) Held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**: (1) the amount of artificial inflation per \$1000 of par value as set forth in **Table F** at the time of purchase; or (2) the purchase price minus the average closing price between January 16, 2008 and April 15, 2008.

(ii) For each Ambac 5.95%-2035 Debenture purchased or otherwise acquired between January 16, 2008 and the close of trading on July 18, 2009 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009, the Recognized Loss Amount shall be \$0.01 per \$1000 of par value.

(iii) For each Ambac 5.95%-2035 Debenture purchased or otherwise acquired between October 19, 2005 and the close of trading on January 15, 2008 and sold at a loss prior to the close of trading on July 18, 2009 or held as of the close of trading on July 18, 2009 and whose Recognized Loss under paragraph 62(i)(b) or (c) is \$0.00, the Recognized Loss shall be \$0.01 per \$1000 of par value.

(iv) The Recognized Loss Amount as calculated in paragraph 62(i)-(iii) shall be further reduced by 50% to reflect additional barriers for a purchaser of an Ambac 5.95%-2035 Debenture to ultimately obtain a damages judgment in this matter. In particular, this discount is intended to reflect a lower likelihood that purchasers of an Ambac 5.95%-2035 Debenture would be entitled to the fraud-on-the-market presumption of reliance.

63. **Ambac \$75 million 7.5% Debentures Due 5/1/2023 (“Ambac 7.5%-2023 Debenture”)** (CUSIP No. 023139AB4)

(i) Because of the lack of trading of the Ambac 7.5%-2023 Debentures, it is unlikely purchasers would be entitled to the fraud-on-the-market presumption of reliance. In addition, there is insufficient pricing data available to reliably calculate the change in value associated with the alleged corrective disclosures. As a result, the Recognized Loss for Ambac 7.5%-2023 Debentures purchased between October 19, 2005 and July 18, 2009 is \$0.005<sup>19</sup> per \$1000 of par value.

64. **Ambac \$250 million 9.5% Senior Notes and Corporate Units Due 2/15/2021 (“Ambac 9.5%-2021 Senior Notes and Corporate Units”)** (CUSIP No. 023139AG3)

(i) Because the Ambac 9.5%-2021 Senior Notes and Corporate Units are issued after the last corrective disclosure, the Recognized Loss for Ambac 9.5%-2021 Senior Notes and Corporate Units is \$0.005<sup>20</sup> per \$1000 of par value of the 9.5% Senior Notes.

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<sup>19</sup> This represents a \$0.01 Recognized Loss Amount per \$1000 of par value further reduced by 50% to reflect additional barriers for a purchaser of an Ambac 7.5%-2023 Debenture to ultimately obtain a damages judgment in this matter. In particular, this discount is intended to reflect a lower likelihood that purchasers of an Ambac 7.5%-2023 Debenture would be entitled to the fraud-on-the-market presumption of reliance.

<sup>20</sup> This represents a \$0.01 Recognized Loss Amount per \$1000 of par value further reduced by 50% to reflect additional barriers for a purchaser of an Ambac 9.5%-2021 Senior Note and Corporate Unit to ultimately obtain a damages judgment in this matter. In particular, this discount is intended to reflect a lower likelihood that purchasers of an Ambac 9.5%-2021 Senior Note and Corporate Unit would be entitled to the fraud-on-the-market presumption of reliance.

65. **Ambac Call Options:**

(i) For each Ambac Call Option purchased between October 19, 2005 and the close of trading on January 15, 2008 and:

(a) Sold or exercised at a loss prior to the close of trading on October 23, 2007, the Recognized Loss Amount is \$0.01.

(b) Sold or exercised at a loss between October 24, 2007 and the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**: (1) the amount of artificial inflation per share at the time of purchase *minus* the amount of artificial inflation per share at the time of sale<sup>21</sup>; or (2) the purchase price *minus* the sale price if the option was held through one of the corrective disclosures.

(c) If the Ambac Call Option was not held through one of the corrective disclosures, the Recognized Loss Amount is \$0.01.

(ii) If the Ambac Call Option was purchased prior to the final corrective disclosure (January 16, 2008) and has not been exercised or sold, then the Recognized Loss Amount is **the lesser of**: (1) the artificial inflation per share at the time of sale; or (2) the purchase price less the closing market price of the option on July 18, 2009 as shown on **Table G**.

(iii) The Recognized Loss Amount as calculated in paragraph 65(i)-(ii) shall be further reduced by 95% to reflect additional barriers for a purchaser of an Ambac Call Option to ultimately obtain a damages judgment in this matter. In particular, this discount is intended to reflect that Ambac Call Options are private contracts not issued by Ambac and that application of fraud-on-the-market theory of reliance to option holders is less certain.

66. **Ambac Put Options:**

(i) For each Ambac Put Option written between October 19, 2005 and the close of trading on January 15, 2008 and:

(a) Was closed out at a loss prior to the close of trading on October 23, 2007, the Recognized Loss Amount is \$0.01.

(b) Was closed out at a loss between October 24, 2007 and the close of trading on July 18, 2009, the Recognized Loss Amount shall be **the lesser of**: (1) the artificial inflation per share at the time the Option was written *minus* the artificial inflation per share at the time the Option was closed out<sup>22</sup>; or (2) the price at the time the Option was written *minus* the price at the time the Option was closed out if the Option was held through one of the corrective disclosures.

(c) If there was no corrective disclosure between the date the Ambac Put Option was written and the date it was closed out, the Recognized Loss Amount is \$0.01.

(ii) If the Ambac Put Option was written prior to the final corrective disclosure (January 16, 2008) and had not been closed out as of July 18, 2009, then the Recognized Loss Amount is the price at which the option was written less the closing market price of the Option on July 18, 2009 as shown on **Table H**.

(iii) The Recognized Loss Amount as calculated in paragraph 66(i)-(ii) shall be further reduced by 95% to reflect additional barriers for a purchaser of an Ambac Put Option to ultimately obtain a damages judgment in this matter. In particular, this discount is intended to reflect that Ambac Put Options are private contracts not issued by Ambac and that application of fraud-on-the-market theory of reliance to option holders is less certain.

**ADDITIONAL PROVISIONS**

67. The Net Settlement Fund will be allocated among all eligible Class Members who are Authorized Claimants, subject to the \$20.00 threshold for payments from the Net Settlement Fund set forth below.

68. Each Authorized Claimant's Recognized Claim shall be the total of his, her or its Recognized Loss Amounts. Each Authorized Claimant shall receive a distribution from the Net Settlement Fund equal to his, her or its (i) *pro rata* share of the Underwriter Net Settlement Fund based on the amount of the Authorized Claimant's Recognized Loss Amounts associated with his, her or its purchases/acquisitions of Ambac DISCS during the Class Period, if any, in comparison to the total Recognized Loss Amounts of all Authorized Claimants associated with purchases/acquisitions of Ambac DISCS, plus (ii) *pro rata* share of the Ambac Common Stock Net Settlement Fund based on the amount of the Authorized Claimant's Recognized Loss Amounts associated with his, her or its purchases/acquisitions of Ambac Common Stock and/or Ambac Call Options during the Class Period, if any, and/or his, her or its Ambac Put Options written during the Class Period, if any, in comparison to the total Recognized Loss Amounts of all Authorized Claimants associated with purchases/acquisitions of Ambac Common Stock and/or Ambac Call Options, and/or Ambac Put Options

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<sup>21</sup> Artificial inflation for Ambac Call Options is as follows: (i) from October 19, 2005 to October 23, 2007, artificial inflation per share is the sum of price declines on October 24, 2007 and January 16, 2008; (ii) from October 24, 2007 to January 15, 2008, artificial inflation per share is the price decline on January 16, 2008; (iii) from January 16, 2008 to July 19, 2009, artificial inflation is \$0.00. See **Table A**.

<sup>22</sup> Artificial inflation for Ambac Put Options is as follows: (i) from October 19, 2005 to October 23, 2007, artificial inflation per share is the sum of price increases on October 24, 2007 and January 16, 2008; (ii) from October 24, 2007 to January 15, 2008, artificial inflation per share is the price increase on January 16, 2008; (iii) from January 16, 2008 to July 19, 2009, artificial inflation is \$0.00.

written during the Class Period, plus (iii) *pro rata* share of the Ambac Debt Securities Net Settlement Fund based on the amount of the Authorized Claimant's Recognized Loss Amounts associated with his, her or its purchases/acquisitions of Ambac Debt Securities during the Class Period, if any, in comparison to the total Recognized Loss Amounts of all Authorized Claimants associated with purchases/acquisitions of Ambac Debt Securities. If the Authorized Claimant's distribution payment calculates to less than \$20.00, it will not be included in the calculation and it will not be distributed.

69. The amount of a Class Member's Recognized Claim and Recognized Loss Amount as computed above are not intended to be estimates of what a Class Member might have been able to recover at trial, and are not estimates of the amount that will be paid pursuant to these Settlements. Instead, these computations are only a method to weigh Class Members' claims against one another. Authorized Claimants will receive *pro rata* shares of the Underwriter Fund, Ambac Common Stock Fund and/or Ambac Debt Securities Fund based on their Recognized Loss Amounts.

70. If a Class Member has more than one transaction in Ambac Securities during the Class Period, all purchases/acquisitions and sales of like securities shall be matched on a First-In-First-Out ("FIFO") basis, and Class Period sales will be matched against purchases/acquisitions in chronological order, beginning with the earliest purchase/acquisition made during the Class Period.

71. Purchases, acquisitions and sales of Ambac Securities shall be deemed to have occurred on the "contract" or "trade" date as opposed to the "settlement" or "payment" date. The receipt or grant by gift, inheritance or operation of law of Ambac Securities during the Class Period shall not be deemed a purchase, acquisition or sale of these Ambac Securities for the calculation of an Authorized Claimant's Recognized Loss Amounts nor shall such receipt or grant be deemed an assignment of any claim relating to the purchase/acquisition of such Ambac Securities unless (i) the donor or decedent purchased or otherwise acquired the Ambac Securities during the Class Period; (ii) no Proof of Claim was submitted by or on behalf of the donor or decedent, or by anyone else with respect to such Ambac Securities; and (iii) it is specifically so provided in the instrument of gift or assignment. If an Ambac Security was acquired as a result of exercise of an option, for purposes of the calculations in this Plan, the exercise price shall be considered the purchase price.

72. The date of covering a "short sale" is deemed to be the date of purchase or acquisition of Ambac Securities. The date of a "short sale" is deemed to be the date of sale of Ambac Securities. However, the Recognized Loss Amount on "short sales" shall be \$0.

73. If a Claimant had a market gain from his, her or its overall transactions in the Ambac Securities during the Class Period, the value of his, her or its Recognized Claim will be \$0. To the extent a Claimant suffered an overall market loss on his, her or its overall transactions in Ambac Securities during the Class Period, but that market loss was less than the Recognized Claim calculated above, then the Claimant's Recognized Claim shall be limited to the amount of the actual market loss (and the Claimant's Recognized Loss Amount for the Underwriter Settlement Fund, Ambac Common Stock Settlement Fund, and Ambac Debt Securities Settlement Fund shall be reduced proportionally).

74. For purposes of determining whether a Claimant had a gain from his, her or its overall transactions in Ambac Securities during the Class Period or suffered an overall loss, the Claims Administrator shall: (i) total the amount the Claimant paid for all Ambac Securities purchased or acquired during the Class Period (the "Total Purchase Amount"); (ii) total the amount received from sales of Ambac Securities purchased or acquired during the Class Period and sold between October 25, 2006 and July 18, 2009 (together, the "Sales Proceeds"), and (iii) ascribe a holding value as reflected in **Table I** to all Ambac Securities purchased or acquired during the Class Period and still held as of the close of trading on July 18, 2009.<sup>23</sup> The difference between (a) the Total Purchase Amount and (b) the sum of the Sales Proceeds and the Holding Value will be deemed a Claimant's gain or loss on his, her or its overall transactions in the Ambac Securities during the Class Period.

75. If any funds remain in the Net Settlement Fund after the initial distribution because of uncashed distributions or other reasons, then, after the Claims Administrator has made reasonable and diligent efforts to have Authorized Claimants cash their distribution checks, any balance remaining in the Net Settlement Fund one (1) year after the initial distribution shall be redistributed to Class Members who have cashed their initial distributions and who would receive at least \$20.00 from such re-distribution based on their Recognized Claim, after payment of any unpaid costs or fees incurred in administering the Net Settlement Fund. If any funds remain in the Net Settlement Fund after such re-distribution, additional re-distributions shall occur thereafter in approximately six-month intervals until Lead Counsel, in consultation with the Claims Administrator, determine that a re-distribution is not cost effective, at which time the balance of the Net Settlement Fund will be donated to non-sectarian, not-for-profit 501(c)(3) organization(s) designated by Lead Counsel subject to approval by the Court.

76. The Plan of Allocation set forth herein is the plan that is being proposed by Plaintiffs and Lead Counsel to the Court for approval. The Court may approve this plan as proposed or it may modify the plan or approve a different plan of allocation without further notice to the Class.

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<sup>23</sup> For Put Options, the Total Purchase Amount is the total amount paid to close out positions in a Put Option written during the Class Period. The Sales Proceeds are the total amount received for Put Options written during the Class Period. Open interest in Put Options not yet exercised by July 18, 2009 will be ascribed the holding value in **Table H**.

**RELEASE GIVEN BY THE CLASS WITH RESPECT TO THE AMBAC SETTLEMENT**

77. If the Ambac Settlement is approved, the Court will enter a Judgment with respect to the Ambac Settlement. The Judgment with respect to the Ambac Settlement will dismiss with prejudice claims asserted against Ambac and the Individual Defendants. As specified in paragraph 3 of the Stipulation, pursuant to the Judgment, which shall be entered by the Court, upon the Effective Date, Plaintiffs and each of the Class Members shall release, and shall be deemed by operation of law to have fully, finally and forever released, relinquished, waived, discharged and dismissed, each and every Settled Claim Against Ambac and Individual Defendants (as defined in ¶179 below), and shall forever be enjoined and barred from prosecuting any or all Settled Claims Against Ambac and Individual Defendants, against any Released Ambac Party (as defined in ¶180 below). Plaintiffs further covenant on their own behalf and on behalf of the Class not to sue any Released Ambac Party on the basis of any of the Settled Claims Against Ambac and Individual Defendants or to assist any person in commencing or maintaining any suit relating to any Settled Claim Against Ambac and Individual Defendants, including any derivative suit.

78. "Unknown Claims" with respect to the Ambac Settlement is defined in paragraph 1(mmm) of the Stipulation and means (i) any and all Settled Claims Against Ambac and Individual Defendants that any Plaintiff and/or Class Member, and each of their agents or attorneys, or their current or former officers, directors or employees, does not know or suspect to exist in his, her or its favor at the time of the release of the Released Ambac Parties, and (ii) any Released Ambac Parties' Claims (as defined in ¶182 below) that Ambac and the Individual Defendants, and each of their agents or attorneys, or their current or former officers, directors or employees, do not know or suspect to exist in their favor, which in the case of both (i) and (ii) if known by them might have affected their settlement with and release of the Released Ambac Parties (or Plaintiffs, as appropriate), or might have affected their decision not to object to the Settlement or not exclude themselves from the Class. With respect to any and all Settled Claims Against Ambac and Individual Defendants and Released Ambac Parties' Claims, the Settling Parties stipulate and agree that, upon the Effective Date, Plaintiffs and the Ambac Defendants shall expressly waive, and each Class Member shall be deemed to have waived, and by operation of the Judgment shall have expressly waived, to the fullest extent permitted by law, any and all provisions, rights and benefits conferred by Cal. Civ. Code § 1542 and analogous statutes, and any law of any state or territory of the United States, or principle of common law, or the law of any foreign jurisdiction, that is similar, comparable or equivalent to Cal. Civ. Code § 1542, which provides:

**A general release does not extend to claims, which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**

Plaintiffs and Class Members may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Settled Claims Against Ambac and Individual Defendants, but each Plaintiff shall expressly – and each Class Member by operation of the Judgment shall be deemed to have – upon the Effective Date, fully, finally and forever settle and release any and all Settled Claims Against Ambac and Individual Defendants, known or Unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct which is negligent, reckless, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. Plaintiffs and the Ambac Defendants acknowledge, and Class Members by law and operation of the Judgment shall be deemed to have acknowledged, that the inclusion of "Unknown Claims" in the definition of Settled Claims Against Ambac and Individual Defendants and Released Ambac Parties' Claims was separately bargained for and was a material element of the Settlement.

79. "Settled Claims Against Ambac and Individual Defendants" or "Settled Claims" means any and all manner of claims, actions, causes of actions, suits, controversies, costs, damages, judgments, and demands whatsoever, known or Unknown, suspected or unsuspected, accrued or unaccrued, arising under the laws, regulations or common law of the United States of America, any state or political subdivision thereof, or any foreign country or jurisdiction, in law, contract, or in equity, that were, could have been, or might have been asserted in any of the Securities Actions or the Derivative Actions, in connection with, arising out of, related to, or based upon, in whole or in part, directly or indirectly, any action or omission or failure to act, including but not limited to any action or omission or failure to act within the Class Period or relevant periods specified in any of the Derivative Actions. Notwithstanding the foregoing, "Settled Claims" does not include any claims to enforce obligations under the Settlement that survive the Effective Date, if any. Excluded from this paragraph and from the release are the claims arising under the Employee Retirement Income Security Act of 1974 at issue in the ERISA action entitled *Veera v. Ambac Administrative Committee et al.*, No. 10-cv-4191 (HB) ("Veera") that is pending before Judge Harold Baer, Jr. in the Southern District of New York relating to the Ambac Financial Group, Inc. Savings Incentive Plan, provided, however, that nothing herein shall be deemed a waiver by the defendants in Veera of their rights to maintain that any recovery by the Ambac Financial Group, Inc. Savings Incentive Plan pursuant to this Settlement shall offset any recovery by the plaintiffs in Veera.

80. "Released Ambac Parties" is defined in paragraph 1(qq) of the Stipulation and means (i) Ambac and any and all of its current and former parents, affiliates, subsidiaries, predecessors and successors, as well as any and all of its or their current or

former officers, directors, employees, agents, insurers, reinsurers, attorneys, auditors, accountants, assigns, creditors, administrators, heirs, estates and legal representatives, (ii) any and all of the Individual Defendants, and any and all of their respective current or former agents, insurers, reinsurers, attorneys, auditors, accountants, successors, assigns, creditors, administrators, heirs, estates and legal representatives, and (iii) any and all of the D&O Insurers and any and all of their respective current or former parents, affiliates, subsidiaries, predecessors, officers, directors, employees, agents, insurers, reinsurers, attorneys, auditors, accountants, successors, assigns, creditors, administrators, heirs, estates and legal representatives. Notwithstanding any other provision to the contrary herein, Released Ambac Parties does not include the Underwriter Defendants and does not include RLI Insurance Company. Notwithstanding any other provision to the contrary herein, nothing in the Stipulation of Settlement is intended to, and the Settlement and Stipulation do not, reflect or effect a release of RLI Insurance Company by any party.

81. As specified in paragraph 4 of the Stipulation, the Judgment with respect to the Ambac Settlement also will provide that each of the Released Ambac Parties, shall release and be deemed by operation of law to have released, waived, discharged and dismissed each and every of the Released Ambac Parties' Claims (as defined in ¶182 below), and shall forever be enjoined from prosecuting any or all of the Released Ambac Parties' Claims against Plaintiffs, their officers, directors, employees, agents and attorneys, and all other Class Members. Notwithstanding any provision herein to the contrary, no provision of the Ambac Settlement represents or should be deemed to represent a release by the Released Ambac Parties of any claim against the D&O Insurers; any such releases will be set out solely in a separate Insurer Agreement.

82. "Released Ambac Parties' Claims" is defined in paragraph 1(ss) of the Stipulation and means any and all claims, rights, causes of action, liabilities or any other matters, whether known or Unknown, foreseen or unforeseen, whether arising under federal, state, common or foreign law, which arise out of the institution, prosecution or settlement of the Securities Actions, that have been or could have been asserted by any or all of the Released Ambac Parties against Plaintiffs or Plaintiffs' Counsel, or against the Class Members. Released Ambac Parties' Claims does not include any claims by any Released Ambac Party that may be necessary to enforce the Settlement, which survive the Effective Date, if any. Notwithstanding any other provision to the contrary herein, Released Ambac Parties' Claims shall not include any claims by the Released Ambac Parties against RLI Insurance Company, the Underwriter Defendants, or the D&O Insurers.

#### **RELEASES GIVEN BY THE UNDERWRITER CLASS WITH RESPECT TO THE UNDERWRITER SETTLEMENT**

83. If the Underwriter Settlement is approved, the Court will enter a Judgment with respect to the Underwriter Settlement. The Judgment with respect to the Underwriter Settlement will dismiss with prejudice claims asserted against the Underwriter Defendants and will provide that Plaintiffs and all other members of the Underwriter Class shall be deemed to have – and by operation of the Judgment shall have – fully and finally released, relinquished, waived, discharged and dismissed each and every Settled Claims Against Underwriter Defendants (as defined in ¶185 below), including Unknown Claims (as defined in ¶184 below), against the Released Underwriter Parties (as defined in ¶186 below), and shall forever be enjoined from prosecuting any or all Settled Claims Against Underwriter Defendants against the Released Underwriter Parties.

84. "Unknown Claims" with respect to the Underwriter Settlement means any and all Settled Claims Against Underwriter Defendants that any Plaintiff and/or Class Member does not know or suspect to exist in his, her or its favor at the time of the release of the Released Underwriter Parties, and any Released Underwriter Parties' Claims (as defined in ¶188 below) that the Underwriter Defendants, their agents or attorneys, or their current or former officers, directors or employees do not know or suspect to exist in their favor, which if known by them might have affected their settlement with and release of the Released Underwriter Parties (or Plaintiffs, as appropriate), or might have affected their decision not to object to this Settlement or not exclude themselves from the Class. With respect to any and all Settled Claims Against Underwriter Defendants and Released Underwriter Parties' Claims, the Settling Parties Against Underwriter Defendants stipulate and agree that, upon the Effective Date, Plaintiffs and the Underwriter Defendants, their agents or attorneys, and their current or former officers, directors or employees shall expressly waive, and each Class Member shall be deemed to have waived, and by operation of the Judgment shall have expressly waived, to the fullest extent permitted by law, any and all provisions, rights and benefits conferred by Cal. Civ. Code § 1542 and analogous statutes, and any law of any state or territory of the United States, or principle of common law, or the law of any foreign jurisdiction, that is similar, comparable or equivalent to Cal. Civ. Code § 1542, which provides:

**A general release does not extend to claims, which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**

Plaintiffs and Class Members may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Settled Claims Against Underwriter Defendants, but each Plaintiff shall expressly – and each Class Member by operation of the Judgment shall be deemed to have – upon the Effective Date, fully, finally and forever settled and released any and all settled claims as set forth below, known or Unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct which is negligent, reckless, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent



discovery or existence of such different or additional facts. Plaintiffs and the Underwriter Defendants acknowledge, and Class Members by law and operation of the Judgment shall be deemed to have acknowledged, that the inclusion of “Unknown Claims” in the definition of Settled Claims Against Underwriter Defendants and Released Underwriter Parties’ Claims was separately bargained for and was a material element of the Settlement.

85. “Settled Claims Against Underwriter Defendants” means any and all claims, debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys’ fees, expert or consulting fees, and any other costs, expenses or liabilities whatsoever), whether based on federal, state, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or un-accrued, liquidated or un-liquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and Unknown Claims (including “unknown claims” as defined in Cal. Civ. Code § 1542 and analogous statutes) that (i) have been or could have been asserted in the Action by the Underwriter Class Members or any of them against any of the Released Underwriter Parties, (ii) arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint, and/or (iii) arise out of any purchase, sale, or holding of Ambac Securities insofar as it relates in any way to any other matter covered in this definition of Settled Claims Against Underwriter Defendants.

86. “Released Underwriter Parties” means any and all of the Underwriter Defendants, their past or present parents, subsidiaries, affiliates, successors and predecessors, or other individual or entity in which any of the foregoing entities has a majority interest or which is related to or affiliated with any of the foregoing entities; and the respective officers, directors, agents, employees, attorneys, advisors, investment advisors, auditors, accountants, insurers, successors, and assigns of such entities and individuals.

87. The Judgment with respect to the Underwriter Defendants Settlement also will provide that the Underwriter Defendants and each of the other Released Underwriter Parties, on behalf of themselves, their heirs, executors, administrators, predecessors, successors and assigns shall be deemed by operation of law to have fully, finally, and forever released, waived, discharged and dismissed each and every of the Released Underwriter Parties’ Claims (as defined in ¶188 below), and shall forever be enjoined from prosecuting any or all of the Released Underwriter Parties’ Claims, against Plaintiffs, their officers, directors, employees, agents and attorneys, and all other Class Members.

88. “Released Underwriter Parties’ Claims” means any and all claims, rights, causes of action, liabilities or any other matters, whether known or Unknown, foreseen or unforeseen, whether arising under federal, state, common or foreign law, that have been or could have been asserted in the Action or any forum by any or all of the Released Underwriter Parties against Plaintiffs, the Class Members, or their attorneys, which arise out of or relate in any way to the institution, prosecution or settlement of the Action (except for claims to enforce the Settlement).

#### WHAT PAYMENT ARE THE ATTORNEYS FOR THE CLASS SEEKING? — HOW WILL THE LAWYERS BE PAID?

89. Lead Counsel have not received any payment for their services in pursuing claims against Defendants on behalf of the Class, nor have Lead Counsel been reimbursed for their out-of-pocket expenses. Before final approval of the two Settlements, Lead Counsel intend to apply to the Court for an award of attorneys’ fees from the Settlement Fund of 17% of the total Settlement Fund of \$33 million, plus interest at the same rate and for the same time period as earned by the Settlement Fund.<sup>24</sup> At the same time, Lead Counsel also intend to apply for the reimbursement of certain Litigation Expenses in an amount not to exceed \$1,500,000 plus interest at the same rate and for the same time period as earned by the Settlement Fund. Litigation Expenses may include reimbursement of the expenses of Plaintiffs in accordance with 15 U.S.C. § 78u-4(a)(4). The sums approved by the Court will be paid from the Settlement Fund. Members of the Class are not personally liable for the payment of these sums.

90. The Settling Defendants take no position on the request by Lead Counsel for attorneys’ fees and reimbursement of Litigation Expenses or on the allocation of attorneys’ fees and expenses among counsel representing the Class.

#### HOW DO I PARTICIPATE IN THE SETTLEMENTS? — WHAT DO I NEED TO DO?

91. If you purchased or otherwise acquired Ambac Securities during the Class Period, and you are not excluded by the definition of the Class and you do not elect to exclude yourself from the Class, then you are a member of the Class and you will be bound by the proposed Settlements if the Court approves them, and by any judgment or determination of the Court affecting the Class. If you are a member of the Class, you must submit a Claim Form and supporting documentation to establish your entitlement

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<sup>24</sup> Lead Counsel will request that the Court approve an allocation from the awarded fee to Tolin’s Counsel in the amount of four-hundred thousand dollars (\$400,000) for Tolin’s Counsel’s fees and expenses in connection with the Tolin Action; subject to any limits imposed by the Court and/or as a matter of law, Lead Counsel shall otherwise have the sole authority to allocate the Court-awarded attorneys’ fees and Litigation Expenses amongst Plaintiffs’ Counsel in a manner which they, in good faith, believe reflects the contributions of such counsel to the prosecution and settlement of the Securities Actions.

to share in the Settlements. A Claim Form is included with this Notice, or you may go to the website maintained by the Claims Administrator for the Settlement to request that a Claim Form be mailed to you. The website is [www.AmbacSecuritiesLitigation.com](http://www.AmbacSecuritiesLitigation.com). You may also request a Claim Form by calling the toll-free telephone number 877-497-5866. Copies of the Claim Form can also be downloaded from Lead Counsel's websites at [www.blbglaw.com](http://www.blbglaw.com) or [www.kaplanfox.com](http://www.kaplanfox.com). Those who exclude themselves from the Class, and those who do not submit timely and valid Claim Forms with adequate supporting documentation, will not be eligible to share in the Settlements. Please retain all records of your ownership of, or transactions in Ambac Securities, as they may be needed to document your claim.

92. As a Class Member, you are represented by Plaintiffs and Lead Counsel, unless you enter an appearance through counsel of your own choice at your own expense. You are not required to retain your own counsel, but if you choose to do so, such counsel must file a notice of appearance on your behalf and must serve copies of his or her notice of appearance on the attorneys listed in the section entitled, "When and Where Will the Court Decide Whether to Approve the Settlements?," located on page 19 of this Notice.

93. If you do not wish to remain a Class Member, you may exclude yourself from the Class by following the instructions in the section entitled, "What If I Do Not Want To Be A Part Of The Settlements? How Do I Exclude Myself?" below.

94. If you wish to object to either of the Settlements or any of their terms, the proposed Plan of Allocation, or Lead Counsel's application for attorneys' fees and reimbursement of Litigation Expenses, and if you do not exclude yourself from the Class, you may present your objections by following the instructions in the section entitled, "When and Where Will the Court Decide Whether to Approve the Settlements?" located on page 19 of this Notice.

#### WHAT IF I DO NOT WANT TO BE A PART OF THE SETTLEMENTS? — HOW DO I EXCLUDE MYSELF?

95. Each Class Member will be bound by all determinations and judgments in this lawsuit, including those concerning the Settlements, whether favorable or unfavorable, unless such person or entity mails, by first-class mail (or its equivalent outside the United States), or otherwise delivers a written Request for Exclusion from the Class, addressed to Ambac Financial Group, Inc. Securities Litigation, c/o Rust Consulting, Inc., P.O. Box 2457, Faribault, MN 55021-9157. The exclusion request must be *received* no later than September 7, 2011. You will not be able to exclude yourself from the Class after that date. Each Request for Exclusion must (i) state the name and address of the person or entity requesting exclusion; (ii) state that such person or entity requests exclusion from the Class in *In re Ambac Financial Group, Inc. Securities Litigation*, Case No. 08-cv-00411-NRB and/or *Tolin v. Ambac Financial Group, Inc. et al.*, Case No. 08-cv-11241-CM; (iii) be signed by the person or entity requesting exclusion; (iv) provide a telephone number for that person or entity; and (v) provide the date(s), price(s) and number(s) of shares of all purchases, acquisitions and sales of Ambac Securities during the Class Period. Requests for exclusion will not be valid if they are not received within the time stated above, unless the Court otherwise determines. Keep a copy of everything you mail, in case something is lost during shipping or processing.

96. If you do not want to be part of the Class, you must follow these instructions for exclusion even if you have pending, or later file, another lawsuit, arbitration or other proceeding concerning any of the Settled Claims Against Ambac and Individual Defendants or any of the Settled Claims Against Underwriter Defendants.

97. If a person or entity requests to be excluded from the Class, that person or entity will not receive any benefit provided for in the Settlements.

98. No request for exclusion shall be valid unless it is made within the time provided and in the manner specified herein. Any request for exclusion that does not comply with these prerequisites for exclusion will be invalid. A request for exclusion from the Class will be deemed a request for exclusion from the Underwriter Class; and any request for exclusion from the Underwriter Class will be deemed a request for exclusion from the Class, unless otherwise indicated or ordered by the Court.

99. If a portion of the Class, equal to or greater than the portion specified in separate supplemental agreements between Plaintiffs and Ambac and the Individual Defendants (the "Ambac Supplemental Agreement") and Plaintiffs and the Underwriter Defendants (the "Underwriter Supplemental Agreement") delivers timely and valid requests for exclusion from the Class, then Ambac and the Individual Defendants, and/or the Underwriter Defendants shall have the option to terminate their participation in the respective Stipulation and Settlement, pursuant to the terms set forth in the respective Supplemental Agreement.

#### WHEN AND WHERE WILL THE COURT DECIDE WHETHER TO APPROVE THE SETTLEMENTS? DO I HAVE TO COME TO THE HEARING? — MAY I SPEAK AT THE HEARING IF I DON'T LIKE THE SETTLEMENTS?

100. The Final Approval Hearing will be held on September 28, 2011, at 10:00 a.m. before the Honorable Naomi Reice Buchwald, at the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, Courtroom 21A, New York, NY 10007. The Court reserves the right to approve the Settlements, the Plan of Allocation or the request for attorneys' fees and reimbursement of litigation expenses at or after the Final Approval Hearing without further notice to the members of the Class.

101. If you do not wish to object in person to the proposed Settlements, the proposed Plan of Allocation, and/or the application for attorneys' fees and reimbursement of litigation expenses, you do not need to attend the Final Approval Hearing. You can object to or participate in the Settlements without attending the Final Approval Hearing.

102. If you do not request exclusion from the Class, you may file a written objection to the proposed Settlements, the Plan of Allocation, and/or the motion for attorneys' fees and reimbursement of litigation expenses and appear and show cause why the proposed Settlements, the Plan of Allocation, and/or the motion for attorneys' fees and reimbursement of litigation expenses should not be approved. However, no Class Member shall be heard or entitled to contest the approval of the terms and conditions of the proposed Settlements, the Plan of Allocation, and/or the motion for attorneys' fees and reimbursement of litigation expenses unless that person or entity has filed written objections with the Court and served copies of such objections in the manner provided in the Notice such that it is received no later than twenty-one (21) calendar days (September 7, 2011) prior to the Final Approval Hearing on:

**Clerk's Office**

United States District Court  
Southern District of New York  
Daniel Patrick Moynihan  
United States Courthouse  
Ruby J. Krajick  
Clerk of the Court  
500 Pearl Street  
New York, NY 10007

**Counsel for Ambac**

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**Counsel for the Underwriter Defendants**

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New York, NY 10022

**Counsel for the Underwriter Defendants**

PAUL, WEISS, RIFKIND, WHARTON & GARRISON LLP  
Charles E. Davidow  
1285 Avenue of the Americas  
New York, NY 10019

103. Any objections, filings and other submissions must contain (a) your full name, address, and phone number; (b) a list of all of your transactions in Ambac Securities during the Class Period, including brokerage confirmation receipts or other competent documentary evidence of such transactions and the dates and prices of each purchase, acquisition and/or sale; (c) a written statement of all grounds for the objection accompanied by any legal support for the objection; (d) copies of any papers, briefs or other documents upon which the objection is based; (e) a list of all persons who will be called to testify in support of the objection; (f) a statement of whether you intend to appear at the Final Approval Hearing; (g) a list of other cases in which you or your counsel have appeared either as settlement objectors or as counsel for objectors in the preceding five years; and (h) your signature, even if represented by counsel. If you do not make your objection in the manner provided herein, you shall be deemed to have waived your right to object to the Settlements and the request for attorneys' fees and reimbursement of litigation expenses and shall forever be barred and foreclosed from objecting to the fairness, reasonableness or adequacy of the proposed Settlements, the request for attorneys' fees or the requested reimbursement.

104. If you wish to be heard orally at the hearing in opposition to the approval of the Settlements, the Plan of Allocation, or Lead Counsel's request for an award of attorneys' fees and reimbursement of Litigation Expenses, and if you have filed and served a timely written objection as described above, you also must notify the above counsel on or before September 7, 2011 concerning your intention to appear. Persons who intend to object and desire to present evidence at the Final Approval Hearing must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the hearing.

105. If you object to the Settlements, the Plan of Allocation and/or Lead Counsel's request for an award of attorneys' fees and reimbursement of Litigation Expenses, or otherwise request to be heard at the Final Approval Hearing in the manner stated above, you are submitting to the jurisdiction of the Court with respect to the subject matter of the Settlements, including, but not limited to, the release of the settled claims contained in the Final Order and Judgment. If the Court overrules your objection and approves the Settlements or the part of the Settlements to which you have objected, you will be potentially eligible to share in the Settlement Fund only if you file a Claim Form in the manner stated in ¶ 91 on pages 17-18 of this Notice and the Claims Administrator approves your claim.

106. You are not required to hire an attorney to represent you in making written objections or in appearing at the Final Approval Hearing. If you decide to hire an attorney, which will be at your own expense, however, he or she must file a notice of appearance with the Court and serve it on Lead Counsel so that the notice is received on or before September 7, 2011.

107. The Final Approval Hearing may be adjourned by the Court without further written notice to the Class. If you intend to attend the Final Approval Hearing, you should confirm the date and time with Lead Counsel.

**UNLESS THE COURT ORDERS OTHERWISE, ANY CLASS MEMBER WHO DOES NOT OBJECT IN THE MANNER DESCRIBED ABOVE WILL BE DEEMED TO HAVE WAIVED ANY OBJECTION AND SHALL BE FOREVER FORECLOSED FROM MAKING ANY OBJECTION TO THE PROPOSED SETTLEMENTS, THE PROPOSED PLAN OF ALLOCATION, OR LEAD COUNSEL'S REQUEST FOR AN AWARD OF ATTORNEYS' FEES AND REIMBURSEMENT OF LITIGATION EXPENSES. CLASS MEMBERS DO NOT NEED TO APPEAR AT THE HEARING OR TAKE ANY OTHER ACTION TO INDICATE THEIR APPROVAL.**

**WHAT IF I BOUGHT SECURITIES ON SOMEONE ELSE'S BEHALF?**

108. If you purchased or otherwise acquired Ambac Securities during the Class Period for the beneficial interest of a person or organization other than yourself, you must either (i) send a copy of this Notice to the beneficial owner of such Ambac Securities, postmarked no later than fourteen (14) days after you receive this Notice, or (ii) provide the names and addresses of such persons no later than fourteen (14) days after you receive this Notice to Ambac Financial Group Inc. Securities Litigation, c/o Rust Consulting, Inc., P.O. Box 2457, Faribault, MN 55021-9157. If you choose the second option, the Claims Administrator will send a copy of the Notice to the beneficial owner. Upon full compliance with these directions, such nominees may seek reimbursement of their reasonable expenses actually incurred, by providing the Claims Administrator with proper documentation supporting the expenses for which reimbursement is sought. Copies of this Notice may also be obtained by calling toll-free (877) 497-5866, may be downloaded from the settlement website, [www.AmbacSecuritiesLitigation.com](http://www.AmbacSecuritiesLitigation.com) or from Lead Counsel's websites, [www.blbglaw.com](http://www.blbglaw.com) or [www.kaplanfox.com](http://www.kaplanfox.com).

**CAN I SEE THE COURT FILE? — WHOM SHOULD I CONTACT IF I HAVE QUESTIONS?**

109. This Notice contains only a summary of the terms of the proposed Settlements. More detailed information about the matters involved in the Action is available at [www.AmbacSecuritiesLitigation.com](http://www.AmbacSecuritiesLitigation.com), including, among other documents, copies of the Stipulations, the Claim Form and the Complaint.

110. All inquiries concerning this Notice or the Claim Form should be directed to:

Ambac Financial Group, Inc. Securities Litigation  
c/o Rust Consulting, Inc.  
P.O. Box 2457  
Faribault, MN 55021-9157

**Claims Administrator**

Steven B. Singer  
BERNSTEIN LITOWITZ BERGER & GROSSMANN LLP  
1285 Avenue of the Americas, 38<sup>th</sup> Floor  
New York, NY 10019  
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Frederic S. Fox  
KAPLAN FOX & KILSHEIMER LLP  
850 Third Avenue, 14<sup>th</sup> Floor  
New York, NY 10022  
(212) 687-1980

**Lead Counsel**

**DO NOT CALL OR WRITE THE COURT OR THE OFFICE OF THE CLERK OF COURT REGARDING THIS NOTICE.**

Dated: July 25, 2011

By Order of the Clerk of Court  
United States District Court  
Southern District of New York

**SECURITY NAME AND CUSIP**

<b>SECURITY</b>	<b>CUSIP NO.</b>
AMBAC COMMON STOCK	023139108
AMBAC DISCS	023139AF5
AMBAC STRATS	784786204
AMBAC 5.95% - 2103 DEBENTURES	023139504
AMBAC 5.875% - 2103 DEBENTURES	023139603
AMBAC 9.375% - 2011 DEBENTURES	023139AA6
AMBAC 5.95%-2035 DEBENTURES	023139AE8
AMBAC 7.5% - 2023 DEBENTURES	023139AB4
AMBAC 9.5% - 2021 SENIOR NOTES & CORPORATE UNITS	023139AG3

<b>TABLE A - Ambac Inc Ambac Common Share (CUSIP 023139108) Inflation per Share by Period</b>	
<b>Period</b>	<b>Inflation per Share</b>
October 19, 2005 to October 24, 2006	\$ 0.00
October 25, 2006 to October 23, 2007	\$11.98
October 24, 2007 to January 15, 2008	\$ 7.66
January 16, 2008 to July 18, 2009	\$ 0.00

<b>TABLE B - Ambac Inc Ambac STRATs (CUSIP 784786204) Inflation per Share by Period</b>	
<b>Period</b>	<b>Inflation per STRAT</b>
July 11, 2007 to January 15, 2008	\$ 0.84
January 16, 2008 to July 18, 2009	\$ 0.00

<b>TABLE C - Ambac Inc Ambac 5.95%-2103 Debentures (CUSIP 023139504) Inflation per Debenture by Period</b>	
<b>Period</b>	<b>Inflation per Debenture</b>
October 19, 2005 to October 24, 2006	\$0.00
October 25, 2006 to October 23, 2007	\$3.05
October 24, 2007 to January 15, 2008	\$2.70
January 16, 2008 to July 18, 2009	\$0.00

<b>TABLE D - Ambac Inc Ambac 5.875%-2103 Debentures (CUSIP 023139603) Inflation per Debenture by Period</b>	
<b>Period</b>	<b>Inflation per Debenture</b>
October 19, 2005 to October 24, 2006	\$0.00
October 25, 2006 to January 15, 2008	\$2.53
January 16, 2008 to July 18, 2009	\$0.00

<b>TABLE E - Ambac Inc Ambac 9.375%-2011 Debentures (CUSIP 023139AA6) Inflation per Debenture by Period</b>	
<b>Period</b>	<b>Inflation per Debenture</b>
October 19, 2005 to October 24, 2006	\$0.00
October 25, 2006 to January 15, 2008	\$3.27
January 16, 2008 to July 18, 2009	\$0.00

<b>TABLE F - Ambac Inc Ambac 5.95%-2035 Debentures (CUSIP 023139AE8) Inflation per Debenture by Period</b>	
<b>Period</b>	<b>Inflation per Debenture</b>
October 19, 2005 to October 24, 2006	\$0.00
October 25, 2006 to October 23, 2007	\$6.64
October 24, 2007 to July 18, 2009	\$0.00

**TABLE G - Ambac Inc**  
**Ambac Call Option Prices As of 7/18/09<sup>1</sup>**

Call Option			Call Option		
Expiration	Strike Price	Closing Price	Expiration	Strike Price	Closing Price
1/16/2010	@ \$2.50	\$0.125	1/16/2010	@ \$50.00	\$0.025 <sup>2</sup>
1/16/2010	@ \$5.00	\$0.050 <sup>2</sup>	1/16/2010	@ \$55.00	\$0.025 <sup>2</sup>
1/16/2010	@ \$7.50	\$0.025 <sup>2</sup>	1/16/2010	@ \$60.00	\$0.050 <sup>2</sup>
1/16/2010	@ \$10.00	\$0.025 <sup>2</sup>	1/16/2010	@ \$65.00	\$0.050 <sup>2</sup>
1/16/2010	@ \$20.00	\$0.025 <sup>2</sup>	1/16/2010	@ \$70.00	\$0.050 <sup>2</sup>
1/16/2010	@ \$30.00	\$0.025 <sup>2</sup>	1/16/2010	@ \$80.00	\$0.050 <sup>2</sup>
1/16/2010	@ \$35.00	\$0.025 <sup>2</sup>	1/16/2010	@ \$90.00	\$0.050 <sup>2</sup>
1/16/2010	@ \$40.00	\$0.025 <sup>2</sup>	1/16/2010	@ \$100.00	\$0.050 <sup>2</sup>
1/16/2010	@ \$45.00	\$0.025 <sup>2</sup>	1/16/2010	@ \$110.00	\$0.025 <sup>2</sup>

<sup>1</sup> July 18, 2009 is a Saturday. Prices are as of market close on July 17, 2009. Options were only included that (1) had non-zero open interest on April 22nd, 2008 (the day before the last corrective disclosure) (2) had not yet expired as of July 17, 2009 and (3) had non-zero open interest as of July 17, 2009

<sup>2</sup> Closing price is reported as the average of ask price and bid price. Bid Price is reported as \$0.00 for these options.

**TABLE H - Ambac Inc**  
**Ambac Put Option Prices As of 7/18/09<sup>1</sup>**

Put Option			Put Option		
Expiration	Strike Price	Closing Price	Expiration	Strike Price	Closing Price
1/16/2010	@ \$2.50	\$1.700	1/16/2010	@ \$20.00	\$19.100
1/16/2010	@ \$5.00	\$4.100	1/16/2010	@ \$30.00	\$29.100
1/16/2010	@ \$7.50	\$6.500	1/16/2010	@ \$35.00	\$34.100
1/16/2010	@ \$10.00	\$9.000			

<sup>1</sup> July 18, 2009 is a Saturday. Prices are as of market close on July 17, 2009. Options were only included that (1) had non-zero open interest on April 22nd, 2008 (the day before the last corrective disclosure) (2) had not yet expired as of July 17, 2009 and (3) had non-zero open interest as of July 17, 2009

**TABLE I - Ambac Inc**  
**Holding Values for Ambac Securities as of July 18<sup>th</sup>, 2009**

Security	Holding Value
Common Stock <sup>1</sup>	\$0.86
DISCS <sup>2</sup>	\$12.27
STRATS <sup>1</sup>	\$5.16
5.95%-2103 Debentures (CUSIP 023139504) <sup>1</sup>	\$5.18
5.875%-2103 Debentures (CUSIP 023139603) <sup>1</sup>	\$5.15
9.375%-2011 Debentures (CUSIP 023139AA6) <sup>2</sup>	\$71.00
5.95%-2035 Debentures (CUSIP 023139AE8) <sup>3</sup>	\$40.35
Call Options	See Table G
Put Options	See Table H

<sup>1</sup> The last day with trading activity prior to July 18<sup>th</sup>, 2009 was July 17<sup>th</sup>, 2009

<sup>2</sup> The last day with trading activity prior to July 18<sup>th</sup>, 2009 was July 16<sup>th</sup>, 2009

<sup>3</sup> The last day with trading activity prior to July 18<sup>th</sup>, 2009 was July 15<sup>th</sup>, 2009