

January 18, 2011

ATTORNEYS AT LAW

VEREX PLAZA
150 EAST GILMAN STREET
MADISON, WI 53703-1481
POST OFFICE BOX 1497
MADISON, WI 53701-1497
608.257.5035 TEL
608.258.4258 FAX
foley.com

WRITER'S DIRECT LINE
608.258.4206
mvansicklen@foley.com EMAIL

VIA FACSIMILE

Honorable William D. Johnston
Lafayette County Circuit Court
Lafayette County Courthouse
626 Main Street
Post Office Box 40
Darlington, Wisconsin 53530-0040

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

Dear Judge Johnston:

I am pleased to report that, on Friday, January 14, 2010, the United States District Court for the Western District of Wisconsin issued the enclosed Opinion and Order, finding that the Internal Revenue Service's ("IRS's") attempted removal of this rehabilitation proceeding to federal court was improper, holding that the federal court lacked subject matter jurisdiction, and granting the Commissioner's motion to remand the rehabilitation proceeding in its entirety back to this Court.

In your December 15th letter, you indicated that you were ready to issue your decision regarding confirmation of the Commissioner's Plan of Rehabilitation and would do so at such time as the case was remanded by the federal court. Pursuant to the enclosed Opinion and Order, there is no longer any jurisdictional impediment to your entry of an order regarding confirmation of the pending Plan of Rehabilitation.

The merits of the IRS's potential claim are being litigated in New York in connection with the bankruptcy proceedings of Ambac's holding company (Ambac Financial Group, Inc.). Any claim by the IRS on the merits is disputed and speculative at this time. As indicated in the his November 12 reply brief in support of confirmation (at 19-20 & n.3) and in his November 29 proposed order for plan confirmation (at ¶ 91), the Commissioner will take appropriate action to afford the IRS claim its proper, subordinated treatment under Wis. Stat. § 645.68 if the existence of any such claim is determined by the New York federal court.

Finally, please note that the Office of the Commissioner of Insurance has a new Commissioner, Theodore K. Nickel, who automatically succeeds former Commissioner Sean A. Dilweg as Rehabilitator of the Segregated Account. (See March 24, 2010 Order for Rehabilitation ¶ 3.) Commissioner Nickel has appointed Roger A. Peterson as Special Deputy Commissioner for the rehabilitation. A courtesy copy of the Notice of Substitution of Public Officers, which was filed last week with the federal court, is enclosed.



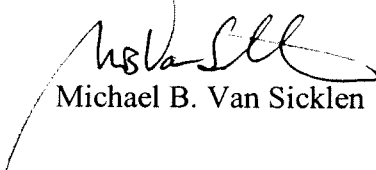
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As always, thank you for your attention to this matter.

Very truly yours,

FOLEY & LARDNER LLP



Michael B. Van Sicklen

Enclosures

cc: Counsel of Record (via email with enclosures)
Jody Baux, Dane County Clerk (via first-class mail with enclosures)