
In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

MOTION TO APPROVE SETTLEMENT WITH CERTAIN LVM BONDHOLDERS

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

The Commissioner of Insurance of the State of Wisconsin, as court-appointed rehabilitator (the "Rehabilitator") of the Segregated Account ("Segregated Account") of Ambac Assurance Corporation ("Ambac") moves the Court to approve a settlement agreement (the "Settlement Agreement") with three of the four members of the group referred to in these proceedings as the "LVM Bondholders."

The Settlement Agreement would eliminate or significantly reduce the Segregated Account's financial exposures on an insurance policy and surety bond that were issued in connection with the Las Vegas Monorail project. The Settlement Agreement provides two alternative methods for resolving bondholder claims against the Segregated Account. The primary method involves a full commutation of the underlying insurance policy and surety bond. The second method is a fall-back alternative, in the event the full commutation cannot be completed, that calls for the purchase of participating bondholders' interests in the insurance policy and surety bond. Under the full commutation, the Segregated Account and Ambac would be fully released from their obligations to all bondholders. Under the purchase alternative, the Segregated Account and Ambac would be fully released from their obligations with respect to more than two-thirds, and potentially all, of the underlying bonds, depending on the level of

bondholder participation in that transaction. A true and correct copy of the Settlement Agreement is attached to this Motion as Exhibit A, and incorporated here by reference.

As explained more fully in the Fifth Affidavit of Roger A. Peterson (“Peterson Affidavit”) filed with this motion, the Rehabilitator believes that both alternatives benefit the Segregated Account, and therefore requests that the Court grant this motion for approval.

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

1. The background facts relating to Ambac, its deterioration, the decision to create and allocate impaired policies to the Segregated Account, and the rehabilitation of the Segregated Account are set forth in Findings of Fact Nos. 1-6, 19-32, and 36 of this Court’s May 27, 2010 Findings of Fact and Conclusions of Law (Dkt. 136) and in this Court’s January 24, 2011 Order confirming the Rehabilitator’s Plan of Rehabilitation, and both are incorporated here by reference.

2. The Settlement Agreement relates to Municipal Bond Insurance Policy No. 17548BE (the “Insurance Policy”) and Surety Bond No. SB1080BE (the “Surety Bond”) (collectively “the LVM Policies”), both of which were allocated to the Segregated Account on March 24, 2010. The LVM Policies were issued in connection with a monorail system constructed in Las Vegas, Nevada (the “Las Vegas Monorail”). The Insurance Policy insures payment of principal and interest on Las Vegas Monorail Project Revenue Bonds, 1st Tier Series 2000 (the “1st Tier Bonds”), having an original principal amount of \$451,448,217.30. The Surety Bond guarantees payments from a debt service reserve fund for the 1st Tier Bonds in a total amount of \$20,991,807.50. Ambac currently owns \$8.5 million in principal amount of the 1st Tier Bonds (such bonds, the “Ambac-Owned Bonds”).

3. The proceeds from the 1st Tier Bonds were used to fund the acquisition and upgrade of an existing 0.8 mile monorail system in downtown Las Vegas and construct approximately 3.0 miles of new guideway for the monorail system. The Las Vegas Monorail is owned, managed and operated by the Las Vegas Monorail Company (“LVMC”). LVMC filed a Chapter 11 bankruptcy on January 13, 2010. See In re: Las Vegas Monorail Co., Case No. BK-S-10-10464-BAM (Bankr. Nev.) (the “Nevada LVM Bankruptcy”). No plan of reorganization has yet been confirmed in the Nevada LVM Bankruptcy. Ambac and the Segregated Account have actively participated in the Nevada LVM Bankruptcy proceedings to protect their interests, including with respect to a pending appeal taken from that proceeding.

4. Starting prior to the commencement of these rehabilitation proceedings, the Rehabilitator and his advisors have monitored the status of the LVM Policies and, more recently, the commutation negotiations between Ambac, the Segregated Account, and the LVM Bondholders. The Segregated Account and Ambac have now reached a proposed settlement with three of the four members of the LVM Bondholders group. Those settling members are Nuveen Asset Management, Restoration Capital Management LLC, and Stone Lion Capital Partners L.P. (collectively, the “LVM Settling Bondholders”). Together, the LVM Settling Bondholders hold more than two-thirds of the aggregate principal amount of the LVM Bonds. The single non-settling member of the LVM Bondholders group holds only approximately 6.5% of the LVM bonds.

5. The Settlement Agreement provides two alternative means for resolving the Segregated Account’s exposures on the LVM Policies. The first is a full commutation (the “Commutation”) of the LVM Policies. The second is a fall-back alternative that calls for Ambac

to offer to purchase from participating bondholders their interests in the LVM Policies (the “Purchase Offer”).

6. Under the Commutation, the Segregated Account and Ambac would be completely released from the LVM Policies in exchange for (i) a cash payment of \$111 million, (ii) delivery of \$90 million (principal amount) in Segregated Account surplus notes and (iii) transfer of the Ambac-Owned Bonds to the LVM Trustee for the benefit of the holders of 1st Tier Bonds. The cash payment and surplus notes would be reduced by the amount of cash payments made or surplus notes issued, if any, under the LVM Policies between the date of the Settlement Agreement and the closing of the Commutation.

7. The Settlement Agreement includes certain conditions that must be met in order to complete the Commutation, including the LVM Trustee obtaining authority from a court in Minnesota for the LVM Trustee to settle and resolve all claims against Ambac under the LVM Policies. The Settlement Agreement requires the Commutation to be completed by August 31, 2011 (the “Commutation Termination Date”). The Settlement Agreement also allows either party to cease pursuing the Commutation if it determines that the Commutation is not reasonably likely to be achieved by the Commutation Termination Date or at all.

8. The LVM Trustee commenced the action in Minnesota state court on February 1, 2011. A true and correct copy of the Petition commencing that action filed by the LVM Trustee is attached as Exhibit B and incorporated here by reference.

9. The Settlement Agreement provides for the Purchase Offer alternative in the event that the Commutation does not occur by the Commutation Termination Date or the parties cease pursuing the Commutation. Under the Purchase Offer, Ambac will commence an offer to purchase from all holders of 1st Tier Bonds their rights in the LVM Policies through a synthetic

commutation. The synthetic commutation will provide for the full and complete termination and release of all obligations of Ambac and the Segregated Account under the LVM Policies with respect to bondholders participating in the Purchase Offer, but preserve for those bondholders their rights against LVMC. The Segregated Account would remain liable on the LVM Policies with respect to those holders of 1st Tier Bonds who do not accept the Purchase Offer. The LVM Settling Bondholders have agreed to accept the Purchase Offer, subject to certain conditions.

10. If all holders of 1st Tier Bonds were to accept the Purchase Offer, then the Segregated Account would deliver consideration consisting of (i) a cash payment of \$111 million, (ii) \$81 million (principal amount) in Segregated Account surplus notes and (iii) transfer of the Ambac-Owned Bonds to the LVM Trustee for the benefit of the holders of 1st Tier Bonds. If fewer than all bondholders were to accept the Purchase Offer, then the consideration would be reduced proportionately. The cash payment and surplus notes would be reduced by the amount of cash payments made or surplus notes issued, if any, under the LVM Policies to settling bondholders between the date of the Settlement Agreement and the closing of the Purchase Offer.

11. Under both the Commutation and the Purchase Offer, the surplus notes issued for the benefit of settling bondholders (the "LVM Surplus Notes") would rank *pari passu* with any surplus or contribution notes or similar obligations of the Segregated Account or of Ambac's General Account. Payments of principal and interest on the LVM Surplus Notes would be subject to the prior approval of OCI.

12. The losses presently projected by the Rehabilitator on the LVM Policies range from \$503.6 million to \$517.4 million.

13. The Rehabilitator believes that the Settlement Agreement, whether it is achieved by the Commutation or the Purchase Offer, is in the best interests of policyholders of the Segregated Account. The maximum potential consideration to be paid under the Settlement Agreement is \$201.0 million. Although the Settlement Agreement contemplates a current cash payment and issuance of notes equal to the agreed-upon consideration, rather than payment over time, nevertheless as a percentage of the total projected losses, the amount of cash and notes to be paid under the Settlement Agreement is less than the amounts that the Rehabilitator presently expects it would otherwise have to pay under the confirmed Plan of Rehabilitation with respect to claims made under the LVM Policies.

14. The Settlement Agreement also is in the best interests of the Segregated Account and policyholders because it will resolve the LVM Settling Bondholders' objections to the proposed plan of rehabilitation and the LVM Settling Bondholders' participation in pending appeals taken from these proceedings. The Settlement Agreement is also beneficial to both the settling bondholders and to the Segregated Account because it includes releases and dismissals of claims and appeals and related litigation on the terms and conditions set forth therein; *see, inter alia*, ¶ 3.1(c) and Article IV.

15. As detailed in Exhibit B (*see, inter alia*, ¶ 41), the LVM Trustee has asserted to the Minnesota court that, as compared to the alternatives of continued litigation and other uncertainties, the proposed settlement provides benefits to all of the LVM Bondholders. The Rehabilitator believes that the reduction of uncertainties through the settlement is in the best interest of all parties.

16. The surplus notes to be issued in connection with the Settlement Agreement will be issued without registration under the Securities Act of 1933, as amended (the "Securities


Act”). Such notes will be issued without registration under the Securities Act in reliance on the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof. Among the elements of the Section 3(a)(10) exemption which must be satisfied before such exemption may be relied upon by the Segregated Account as issuer of the notes is the requirement that a court or authorized governmental entity approve the procedural and substantive fairness of the terms and conditions of the exchange of the claims against the Segregated Account for the notes issued by the Segregated Account. The Rehabilitator submits that it is appropriate for the Court to approve the procedural and substantive fairness of the terms and conditions of the exchange of the claims against the Segregated Account for the notes issued by the Segregated Account. The reasonableness of the Commutation is also being addressed in the action brought in Minnesota by the LVM Trustee.

WHEREFORE, the Rehabilitator respectfully requests that the Court find that the terms of the proposed settlement are procedurally and substantively fair and grant the Rehabilitator and the Segregated Account approval to proceed to close and consummate the Settlement Agreement with the LVM Settling Bondholders on the terms and conditions set forth in the Agreement.

Dated this 10th day of February, 2011.

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EXHIBIT A

SETTLEMENT AGREEMENT

SETTLEMENT AGREEMENT (this "Agreement"), dated as of December 27, 2010, by and among Ambac Assurance Corporation ("AAC"), the Segregated Account of AAC (the "Segregated Account") and, together with AAC, "Ambac"), the Special Deputy Commissioner for the Segregated Account on behalf of the Commissioner of Insurance of the State of Wisconsin, as court-appointed rehabilitator for the Segregated Account (the "Rehabilitator") (only with respect to Sections 3.1(a), 3.1(b), 3.1(c), 3.2(d), 3.5 and 5.2), and Nuveen Asset Management, Restoration Capital Management LLC and Stone Lion Capital Partners L.P., on behalf of themselves and/or funds and accounts managed or controlled by them (collectively, the "Settling Bondholders").

WHEREAS, the Settling Bondholders are holders of Las Vegas Monorail Project Revenue Bonds, 1st Tier Series 2000, consisting of current interest bonds (the "Current Interest Bonds" or "CIBs") and capital appreciation bonds (the "Capital Appreciation Bonds" or "CABs" and, together with the Current Interest Bonds, the "LVM Insured Bonds") issued pursuant to the Indenture dated as of September 1, 2000 (the "LVM Indenture") by and between the Director of the State of Nevada Department of Business and Industry (the "Director") and Wells Fargo Bank, N.A., as Trustee (the "LVM Trustee") and supported by payments made by the Las Vegas Monorail Company ("LVMC") to the Director under a Financing Agreement dated as of September 1, 2000 between the Director and LVMC;

WHEREAS, AAC has issued a certain financial guaranty insurance policy and a certain surety bond (collectively, the "Ambac Policies"), each dated as of September 20, 2000 for the benefit of holders (the "LVM Bondholders") of the LVM Insured Bonds; and

WHEREAS, the parties hereto have been in ongoing negotiations regarding a comprehensive settlement with respect to the obligations under the Ambac Policies and related matters.

NOW, THEREFORE, in consideration of the premises and the covenants, conditions and agreements contained herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

**ARTICLE I
COMMUTATION**

1.1 **Commutation and Release**. On the terms set forth in this Article I, the Ambac Policies shall be commuted (the "Commutation"), and Ambac shall be released from all liabilities and obligations thereunder in accordance with the terms of this Agreement.

1.2 **Closing and Consideration**. A closing with respect to the Commutation (the "Commutation Closing") shall be held on the fifth business day after all conditions to the Commutation shall have been satisfied or waived, or at such other time as Ambac and the Settling Bondholders shall agree. At the Commutation Closing:

(a) the Segregated Account shall make a cash payment to the LVM Trustee on behalf of the holders of the LVM Insured Bonds in the aggregate amount of \$111,000,000 ~~less~~ any cash payments made under the Ambac Policies from and after the date of this Agreement until the Commutation Closing, in immediately available funds (the "Commutation Cash Payment"), which shall be applied by the LVM Trustee at the direction of the Settling Bondholders as follows:

First, to the payment of the LVM Trustee Fees and Expenses;

Second, to reimbursement to the Settling Bondholders of the Settling Bondholders Professional Fees, and

Third, to distribution Pro Rata to all LVM Bondholders (other than AAC, if and to the extent it is an LVM Bondholder) who are holders of record on the date set by the LVM Trustee under the LVM Indenture (the "Record Date");

(b) the Segregated Account shall issue to the LVM Trustee, on behalf of the holders of the LVM Insured Bonds, surplus notes (the "Surplus Notes") due on June 7, 2020 on terms and conditions consistent with the terms and conditions of the form of surplus note to be issued to policyholders annexed to the Plan of Rehabilitation of the Segregated Account (the "Plan"), in the aggregate principal amount of \$90,000,000 less any payments made under the Ambac Policies from and after the date of this Agreement until the Commutation Closing through the issuance of surplus notes by the Segregated Account equal to the aggregate principal amount of such notes, to be distributed by the LVM Trustee Pro Rata to all LVM Bondholders (other than AAC, if and to the extent it is an LVM Bondholder) who are holders of record on the Record Date;

(c) AAC will transfer \$2,500,000 in aggregate principal amount of Current Interest Bonds and \$6,000,000 in Capital Appreciation Bonds having an accreted value of \$3,111,995 as of September 30, 2010 beneficially owned by AAC, and any proceeds or other consideration received from and after the date of this Agreement on such bonds (other than proceeds or other consideration consisting of payments or proceeds of payments made by the Segregated Account through but not including the Commutation Closing), to the LVM Trustee for and on behalf of the LVM Bondholders Pro Rata; and

(d) for purposes of this Agreement:

"LVM Trustee Fees and Expenses" means the reasonable expenses of the LVM Trustee incurred necessary to protect the interests of the LVM Bondholders and reasonable charges and expenses of the LVM Trustee incurred in the performance of its powers and duties under the LVM Indenture, to the extent not previously paid or reimbursed and otherwise reimbursable or payable to the LVM Trustee under the LVM Indenture.

"Pro Rata," means the proportion of, in the case of a Current Interest Bond, the aggregate outstanding principal amount of and accrued interest on such bond and, in the case of a Capital Appreciation Bond, the aggregate outstanding accreted value of such bond to, in each case, the aggregate outstanding principal amount of and accrued interest (in the case of CIBs), and accreted value (in the case of CABs), on all LVM Insured Bonds as of September 30, 2010 (the "Valuation Date").

"Settling Bondholder Professional Fees" means the documented, reasonable out-of-pocket fees and expenses of the Settling Bondholders paid to their retained professional advisors and incurred in connection with enforcement of the rights of LVM Bondholders under the Ambac Policies, and any amounts paid by the Settling Bondholders by way of indemnification of the LVM Trustee to the extent the LVM Trustee is entitled to be reimbursed for any such amounts under the LVM Indenture.

1.3 Conditions. The Commutation shall be subject to the following conditions being satisfied no later than August 31, 2011 (the "Commutation Termination Date"):

(a) Conditions to the Performance of all Parties:

(i) there shall have been entered an order of the Circuit Court for Dane County Wisconsin (the "Circuit Court") approving this Agreement (a "Settlement Approval Order");

(ii) there shall have been entered an order of the District Court of the State of Minnesota, Fourth Judicial District, or other court in Minnesota of competent jurisdiction, in a proceeding under the Minnesota Proceeding (as defined in Section 1.5);

(iii) no federal, national, state, provincial, local or similar governmental, regulatory or administrative authority, agency or commission or any court, tribunal or judicial or arbitral body shall have issued an order, decree or ruling or taken any other action restraining, rescinding, enjoining or otherwise prohibiting the Commutation, or materially and adversely altering any component thereof or otherwise rendering it impossible or unlawful for any party hereto to consummate the Commutation (an "Illegality Event");

(iv) the Segregated Account has not been invalidated by court order;

(v) the LVM Trustee shall have executed and delivered to Ambac an acknowledgement, in form and substance reasonably satisfactory to Ambac, pursuant to which the LVM Trustee shall acknowledge and agree, in favor of each of the parties to this Agreement, to each of the obligations under Sections 3.1(f) and 3.2(b) and to perform each of the obligations described in Section 3.1(d)(i)-(v); and

(vi) the Wisconsin Office of the Commissioner of Insurance ("OIC") shall have approved the Commutation.

(b) Conditions to the Performance of Ambac and the Rehabilitator: None of the Settling Bondholders shall be in material breach of their respective obligations or representations and warranties hereunder.

(c) Conditions to the Performance of the Settling Bondholders and the LVM Trustee: None of Ambac or the Rehabilitator shall be in material breach of their respective obligations hereunder.

1.4 Abandonment of the Commutation. Anything to the contrary herein notwithstanding, either Ambac, on the one hand, or the Settling Bondholders, on the other, may determine in good faith, after consultation with the other party and after having pursued the Commutation in good faith, that a Commutation is not reasonably likely to be achieved prior to the Commutation Termination Date, or at all. In such case, the party making such determination may so notify the other party, and upon such notification (the "Commutation Abandonment Notice") the parties shall cease to pursue the Commutation.

1.5 Readjustment of Commutation Consideration. The parties acknowledge and confirm their agreement that the terms of the Commutation submitted by the LVM Trustee in a proceeding under Minn. Stat. § 501B.16(25) to be commenced by the LVM Trustee authorizing the LVM Trustee to settle and resolve all claims against Ambac under the Ambac Policies based on the terms of the Commutation (the "Minnesota Proceeding") shall provide that if any cash payments shall have been paid or surplus notes issued by the Segregated Account on account of LVM Insured Bonds from and after the date of this Agreement through the Commutation Closing, then the amount of such cash payments and the principal amount of such surplus notes shall be deducted from the Commutation Cash Payment and principal amount of Surplus Notes, respectively, payable or issuable to any LVM Bondholder in respect of such LVM Insured Bonds pursuant to the Commutation, it being the intent of the parties that the Commutation provide that the total amount of cash payable to, and the total principal amount of Surplus Notes issuable

to, each holder of LVM Insured Bonds, consisting of both (i) cash received upon the Commutation Closing and cash payments made under the Plan in respect of the LVM Insured Bonds, if any, and (ii) the principal amount of Surplus Notes issued upon the Commutation Closing and the principal amount of Surplus Notes issued under the Plan in respect of the LVM Insured Bonds, if any, are equal to the amount such holders would have received assuming that the Segregated Account neither made any cash payments nor issued any Surplus Notes under the Plan for the benefit of such holders on account of claims under the Ambac Policies from and after the date of this Agreement through the Commutation Closing.

ARTICLE II OFFER TO PURCHASE

2.1 Commencement of the Offer to Purchase. In the event that either (i) all conditions to the Commutation are not satisfied by the Commutation Termination Date, or (ii) Ambac or the Settling Bondholders have delivered a Commutation Abandonment Notice, then within sixty (60) days of the earlier of the Commutation Termination Date or the delivery of the Commutation Abandonment Notice, Ambac shall commence an offer to purchase in respect of all LVM Insured Bonds (the "Offer to Purchase"), which shall take the form of a synthetic commutation (i.e., a transaction in which LVM Insured Bonds participating in the Offer to Purchase are deposited to a trust or similar vehicle, and the LVM Bondholders participating in the Offer to Purchase are issued interests therein representing the LVM Related Rights (as defined below) and Ambac is issued interests therein implementing the Ambac Release (as defined below) or similar transaction, with the following characteristics: (i) provides for the full and complete termination and release of all obligations of Ambac (and payment to Ambac of proceeds of all payments) under the Ambac Policies in respect of the LVM Insured Bonds which participate in such Offer to Purchase (the "Ambac Release"); (ii) provides for the consideration payable in respect of the Ambac Release as set forth in Section 2.2(a); and (iii) preserves for the benefit of the LVM Bondholders owning such LVM Insured Bonds, directly or indirectly, all rights, titles, claims, interests and recoveries against LVMC under such LVM Insured Bonds, the LVM Indenture and/or the LVM Bankruptcy Proceeding solely in respect of the LVM Insured Bonds owned by them which participate in the Offer to Purchase (the "LVM Related Rights"), in each case as Ambac shall determine with the approval of the Settling Bondholders, such approval not to be unreasonably withheld, delayed or conditioned.

2.2 Conduct of the Offer to Purchase.

(a) The Offer to Purchase shall be conducted in compliance with all applicable legal requirements and, subject to such applicable legal requirements, shall provide for a closing (the "Offer to Purchase Closing") no earlier than forty (40) days and no later than fifty (50) days following the date on which notice of such offer (the "Offer Notice") is first sent to the LVM Bondholders. The consideration payable in the Offer to Purchase in respect of the Ambac Release shall consist of:

- (i) the Cash Amount (as defined below); and
- (ii) a Surplus Note Allotment (as defined below).

The "Cash Amount" means, with respect to any Current Interest Bond or Capital Appreciation Bond owned by LVM Bondholders who elect to participate in the Offer to Purchase (including, in the each case, the CABs or CIBs being transferred by Ambac pursuant to Section 2.5 hereof) (each, in respect of its LVM Insured Bonds participating in the Offer to Purchase, a "Participating Holder"), the product of (x) a fraction, the numerator of which is the Net Cash Consideration (as defined below) and the denominator of which is \$520,098,057 less, determined in each case as of the Valuation Date, in the case

of a Current Interest Bond, the aggregate principal amount of and accrued interest on or, in the case of a Capital Appreciation Bond, the aggregate accreted value of, each LVM Insured Bond owned by LVM Bondholders who do not participate in the Offer to Purchase (each, in respect of its LVM Insured Bonds not participating in the Offer to Purchase, a "Non-Participating Holder") (the "Cash Amount Net Denominator"), multiplied by (y) in the case of a participating Current Interest Bond, the aggregate principal amount of and accrued interest on such bond or, in the case of a participating Capital Appreciation Bond, the aggregate accreted value of such bond, as of the Valuation Date (the total sum of which cannot exceed the Cash Amount Net Denominator).

The "Net Cash Consideration" means \$111,000,000 less (i) the *pro rata* interest of each Non-Participating Holder in the \$111,000,000, excluding the *pro rata* interest of the Capital Appreciation Bonds maturing in January 2011 (the "2011 CABs"), (ii) any cash payments made under the Plan by the Segregated Account with respect to the 2011 CABs and any additional cash payments to Participating Holders on account of claims under the Ambac Policies from and after the date of this Agreement through the Offer to Purchase Closing and (iii) the amount of the LVM Trustee Fees and Expenses and the Settling Bondholder Professional Fees.

The "Surplus Note Allotment" means, with respect to any Participating Holder, Surplus Notes in a principal amount equal to the product of (x) a fraction, the numerator of which is the Net Surplus Note Consideration (as defined below) and the denominator of which is \$520,098,057 less, determined in each case as of the Valuation Date, in the case of a Current Interest Bond, the aggregate principal amount of and accrued interest on or, in the case of a Capital Appreciation Bond, the aggregate accreted value of, each LVM Insured Bond owned by Non-Participating Holders, multiplied by (y) in the case of a participating Current Interest Bond, the aggregate principal amount of and accrued interest on such bond or, in the case of a participating Capital Appreciation Bond, the aggregate accreted value of such bond, as of the Valuation Date (the total sum of which cannot exceed the Cash Amount Net Denominator).

The "Net Surplus Note Consideration" means \$81,000,000 less (i) the *pro rata* interest of each Non-Participating Holder in the \$81,000,000 and (ii) the principal amount of Surplus Notes issued under the Plan by the Segregated Account for the benefit of Participating Holders on account of claims under the Ambac Policies from and after the date of this Agreement through the Offer to Purchase Closing.

Subject to applicable legal requirements and Section 2.1, the Offer Notice shall state, without limitation:

- (1) the consideration to be received in respect of the Ambac Release;
- (2) the estimated date of the Offer to Purchase Closing;
- (3) the last date by which the holders of the LVM Insured Bonds may accept the Offer to Purchase; and
- (4) the manner in which the holders of the LVM Insured Bonds may accept the Offer to Purchase, including the method of delivery of the LVM Bondholders' Ambac Release, and any information required to be furnished by a holder in order that Ambac can deliver the Cash Amount and the Surplus Note Allotment to or for the account of the holder.

(b) No later than five (5) business days prior to the date of commencement of the Offer to Purchase, the Settling Bondholders shall inform Ambac of the amount of the Settling Bondholder Professional Fees, and, based upon information obtained from the LVM Trustee, the amount of the LVM Trustee Fees and Expenses. The Segregated Account shall pay such amounts

in accordance with the instructions of the Settling Bondholders, as determined in their discretion, at the time of the Offer to Purchase Closing.

(c) Each LVM Bondholder participating in the Offer to Purchase shall agree by its participation therein not to object to Ambac's succeeding to the rights and interests of any LVM Bondholders that do not participate in the Offer to Purchase under any plan of reorganization or similar plan or program in the LVM Bankruptcy Proceeding (as defined below).

(d) The Cash Amount and the Surplus Note Allotment are intended, and shall be adjusted, to ensure that the total amount of cash payable to, and the total principal amount of Surplus Notes issuable to, each Participating Holder, consisting of both (i) cash received upon the Offer to Purchase Closing and cash payments made under the Plan in respect of the LVM Insured Bonds, if any, and (ii) the principal amount of Surplus Notes issued upon the Offer to Purchase Closing and the principal amount of Surplus Notes issued under the Plan in respect of the LVM Insured Bonds, if any, are equal to the amount such Participating Holder would have received assuming that the Segregated Account neither made any cash payments nor issued any Surplus Notes under the Plan for the benefit of Participating Holders on account of claims under the Ambac Policies from and after the date of this Agreement through the Offer to Purchase Closing.

2.3 Condition to Commencement and Closing of Offer to Purchase. Ambac shall not be required to commence or consummate the Offer to Purchase unless each of the following conditions shall be satisfied as of such commencement or consummation of the Offer to Purchase:

(a) Ambac shall have received a certificate from the Settling Bondholders and/or their permitted transferees in form and substance reasonably satisfactory to it affirming or reaffirming, as the case may be, that at and as of the date of commencement or consummation of the Offer to Purchase, as applicable, the representations and warranties from each such Settling Bondholder set forth in Section 3.4 hereof are true and correct (it being understood that the representation in Section 3.4(a) shall be deemed true and correct if such representation is true and correct for a Settling Bondholder, its affiliates and its permitted transferees in the aggregate as to their combined holdings of LVM Insured Bonds as of the date of such certification, and shall be subject to any changes in percentage resulting solely from the maturity of, or accretion of, any LVM Insured Bonds);

(b) the LVM Bondholders accepting the Offer to Purchase constitute the Holders (as defined in the Indenture) of at least the percentage in aggregate principal amount and/or aggregate accreted value (as the case may be) of the LVM Insured Bonds held by the Settling Bondholders as of the date of this Agreement, subject to any changes in percentage resulting solely from the maturity of, or accretion of, any LVM Insured Bonds;

(c) no Settling Bondholder shall be in material breach of its obligations or representations and warranties hereunder;

(d) no Illegality Event with respect to the Offer to Purchase shall have occurred and be continuing;

(e) the Segregated Account has not been invalidated by court order;

(f) there shall have been entered a Settlement Approval Order; and

(g) OCI shall have approved the Offer to Purchase.

2.4 Acceptance of Offer to Purchase. Each Settling Bondholder agrees to accept the Offer to Purchase with respect to all LVM Insured Bonds beneficially owned by it, if made on the terms set forth herein.

2.5 Transfer of Ambac Owned Bonds. Upon the occurrence of the Offer to Purchase Closing, AAC shall transfer LVM Insured Bonds in aggregate principal amount equal to the sum of (i) the product of the Commutation Consideration Ratio and \$2,500,000 in aggregate principal amount of Current Interest Bonds (rounded to the nearest minimum denomination of such bonds), (ii) the product of the Commutation Consideration Ratio and \$6,000,000 in Capital Appreciation Bonds (rounded to the nearest minimum denomination of such bonds) having an accreted value of \$3,111,995 as of September 30, 2010 beneficially owned by AAC and (iii) any proceeds or other consideration received from and after the date of this Agreement on such bonds (other than proceeds or other consideration consisting of payments or proceeds of payments made by the Segregated Account through but not including the Offer to Purchase Closing), in each case to the LVM Trustee for and on behalf of the LVM Bondholders Pro Rata (excluding the aggregate outstanding principal amount of LVM Insured Bonds being transferred pursuant to this Section 2.5). As used in this Section 2.5, "*Commutation Consideration Ratio*" means, as of the Valuation Date, a ratio the numerator of which is, in the case of CIBs, the aggregate outstanding principal amount of and accrued interest on LVM Insured Bonds owned by Participating Holders (including the aggregate outstanding principal amount of LVM Insured Bonds being transferred pursuant to this Section 2.5) and, in the case of CABs, the aggregate outstanding accreted value of such LVM Insured Bonds and the denominator of which is, in each case, the aggregate outstanding principal amount of and accrued interest (in the case of CIBs), and accreted value (in the case of CABs), on all LVM Insured Bonds (including the aggregate outstanding principal amount of LVM Insured Bonds being transferred pursuant to this Section 2.5).

ARTICLE III COVENANTS AND OTHER AGREEMENTS

3.1 Certain Covenants of the Parties.

(a) Ambac, the Rehabilitator and the Settling Bondholders each agree that they shall take all reasonable and necessary steps to implement the provisions of this Agreement as efficiently and expeditiously as possible. Without limiting the foregoing, the parties shall in good faith furnish such information and shall negotiate and execute such further documentation as shall be reasonably necessary or desirable to implement the provisions of this Agreement and to more fully vest in the parties their rights and interests hereunder.

(b) Promptly following entry of a Settlement Approval Order, the Settling Bondholders will withdraw their objections to the Plan without prejudice. In the event a Settlement Approval Order is not entered prior to the last date on which a timely appeal of any order of the Circuit Court affirming the Plan may be filed, the Settling Bondholders reserve the right to file a notice of appeal regarding confirmation of the Plan, but the parties to this Agreement agree to stipulate to the Court of Appeals that the obligation of the Settling Bondholders to file any briefs in support of any such notice of appeal shall be stayed until the Circuit Court decides the motion to obtain the Settlement Approval Order; provided, however, that if the Settling Bondholders file any briefs in support of such an appeal before the Circuit Court enters a Settlement Approval Order, the Settling Bondholders shall promptly dismiss their appeal of the confirmation order without prejudice (Ambac shall support the Settling Bondholders' motion for such dismissal without prejudice) and the Settling Bondholders shall thereupon follow subsection 3.2(d)(i), infra.

(c) Promptly following entry of the Settlement Approval Order, the Settling Bondholders shall (i) file a notice of withdrawal with prejudice of their appeal of the Circuit Court's May 27, 2010 Order relating to the bank group settlement (Wisconsin Court of Appeals No. 2010AP1291), and (ii) move the Court of Appeals of Wisconsin to stay their appeal (the "Discrimination Appeal") from the Circuit Court's July 16, 2010 Order denying their motion (the "Discrimination Motion") relating to the allocation of the Ambac Policies to the Segregated Account (Wisconsin Court of Appeals No. 2010AP2022); provided, that, if at any time, the Settlement Approval Order is stayed by a court order or otherwise, the Settling Bondholders may dissolve any stay of the Discrimination Appeal and continue to prosecute such appeal, and, if the Settling Bondholders do so, Ambac is then free to abandon the Commutation and Offer to Purchase obligations herein. The Settling LVM Bondholders are authorized to represent that the Rehabilitator and Ambac have consented to their withdrawal of Appeal No. 2010AP1291 with prejudice, and to the stay of Appeal No. 2010AP2022, consistent with the conditions of this Agreement. If, despite the best good faith efforts of the parties to this Agreement, the Wisconsin Court of Appeals declines to stay Appeal No. 2010AP2022, or if the Court of Appeals dissolves its previously-entered stay of that appeal without the Settling LVM Bondholders having requested a dissolution of that stay, the parties agree to thereupon dismiss Appeal No. 2010AP2022 without prejudice; should this occur and the Wisconsin Court of Appeals dismisses Appeal No. 2010AP2022, the parties agree that the Settling Bondholders may, under the circumstances specified in Section 3.2(d)(ii), renew the Discrimination Motion in the Circuit Court, and Ambac and the Rehabilitator hereby waive any right to oppose that renewed motion on any ground relating in any way to (i) delay or timeliness, (ii) estoppel, (iii) the fact that the Discrimination Appeal may have been dismissed without prejudice, or (iv) other procedural matters, but may oppose the renewed motion on any other ground. If the Circuit Court denies such a renewed discrimination motion based on its original ruling, the issues on any resulting appeal of that ruling shall be limited to the merits of the discrimination issue (and defenses thereto) without regard to the unusual procedural posture by which the renewed appeal reaches the Wisconsin Court of Appeals.

(d) The Settling Bondholders agree that, as authorized under the LVM Indenture, they shall, promptly following the date that this Agreement is fully executed, direct the LVM Trustee, and use commercially reasonable efforts (which shall include, but not be limited to, objecting to the funding by trustee-held funds of actions by the LVM Trustee contrary to or inconsistent with the actions to be taken by the LVM Trustee as described in clause (i) through (v), *inclusive*, of this paragraph (d)) to cause the LVM Trustee, to do the following: (i) enter into and consummate the Commutation (subject to the conditions of the LVM Settling Bondholders and the LVM Trustee under Section 1.3 being satisfied) and otherwise take such action as shall be necessary or desirable to give effect to the Commutation and to effectuate the Ambac Release in accordance with the terms of this Agreement; (ii) discontinue and withdraw its objections and opposition to the Rehabilitator's Plan, without prejudice; (iii) commence and prosecute the Minnesota Proceeding and obtain all other necessary approvals of this Commutation, and to conduct such commencement and prosecution, and to obtain such approvals, as timely and efficiently as possible, with the commencement of the Minnesota Proceeding occurring no later than the date occurring thirty (30) days after the date of this Agreement, (iv) upon the occurrence of either the Commutation Closing or the Offer to Purchase Closing, withdraw and discontinue with prejudice those motions, objections and appeals commenced by the LVM Trustee on April 5, 2010 and any other litigation in respect of Ambac brought by or on behalf of the holders of LVM Insured Bonds as provided in subsections 3.1(f) and 3.2(b) hereof, and (v) otherwise cooperate (subject to the LVM Trustee's rights, duties, privileges and immunities under the LVM Indenture and applicable law) with the consummation of the Commutation Closing or the Offer to Purchase Closing, as the case may be. Notwithstanding the preceding sentence, the Settling Bondholders

shall not be required to use commercially reasonable efforts to cause the LVM Trustee to take any actions which it is not permitted to take under the LVM Indenture or under applicable law.

(e) Provided that Ambac is not in material breach of its obligations under this Agreement, the Settling Bondholders agree that neither the failure of the conditions to, nor the failure to consummate, the Commutation or the Offer to Purchase Closing constitutes a ground for staying the confirmed Plan.

(f) Upon the occurrence of the Commutation Closing, each of the Settling Bondholders and the LVM Trustee shall, and upon the occurrence of the Offer to Purchase Closing the Settling Bondholders shall, withdraw with prejudice all motions, objections, actions and claims they have asserted, including all appeals thereof, against the Segregated Account, including, without limitation, in the proceeding styled In the Matter of the Rehabilitation of Segregated Account of Ambac Assurance Corporation (Case No. 10-CV-1576) (the "Rehabilitation Proceeding"), or against AAC.

3.2 Certain Agreements with Respect to the Minnesota Proceeding and the Minnesota Court Order.

(a) Ambac reserves the right to review and provide comments on all court filings made by the LVM Trustee in the Minnesota Proceeding.

(b) Upon the Commutation Closing, each of the Settling Bondholders and the LVM Trustee shall, and upon the Offer to Purchase Closing the Settling Bondholders shall, promptly withdraw their Discrimination Appeal with prejudice.

(c) The Settling Bondholders represent and agree that, in the event any LVM Bondholder other than the Settling Bondholders seeks to engage Kramer Levin Naftalis & Frankel LLP and/or their local Wisconsin counsel, Parrett & O'Connell, LLP, after the execution of this Agreement in respect of any matter, action or proceeding that (i) involves the Segregated Account or AAC and (ii) would conflict with the interests of any of the Settling Bondholders under their engagement agreements with either of these law firms, the Settling Bondholders shall not consent to waive that conflict.

(d) In the event that the Commutation Closing as contemplated by Article I and an Offer to Purchase Closing as contemplated by Article II does not occur by reason other than a breach by the Settling Bondholders of their obligations under this Agreement, then:

(i) The Settling Bondholders will be entitled to renew their objections to the Plan (the "LVM Plan Objections"), which will be decided by the Circuit Court, on an expedited basis, based on the record created at the Plan Confirmation Hearing by OCl, Ambac and any objecting parties, without the presentation of any additional evidence or new issues. Ambac and the Rehabilitator hereby waive any right to oppose these objections on any ground relating in any way to (i) delay or timeliness, (ii) estoppel, or (iii) other procedural matters, but may oppose these objections on any other ground. If the Circuit Court denies the LVM Plan Objections, the Settling Bondholders may file a notice of appeal from that denial; and

(ii) the stay of the Discrimination Appeal will terminate, and that appeal will proceed (or, if the appeal was dismissed without prejudice per Section 3.1(c), the issue raised in the Discrimination Appeal may be pursued as contemplated in the last two

sentences of Section 3.1(c)).

3.3 LVM Bankruptcy Proceeding.

(a) Upon the occurrence of the Commutation Closing or the Offer to Purchase Closing, Ambac shall withdraw with prejudice all claims filed in the chapter 11 proceedings for LVMC, Case No. 10-10464 (Bankr. D. Nev.) (the "LVM Bankruptcy Proceeding"), and all actions commenced by Ambac in the LVM Bankruptcy Proceeding, including without limitation AAC's appeal of the bankruptcy court's eligibility decision, other than, in the event the Offer to Purchase has been consummated, claims that Ambac has or will have against LVMC relating to the Ambac Policies on account of LVM Insured Bonds that did not participate in the Offer to Purchase.

(b) Effective as of the occurrence of the Commutation Closing or the Offer to Purchase Closing, as the case may be, Ambac hereby assigns to the LVM Trustee, for the benefit of the LVM Bondholders, but without representation, warranty or recourse, any and all claims that Ambac has or will have against LVMC relating to the Ambac Policies including, but not limited to, any claims for subrogation, contribution and/or indemnification, other than in the event the Offer to Purchase has been consummated, claims that Ambac has or will have against LVMC relating to the Ambac Policies on account of LVM Insured Bonds that did not participate in the Offer to Purchase. Ambac further acknowledges and confirms that, notwithstanding anything contained herein or in the Plan (or any amendments or modifications thereto):

(i) if the Commutation shall be consummated, the LVM Bondholders shall be entitled to receive and/or retain for their own benefit all rights, titles and interests in any and all payments made or other consideration provided by LVMC or its affiliates from and after the date of this Agreement, on account of the LVM Insured Bonds; and

(ii) if the Offer to Purchase shall be consummated, the LVM Bondholders participating in the Offer to Purchase shall be entitled to receive and/or retain for their own benefit all rights, titles and interests in any and all payments made or other consideration provided by LVMC or its affiliates from and after the date of this Agreement, on account of their LVM Insured Bonds.

(c) From and after the execution of this Agreement, and for so long as (i) the Commutation has neither been consummated by the dates required hereunder nor abandoned or terminated as of an earlier date in accordance with the provisions of this Agreement and (ii) the Offer to Purchase is neither consummated by the dates required hereunder nor abandoned or terminated as of an earlier date in accordance with the provisions of this Agreement, the Settling Bondholders and Ambac shall generally cooperate in good faith with respect to the LVM Bankruptcy Proceeding and attempt in good faith to resolve any differences they may have in any matter relating to such bankruptcy proceeding; provided, that Ambac, on the one hand, and the Settling Bondholders, on the other, shall not be bound by the provisions of this Section 3.3(c) if the other party is in material breach of the terms of this Agreement.

3.4 Representation and Covenant of the Settling Bondholders.

(a) Representation. Each Settling Bondholder represents and warrants, solely as to itself and its affiliates, as follows:

(i) it has sole beneficial ownership of the percentage of outstanding LVM

Insured Bonds set forth on Schedule A hereto and that it has all requisite power and authority to enter into this Agreement with respect to such LVM Insured Bonds and, with respect to each Settling Bondholder, it has all requisite power and authority to cause its respective affiliates to perform the obligations in respect of LVM Insured Bonds owned by such affiliates to be performed by the Settling Bondholders in respect of LVM Insured Bonds under this Agreement;

(ii) it is a "Qualified Institutional Buyer", as defined in Rule 144A ("QIB") of the Securities Act;

(iii) it is acquiring and will acquire the Surplus Notes for its own account for investment only, not for the account of any other person and not with a view to, or for sale in connection with, any distribution of the Surplus Notes in violation of the Securities Act; and

(iv) it has had such opportunity as it has deemed adequate to obtain from representatives of Ambac such information as is necessary to permit it to evaluate the merits and risks of its investment in the Surplus Notes.

(b) Covenant. Each of the Settling Bondholders, on behalf of themselves and the accounts and/or funds managed or controlled by them that are the owners of LVM Insured Bonds, covenants and agrees that it will not sell, assign, dispose of or otherwise transfer any LVM Insured Bonds except to a transferee that executes and delivers to AAC an acknowledgement in form and substance reasonably satisfactory to AAC pursuant to which such transferee shall acknowledge and agree that it is acquiring such LVM Insured Bonds subject to the rights of Ambac hereunder, that such transferee agrees to be bound by the terms of this Agreement and the obligations undertaken by the Settling Bondholders herein with respect thereto, and that such obligations shall be enforceable by Ambac as against such transferee; provided, that having agreed in writing as set forth in this Section 3.4(b), such transferee shall be entitled to all rights and privileges of a Settling Bondholder under this Agreement.

3.5 Reinstatement. If this Agreement is invalidated or "unwound" for any reason, including without limitation the entry of an order finding this Agreement or any transfer made thereunder to be a voidable preference or fraudulent transfer or conveyance, then all rights and remedies of the Settling Bondholders, OCI, the Rehabilitator, Ambac and the Segregated Account with respect to the Ambac Policies, as such rights existed immediately prior to the execution of this Agreement, shall be reinstated in full.

ARTICLE IV RELEASE

4.1 Ambac Release. Effective as of the earlier of (i) the Commutation Closing and (ii) the Offer to Purchase Closing, and in consideration of the agreements herein of the Settling Bondholders, including the release provided in Section 4.2 below, for good and valuable consideration, the sufficiency of which it hereby acknowledges, Ambac, on behalf of itself, its predecessors, successors and assigns and its past, present and future officers, directors, shareholders employees, agents, receivers, trustees, attorneys and legal representatives, hereby forever releases (subject to Sections 3.5 and 4.4 hereof) each Settling Bondholder (including all of its past and present parent companies, subsidiaries, divisions, affiliates, agents, joint ventures, predecessors, successors, transferees, assigns, subrogees, insurers, co-insurers, reinsurers, policyholders, attorneys, partners, principals, members, directors, officers, employees, stockholders, owners, representatives and anyone claiming by or through them) from any and

all Claims (as defined below) of any nature whatsoever, whether known or unknown, reported or unreported, that Ambac (and/or any person claiming by or through Ambac) ever had, now has or can, shall or may have, by reason of any matter, cause or thing at any time prior to the Commutation Closing or the Offer to Purchase Closing, as the case may be, solely to the extent the same arise out of or in any way relate to the Rehabilitation Proceeding, the Ambac Policies, the LVM Bankruptcy Proceeding, any transaction under or in connection with the LVM Indenture or the transaction documents relating thereto or otherwise related to the LVM Insured Bonds.

4.2 Settling Bondholder Release. Effective as of the earlier of (i) the Commutation Closing and (ii) the Offer to Purchase Closing, and in consideration of the agreements herein of Ambac, including the release provided in Section 4.1 above, for good and valuable consideration, the sufficiency of which it hereby acknowledges, each Settling Bondholder, on behalf of itself, its predecessors, successors and assigns and its past, present and future officers, directors, shareholders employees, agents, receivers, trustees, attorneys and legal representatives, hereby forever releases (subject to Sections 3.5 and 4.4 hereof) Ambac (including all of its past and present parent companies, subsidiaries, divisions, affiliates, agents, joint ventures, predecessors, successors, transferees, assigns, subrogees, insurers, co-insurers, reinsurers, policyholders, attorneys, partners, principals, members, directors, officers, employees, stockholders, owners, representatives and anyone claiming by or through them) from any and all Claims of any nature whatsoever, whether known or unknown, reported or unreported, that any Settling Bondholder (and/or any person claiming by or through any Settling Bondholder) ever had, now has or can, shall or may have, by reason of any matter, cause or thing at any time prior to the Commutation Closing or the Offer to Purchase Closing, as the case may be, solely to the extent the same arise out of or in any way relate to the Rehabilitation Proceeding, the Ambac Policies, the LVM Bankruptcy Proceeding, any transaction under or in connection with the LVM Indenture or the transaction documents relating thereto or otherwise related to the LVM Insured Bonds.

4.3 Arm's Length Transaction. This Agreement is the product of arm's length negotiations and the terms of this Agreement have been completely read and fully understood and voluntarily accepted by the parties, having the benefit of the advice of counsel. The parties further state their intent to release known and unknown, and past, present and future, claims on the terms set forth herein and expressly waive and disavow the application of any statutory or common law protection against the release of unknown or future claims.

4.4 No Release of This Agreement. Notwithstanding the foregoing releases, it is explicitly agreed and understood that the parties are not releasing, acquitting, discharging or waiving any of their rights specifically provided for in this Agreement.

4.5 No Admission of Liability. This Agreement is made without any admission of liability by any party, and the existence of this Agreement or the use of any term or condition herein shall not be used as an admission or evidence against any party in any subsequent dispute, action or proceeding.

4.6 Definition of Claims. For purposes of this Article IV, the term "Claims" means any action or actions, cause or causes of action, in law or in equity, suits, liens, liabilities, claims, demands, obligations, damages, punitive damages, losses, costs, expenses and attorneys' fees of any nature.

ARTICLE V MISCELLANEOUS

5.1 Regulatory and Documentation Requirements. Consummation of the Commutation or the Offer to Purchase, as the case may be, shall be subject to all applicable legal, governmental and other regulatory consents and approvals and satisfactory documentation.

5.2 Confidentiality. Each of the parties hereto shall maintain and shall cause each of its officers, directors, employees, advisors (including accountants), bondholder pricing agent and other representatives (collectively, its "Representatives") to maintain the confidentiality of this Agreement and its substance, except that each such party and its Representatives may disclose such information (i) to any governmental or regulatory agencies with authority over such party, (ii) to the extent required by applicable law, rule or regulation or applicable accounting requirements, (iii) in connection with any action to enforce this Agreement or any provision of this Agreement, (iv) pursuant to the Minnesota Proceeding or any appeal thereof (as determined to be necessary or advisable by counsel to the LVM Trustee) or any proceeding in the Circuit Court with respect to the Settlement Approval Order or any appeal thereof (as determined to be necessary or advisable by counsel to Ambac or the Rehabilitator), including steps leading to a potential proceeding, that might involve this Agreement or any provision of this Agreement or the substance hereof (including disclosure of the fact that the Settling Bondholders (who constitute more than two-thirds of the LVM Bondholders) have agreed to a Commutation and Offer to Purchase pursuant to this Agreement), provided that (x) the LVM Trustee may disclose solely the provisions of Section 1.2 hereof to the LVM Bondholders in connection with, but prior to, the Minnesota Proceeding to the extent counsel to the LVM Trustee determines that such disclosure is necessary or advisable in connection with such proceeding and (y) Schedule A to this Agreement shall not be disclosed in any such proceeding, and (v) to the extent such information shall be in the public domain without breach by any party of its obligation hereunder. Notwithstanding the preceding sentence, the Settling Bondholders and their Representatives may disclose this Agreement and its substance to the LVM Trustee or to any permitted transferee or permitted potential transferee of the LVM Insured Bonds, in each case, provided that such LVM Trustee, permitted transferee or permitted potential transferee, as applicable, agrees in writing to be bound for the benefit of all parties to this Agreement by the provisions of this Section 5.2.

5.3 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with the laws of the State of Wisconsin applicable to contracts to be performed entirely within such jurisdiction.

5.4 Jurisdiction. In the event that there is a dispute between or among the parties arising under this Agreement, the parties (i) agree that the exclusive forum to seek remedy or assert any claims shall be the Circuit Court of the State of Wisconsin located in the County of Dane, and (ii) hereby expressly submit to the personal jurisdiction and venue of such courts for the purposes thereof and expressly waive any claim of lack of personal jurisdiction and improper venue and any claim that such courts are an inconvenient forum. The parties further agree that, to the extent the Rehabilitation Proceeding is pending, the exclusive forum to seek any such remedy or assert any such claims shall be the Rehabilitation Proceeding. Each party hereby irrevocably consents to the service of process of any of the aforementioned court in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the address of the parties set forth in Section 5.11, such service to become effective ten (10) days after such mailing.

5.5 Entire Agreement. This Agreement sets forth the entire agreement between the parties with respect to the matters addressed herein, supersedes all prior communications, written or oral, with respect hereto and may be amended or waived only by a writing signed by both parties hereto.

5.6 Counterparts. This Agreement may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original and all of which, taken together, shall constitute one and the same Agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or pdf (or similar electronic signed copy) shall be as effective as delivery of an original executed counterpart hereof.

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

5.8 No Third Party Beneficiaries. This Agreement shall inure to the benefit of the parties hereto and their respective permitted successors and assigns and no third party shall be a beneficiary hereof or have rights hereunder.

5.9 Subject Matter Limitation. This Agreement is intended to address the settlement and termination of the Ambac Policies, and matters related to the Ambac Policies and the LVM Insured Bonds, and is not intended to address any transaction or circumstance other than the transactions and circumstances expressly described herein.

5.10 Consent Requirement: Fees and Expenses. Whenever under this Agreement the consent, approval, direction or instruction of the Settling Bondholders is authorized or required, it shall be sufficient if such consent, approval, direction or instruction shall be delivered by Settling Bondholders holding, directly or by their affiliates, in the aggregate ninety percent (90%) of the principal or accreted amount (determined as of the Valuation Date) of the LVM Insured Bonds held by all Settling Bondholders in the aggregate, directly or by accounts or funds managed or controlled by them. It is understood and agreed that neither AAC, the Segregated Account nor the Rehabilitator has any obligation to review or approve any LVM Trustee Fees and Expenses or Settling Bondholder Professional Fees.

5.11 Notices. All notices, requests, claims, demands, or other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) (i) by delivery in person, (ii) by an internationally recognized overnight courier service, (iii) by facsimile or electronic mail (upon electronic confirmation of delivery), or by registered or certified mail (postage prepaid, return receipt requested), to the respective parties at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 5.11):

(a) If to Ambac:

Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004
Attention: Kevin Doyle, General Counsel, and Stephen M. Ksenak, Managing
Director and Assistant General Counsel
Facsimile: (212) 208-3558
Electronic Mail: kdoyle@ambac.com and sksenak@ambac.com

With a copy to:

Dewey & LeBoeuf LLP
1301 Avenue of the Americas
New York, NY 10019
Attention: Barbara Goodstein and Michael Groll
Facsimile: (212) 259-6333
Electronic Mail: bgoodstein@dl.com and mroll@dl.com

(b) If to the Rehabilitator:

Rehabilitator of the Segregated Account of Ambac Assurance Corporation
c/o State of Wisconsin Office of the Commissioner of Insurance
GEF 3
Second Floor
125 South Webster St.
Madison, WI 53702
Attention: Roger A. Peterson and Frederick C. Nepple
Facsimile: (608) 266-9935
Electronic Mail: roger.peterson@wisconsin.gov and fred.nepple@wisconsin.gov

With a copy to:

Foley & Lardner LLP
150 East Gilman Street
PO Box 1497
Madison, WI 537010
Attention: Michael B. Van Sicklen and Kevin G. Fitzgerald
Facsimile: (608) 258-4258 and (414) 297-4900
Electronic Mail: mvansicklen@foley.com and kfitzgerald@foley.com

(c) If to the Settling Bondholders:

Stone Lion Capital Partners L.P.
461 Fifth Avenue, 14th Floor
New York, NY 10017
Attention: General Counsel
Facsimile: (212) 843-1376

Restoration Capital Management LLC
325 Greenwich Avenue #1
Greenwich, CT 06830
Attention: General Counsel
Facsimile: (203) 769-5807

Nuveen Asset Management
333 W. Wacker Drive
Chicago, IL 60606
Attention: General Counsel and Chief Investment Officer
Facsimile: (312) 917-7952 and (312) 917-8211

With a copy to:

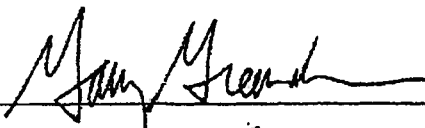
Kramer Levin Naftalis & Frankel LLP
1177 Avenue of Americas
New York, NY 10036
Attention: Amy Caton and Phillip Bentley and Daniel Eggermann
Facsimile: (212) 715-8000
Electronic Mail: acaton@kramerlevin.com and pbentley@kramerlevin.com and deggermann@kramerlevin.com

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


IN WITNESS WHEREOF, Ambac and the Settling Bondholders have caused this Agreement to be executed as of the date first written above.

THE SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION,


By: Ambac Assurance Corporation, as Management Services Provider

By: 
Name: _____
Title: _____
MANAGING DIRECTOR

AMBAC ASSURANCE CORPORATION

By: 
Name: _____
Title: **Chief Executive Officer**
Managing Director

SPECIAL DEPUTY COMMISSIONER FOR THE
SEGREGATED ACCOUNT on behalf of the Commissioner of
Insurance of the State of Wisconsin, as the court-appointed rehabilitator
for the Segregated Account of Ambac Assurance Corporation (only with
respect to Sections 3.1(a), 3.1(b), 3.1(c), 3.2(d), 3.5 and 5.2)

By: 

Kimberly A. Shaul, J.D.

Special Deputy commissioner

Segregated Account of Ambac Assurance Corporation

State of Wisconsin

Office of the Insurance Commissioner

NUVEEN ASSET MANAGEMENT, on behalf of funds and accounts managed by them, as an LVM Bondholder

By: Thomas C. Spalding
Name: Thomas C. Spalding
Title: Senior Vice President

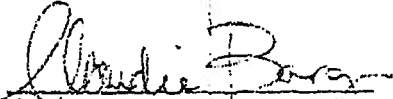
RESTORATION CAPITAL MANAGEMENT LLC, on behalf of
themselves and/or funds and accounts managed or controlled by them, as
an LVM Bondholder

By: *Pamela M. Lawrence*
Name: Pamela M Lawrence
Title: Manager

STONE LION CAPITAL PARTNERS L.P., on behalf of themselves
and/or funds and accounts managed or controlled by them, as an LVM
Bondholder

Stone Lion Capital Partners L.P.
By: SL Capital Partners LLC, its General Partner
By: Stone Lion Capital LLC, Managing Member

By:



Name:
Title:

Claudia Borg
General Counsel

EXHIBIT B

STATE OF MINNESOTA
COUNTY OF HENNEPIN

FILED

11 FEB -1 PM 4:05

BY: PROBATE/MENTAL HEALTH
FOURTH DISTRICT COURT

DISTRICT COURT
FOURTH JUDICIAL DISTRICT

Case Type: Other

In re the trusteeship created by
the Director of the State of Nevada
Department of Business and Industry

File No.: 27-TR CV-11-13

**PETITION OF WELLS FARGO BANK, NATIONAL ASSOCIATION, AS TRUSTEE,
FOR INSTRUCTION IN THE ADMINISTRATION OF A TRUST PURSUANT TO
MINN. STAT. § 501B.16**

TO THE DISTRICT COURT FOR THE FOURTH JUDICIAL DISTRICT:

Petitioner Wells Fargo Bank, National Association, as trustee (the "Trustee") for the above described trust estate (the "Trust Estate"), by and through its undersigned attorneys, petitions this Court as follows:

Introduction¹

1. The Bonds. The Trustee serves as trustee for municipal bonds (the "Bonds")² having an initial principal amount of \$451,448,217.30 issued in 2000 by the Director of the State of Nevada Department of Business and Industry. The Director issued the Bonds to finance the acquisition, design and construction of a monorail system operating in the City of Las Vegas, Nevada. The owner and operator of the monorail system is the Borrower, which is obligated to pay principal and interest on the Bonds as they come due. The Bonds are scheduled to mature in tranches through the year 2040. To provide additional security for the benefit of the Bondholders, Ambac Assurance Corporation, as Bond Insurer, issued a Municipal Bond Insurance Policy and a Surety Bond. As is more fully described herein, the Trust Estate includes the Bond Insurer's payments under the Policies for principal and interest on the

¹ Any defined term not defined in this Introduction is defined below.

² The Bonds, as defined in Paragraph 7 herein, are the 1st Tier Bonds issued under the Senior Indenture. The "Bondholders," as referenced herein, are the holders of the Bonds.

Bonds as they become due. Part of the sale proceeds from the issuance of the Bonds was used to pay in full the premium for the Policies. At the time the Bonds were issued in 2000, the Bond Insurer was rated "AAA" by Standard & Poor's and Fitch Ratings, and "Aaa" by Moody's Investor Service. This was the highest credit rating for each of these rating services.

2. The Bankruptcy. On January 13, 2010, the Borrower filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Nevada (the "Bankruptcy Case"). During the pendency of the Bankruptcy Case, the Borrower has failed to deliver any funds to the Trustee for debt service on the Bonds. No plan of reorganization has been confirmed. Aside from any distributions under a future Chapter 11 plan, the only other source for payment of debt service on the Bonds is the Bond Insurer's payments under the Policies.

3. The Rehabilitation Proceeding. The Bond Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin (the "Commissioner"). In March 2010, the Bond Insurer created a Segregated Account and allocated a number of policies and other obligations, including the Policies, from its general account into the Segregated Account. The Commissioner almost immediately after this event commenced a Rehabilitation Proceeding with respect to the Segregated Account in the Circuit Court of Dane County, Wisconsin (the "Rehabilitation Court"). The Rehabilitation Court has issued an injunction preventing any payment under the Policies until a Plan of Rehabilitation is approved and becomes effective. The Trustee and Bondholders have requested that the Rehabilitation Court modify its injunction, remove the Policies from the Segregated Account and return the Policies to the general account of the Bond Insurer. Those motions and requests have been denied by the Rehabilitation Court, and appeals are currently pending. In October, 2010, the Commissioner proposed a Plan of Rehabilitation that would provide for the treatment of all claims against the Segregated Account, including the Policies. The Rehabilitation Court approved the Rehabilitation Plan on January 24, 2011. Under the Rehabilitation Plan, up until June 7, 2020, claimants are to receive a recovery consisting of cash in the amount of 25% of their claims and surplus

notes with a face amount of 75% of their claims, as those claims come due³. The Rehabilitation Plan does not address how claims arising after June 7, 2020 will be handled or paid.

4. The Settlement Agreement and Commutation. A group of certain Bondholders representing approximately seventy-three percent (73%) of the aggregate principal amount of the Bonds (the "Settling Bondholders"), the Bond Insurer and the Commissioner have negotiated a Settlement Agreement which includes a Commutation providing for the payment of cash and the delivery of surplus notes to the Trustee for the benefit of the Bondholders in exchange for the full and final settlement of all claims under the Policies. The Settling Bondholders have directed the Trustee to proceed with the Commutation. The Commutation provisions of the Settlement Agreement would result in a substantially different treatment of the Bondholders than under the Rehabilitation Plan, in that:

(a) The Commutation provides for the immediate distribution of cash and surplus notes, whereas the Rehabilitation Plan provides for the distribution of cash and surplus notes in accordance with the amount due on each Payment Date, but provides no guidance regarding how claims will be handled or paid after June 7, 2020. The distribution under the Rehabilitation Plan is thus subject to the risk that the Bond Insurer and the Segregated Account will not have the financial capacity to make such distributions over the extended period of time that such distributions become due, and is subject to even further uncertainty with respect to the post-2020 time period.

(b) The Commutation provides that the Bond Insurer's claims against the Borrower for payments made by the Bond Insurer under the Policies will be assigned to the Trustee for the benefit of the Bondholders, whereas the Rehabilitation Plan provides that, with each payment made, the Bondholders' rights to receive payments from the Borrower will be assigned to the Bond Insurer with respect to that payment.

5. The Concerns of a Minority of Bondholders and the filing of the Petition. If the Policies are Commuted as provided in the Settlement Agreement, the appeals commenced by the Trustee and by certain Bondholders from the adverse rulings by the Rehabilitation Court and any related costs and

³ The terms of the Rehabilitation Plan are more fully described below.

expenses of such appeals will be terminated. Under this scenario, all Bondholders will receive the distribution of cash and surplus notes provided for in the Commutation and will retain the right to receive any payments from the Borrower in the Bankruptcy Case. Although the Commutation is supported by the Settling Bondholders, representing 73% of the aggregate principal amount of the Bonds, a minority of Bondholders have expressed concern with respect to the Commutation. The Trustee believes that the Commutation is a reasonable resolution of the claims against the Bond Insurer in respect of the Policies, but because the Commutation would apply to all Bondholders, the Trustee believes that this Court should consider not only the views of the Settling Bondholders who support the Commutation, but also the concerns of those Bondholders who do not support it, and, after hearing and considering all of these views, instruct the Trustee with respect to the Commutation. For this purpose, the Trustee has filed the present Petition.

Factual Background

6. The Trustee is a national banking association with a main corporate trust office in Minneapolis, Minnesota, duly established and existing, and authorized to accept and execute trusts.

7. Senior Indenture and the Senior Bonds. Prior to the time that the Initial Petition (as described below) was filed, the Trustee was the duly appointed, qualified and acting Trustee under that certain Senior Indenture, dated as of September 1, 2000 (the "Senior Indenture"), by and between the Director of the State of Nevada Department of Business and Industry (the "Director") and the Trustee. Pursuant to the Senior Indenture, the Director issued its Las Vegas Monorail Project Revenue Bonds, 1st Tier Series 2000 (the "Bonds") and its Las Vegas Monorail Project Revenue Bonds, 2nd Tier Series 2000 (the "Second Tier Bonds", and together with the Bonds, the "Senior Bonds"). The Director issued the Senior Bonds either as Current Interest Bonds or Capital Appreciation Bonds. A true and correct copy of the Senior Indenture is attached hereto as Exhibit A. Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to such terms in the Senior Indenture.

8. Subordinate Indenture and the Subordinate Bonds. Prior to the time that the Subsequent Petition (as described below) was filed, the Trustee also served as trustee under that certain Subordinate Indenture, dated as of September 1, 2000 (the "Subordinate Indenture", between the Director and the Trustee, pursuant to which the Director issued its Las Vegas Monorail Project Revenue Bonds, 3rd Tier Series 2000A-1 (the "Third Tier Bonds" or "Subordinate Bonds").

9. Initial Petition. On or about November 12, 2009, the Trustee filed with this Court its initial Petition for Instruction (the "Initial Petition") with respect to the trust estate described herein, seeking the appointment of a separate and independent trustee for the Second Tier Bonds (the "Co-Trustee"), with the Trustee continuing to serve as trustee for the Bonds and the Subordinate Bonds.

10. As a result of the filing of the Initial Petition, and by Order of this Court, dated January 5, 2010, this Court appointed U.S. Bank National Association as Co-Trustee for the Second Tier Bonds, with all such indenture trustee rights and duties under the Senior Indenture with respect to the Second Tier Bonds.

11. Subsequent Petition. On or about April 8, 2010, the Trustee filed a subsequent Petition for Instruction (the "Subsequent Petition") seeking the appointment of a separate and independent trustee for the Third Tier Bonds (the "Successor Trustee"), with the Trustee continuing to serve as the trustee for the Bonds and the Co-Trustee continuing to serve as trustee for the Second Tier Bonds.

12. As a result of the filing of the Subsequent Petition, and by Order of this Court, dated May 14, 2010, this Court appointed Law Debenture Trust Company of New York as Successor Trustee for the Third Tier Bonds, with all such indenture trustee rights and duties under the Subordinate Indenture.

13. The Trustee continues to serve as trustee for the Bonds.

14. The Project, the Borrower and the Financing Agreement. The Director loaned the proceeds arising from the issuance of the Senior Bonds and Subordinate Bonds to the Las Vegas Monorail Company, a Nevada nonprofit corporation (the "Borrower"), pursuant to that certain Financing

Agreement, dated as of September 1, 2000 (the "Financing Agreement"), by and between the Director and the Borrower. The Borrower used the proceeds of the Senior Bonds and the Subordinate Bonds to finance the expansion of a monorail transportation system (the "Project") located in Las Vegas, Nevada. The Financing Agreement requires the Borrower to make payments sufficient to pay interest and principal on the Senior Bonds and Subordinate Bonds as they come due. A true and correct copy of the Financing Agreement is attached hereto as Exhibit B.

15. Under the terms of the Senior Indenture, the Director assigned to the Trustee, for the benefit of the holders of the Senior Bonds, all of its rights and interests in the Financing Agreement and all revenues paid and payable by the Borrower thereunder.

16. Debt Service Payments. The maturity schedule for the Bonds is attached hereto as Exhibit C. Under the terms of the Senior Indenture, the Principal Payment Date for the Bonds is January 1 of each year, and the Interest Payment Date is each January 1 and July 1 (a Principal Payment Date or an Interest Payment Date is referred to hereinafter as a "Payment Date"). Beginning January 2, 2008, and on each Payment Date thereafter, the Borrower failed to make the debt service payments required under the Financing Agreement.

17. Borrower's Event of Default and Bankruptcy. The Borrower's failure to make the required debt service payments constitutes an "Event of Default" under the Financing Agreement and the Senior Indenture, which Event of Default continues to exist. On January 13, 2010, the Borrower filed its Bankruptcy Case. The Borrower's Bankruptcy Case is being administered *In re Las Vegas Monorail Company*, case number 10-10464-BAM. No plan of reorganization has been confirmed.

18. The Bond Insurer and the Policies. Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation (the "Bond Insurer"), regulated by the Commissioner, issued a municipal bond insurance policy (the "Policy") that insures payment of the principal of, interest and accreted value, on the Bonds as and when such payments become due. A true and correct copy of the Policy is attached hereto as Exhibit D. Proceeds of the Policy are not available to pay the principal, interest on and accreted value of the Second Tier Bonds or the Third Tier Bonds.

19. The Bond Insurer has also issued a Surety Reserve Bond (individually, the "First Tier Surety Reserve Bond," and together with the Policy, the "Policies") with respect to the First Tier Debt Service Reserve Fund (the "First Tier DSRF"). A true and correct copy of the Surety Reserve Bond is attached hereto as Exhibit E. The First Tier Surety Reserve Bond had an original coverage amount of \$20,991,807.50 (the "Surety Bond Coverage").

20. Trustee Demand on Policies. As a result of the Borrower's failure to make required debt service payments, the Trustee has on successive Payment Dates withdrawn amounts from the First Tier DSRF in accordance with the provisions of the Senior Indenture, the balance of which First Tier DSRF is now zero. In accordance with the terms of the Policies, the Trustee made demand on the First Tier Debt Surety Reserve Bond to the extent necessary to make debt service payments due on the Bonds on July 1, 2009 and January 1, 2010. The Bond Insurer honored those demands, leaving an amount available on the First Tier Debt Surety Reserve Bond of \$459,036.35.

21. Policies Allocated to a Segregated Account. On March 24, 2010, the Board of Directors of the Bond Insurer established a segregated account pursuant to Wisconsin Statute § 611.24(2) (the "Segregated Account") to segregate certain segments of the Bond Insurer's liabilities, including certain policies issued by the Bond Insurer insuring or relating to (i) credit defaults swaps, (ii) residential mortgage-backed securities, (iii) student loans, and (iv) certain other identified policies including the Policies described herein (the "Segregated Account Policies").

22. The Rehabilitation Court. According to filings made with the Securities and Exchange Commission by the parent of the Bond Insurer, on March 24, 2010, the Commissioner commenced rehabilitation proceedings in the Rehabilitation Court with respect to the Segregated Account (the "Rehabilitation Proceedings") in order to permit the Commissioner to facilitate an orderly run-off and/or settlement of the liabilities allocated to the Segregated Account pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act. On March 24, 2010, the Rehabilitation Court issued an injunction effective until further order of the Rehabilitation Court enjoining certain actions by holders of Segregated Account Policies (the "Temporary Injunction").

23. Payment Defaults Under Bonds and Policies. The Trustee made demands on the Policies to the extent necessary to make debt service payments on the Bonds due July 1, 2010 and January 1, 2011. In light of the Temporary Injunction, the Bond Insurer did not make payments in response to these demands, resulting in payment defaults under the Bonds and the Policies.

24. The payment defaults described above under the Bonds and under the Policies remain uncured.

25. Rehabilitation Court Proceedings. On April 5, 2010, the Trustee filed a Motion To Modify Temporary Injunction Order and To Intervene (the "Motion to Intervene") requesting that the Rehabilitation Court modify the Temporary Injunction, grant the Trustee leave to intervene and enter an order removing the Policies from the Segregated Account and returning those policies to the general account of the Bond Insurer. A group of certain holders representing a majority in aggregate principal amount of the Bonds outstanding (the "Majority Bondholders")⁴ subsequently filed a similar motion. The relief requested by the Trustee and the Majority Bondholders in these motions and the claims arising under the Policies, are hereinafter referred to as the "Claims."

26. On July 16, 2010, the Rehabilitation Court issued an order denying the Trustee's and the Majority Bondholders' motions. The Trustee and the Majority Bondholders have each filed their appeals of the Rehabilitation Court's order to the Wisconsin Court of Appeals, District IV.

27. Consequences of Appeals. Continued pursuit of the Claims on appeal could, if successful, result in the removal of the Policies from the Segregated Account and the return of the Policies to the general account of the Bond Insurer. If the appeals are unsuccessful, the Policies would remain in the Segregated Account. The likelihood of success with respect to the Claims on appeal is uncertain. Also uncertain is the financial benefit to the Bondholders resulting from the removal of the Policies from the Segregated Account and the return of the Policies to the general account of the Bond Insurer.

⁴ The Majority Bondholders are comprised of a group of Bondholders that includes the Settling Bondholders (as defined in paragraph 4 herein) and certain Bondholders that did not participate in the final negotiation of the Settlement Agreement.

28. The Rehabilitation Plan. On October 8, 2010, the Commissioner filed a plan of rehabilitation with respect to the Segregated Account (the "Rehabilitation Plan") with the Rehabilitation Court along with a Disclosure Statement Accompanying Plan of Rehabilitation (the "Commissioner's Disclosure Statement"). On January 24, 2011, the Rehabilitation Court entered an order approving the Rehabilitation Plan. A true and correct copy of the Rehabilitation Plan is attached hereto as Exhibit F and a true and correct copy of the Commissioner's Disclosure Statement is attached hereto as Exhibit G.

29. The basic financial terms of the Rehabilitation Plan approved by the Rehabilitation Court are as follows:

(a) The Rehabilitation Plan requires that claims under the Policies for the payment of principal, accreted value or interest (each a "Policy Claim") will not be accelerated but will be paid as the same become due on each Payment Date, which for certain Bonds continues until 2040.

(b) Up until June 7, 2020, each semi-annual Policy Claim will be paid as follows: (i) 25% in cash (each a "Cash Installment"), to the extent of available cash, and (ii) 75% in Surplus Notes of the Segregated Account (the "Surplus Notes"). The Rehabilitation Plan does not address how claims arising after June 7, 2020 will be handled or paid.

(c) The core terms of the Surplus Notes of the Segregated Account are as follows:

(1) All payments on the Surplus Notes will be subject to prior approval of the Commissioner, in his absolute discretion.

(2) The Surplus Notes are unsecured obligations that will not be entitled to any sinking fund.

(3) The Surplus Notes are scheduled to mature on June 7, 2020, and bear interest on a taxable basis at 5.1% per annum, subject to the discretion of the Commissioner and to the extent of available cash.

(4) The Surplus Notes will not be subject to acceleration in the event of non-payment.

(5) Interest on the Surplus Notes will be scheduled for payment each June 7.

In the event of non-payment, unpaid interest will be compounded annually.

(6) The Surplus Notes will be expressly subordinated in right of payment to the following: (i) all existing or future indebtedness of the Segregated Account other than any other surplus notes or contribution notes or similar obligations of the Segregated Account, or any indebtedness that is expressly subordinate to, or ranks *pari passu* with, the Surplus Notes, (ii) all existing or future claims of policy holders, and (iii) all other claims against the Segregated Account with statutory distribution priority over claims with respect to the Surplus Notes (including, without limitation, claims for costs of administration).

(d) With each payment made under the Rehabilitation Plan, the Bondholders' rights to receive distributions in the Bankruptcy Case will be assigned to the Commissioner with respect to that payment (as a function of the subrogation rights of the Bond Insurer under the Policies). Accordingly, under the Rehabilitation Plan, the Bondholders will not receive any payments from the Borrower in its Bankruptcy Case.

30. Settlement Discussions. On or about May 10, 2010, the Majority Bondholders, acting pursuant to Section 7.05 of the Senior Indenture, provided the Trustee with a written direction (the "Direction") instructing the Trustee to, among other things, follow the strategic direction of the Majority Bondholders, as communicated through its counsel, with respect to: (i) actions in the Rehabilitation Proceedings; (ii) any settlement discussions with the Commissioner, the Segregated Account and the Bond Insurer; and (iii) actions in the Bankruptcy Case.

31. The Majority Bondholders, acting through its counsel, have been engaged in negotiations with the Commissioner, the Segregated Account and the Bond Insurer for purposes of developing a proposed settlement with respect to the Claims.

32. The Settlement Agreement. On December 28, 2010, the Settling Bondholders advised the Trustee that the Settling Bondholders had entered into a Settlement Agreement, dated as of December

27, 2010 (the "Settlement Agreement"), with the Bond Insurer, the Segregated Account and the Commissioner. A true and correct copy of the Settlement Agreement is attached hereto as Exhibit H.

33. Terms of the Commutation. The Settlement Agreement provides for a transaction in which the Policies are to be commuted to effectuate a release of the Bond Insurer from all liabilities and obligations under the Policies in exchange for the following consideration to be provided to the Trustee on behalf of all of the Bondholders (the "Commutation"):

(a) The Segregated Account will make a cash payment (the "Commutation Cash Payment") to the Trustee on behalf of the Bondholders in the aggregate amount of \$111,000,000 less any cash payments made under the Policies from and after the date of the Settlement Agreement until the date of the closing of the Commutation (the "Closing Commutation") in immediately available funds which the Trustee has been instructed to apply as follows:

- (1) to payment of the Trustee Fees and Expenses⁵,
- (2) to reimbursement to the Settling Bondholders of the Settling Bondholders Professional Fees⁶, and
- (3) to distribution Pro Rata⁷ to all Bondholders (other than the Bond Insurer, if and to the extent it is a Bondholder) who are holders of record on the date set by the Trustee under the Senior Indenture (the "Record Date").

(b) The Segregated Account will issue to the Trustee, on behalf of the Bondholders, Surplus Notes, due on June 7, 2020, on terms and conditions consistent with the terms and conditions of

⁵ The Settlement Agreement defines "Trustee Fees and Expenses" as the reasonable expenses of the Trustee incurred necessary to protect the interests of the Bondholders and reasonable charges and expenses of the Trustee incurred in the performance of its powers and duties under the Senior Indenture, to the extent not previously paid or reimbursed and otherwise reimbursable or payable to the Trustee under the Senior Indenture.

⁶ The Settlement Agreement defines "Settling Bondholder Professional Fees" as the documented, reasonable out-of-pocket fees and expenses of the Majority Bondholders paid to their retained professional advisors and incurred in connection with enforcement of the rights of the Bondholders under the Policies, and any amounts paid by the Majority Bondholders by way of indemnification of the Trustee to the extent the Trustee is entitled to be reimbursed for any such amounts under the Senior Indenture.

⁷ The Settlement Agreement defines "Pro Rata" as the proportion of, in the case of a current interest bond, the aggregate outstanding principal amount of and accrued interest on such bond and, in the case of a capital appreciation bond, the aggregate outstanding accreted value of such bond to, in each case, the aggregate outstanding principal amount of and accrued interest (in the case of current interest bonds), and accreted value (in the case of capital appreciation bonds), on the Bonds as of September 30, 2010.

the Surplus Notes to be issued under the Rehabilitation Plan, in the aggregate principal amount of \$90,000,000 to be distributed by the Trustee on a Pro Rata basis to all Bondholders (other than the Bond Insurer) who are holders of record on the Record Date.

(c) The Bond Insurer will transfer \$2,500,000 in aggregate principal amount of Current Interest Bonds and \$6,000,000 in Capital Appreciation Bonds having an accreted value of \$3,111,995 as of September 30, 2010 beneficially owned by the Bond Insurer, and any proceeds or other consideration received from and after the date of the Settlement Agreement on such Bonds, to the Trustee for and on behalf of the Bondholders on a Pro Rata basis.

(d) The Bondholders will be entitled to all payments made by the Borrower within or outside of the Bankruptcy Case from and after the date of the Settlement Agreement on account of the Bonds, without regard to the Bond Insurer's subrogation rights⁸.

34. Offer to Purchase. Under the terms of the Settlement Agreement, if the Commutation is not consummated, the parties have negotiated an alternate set of terms and conditions under which the Bond Insurer would commence an offer to purchase the interests of all Bondholders in the Policies (the "Offer to Purchase") that would, in effect, result in a commutation of the Policies to the extent of the aggregate of Policy Claims allocable to the Bondholders who accept the Offer to Purchase. The Trustee is not seeking instruction with respect to the Offer to Purchase.

35. Settlement Direction to Trustee. On December 28, 2010, the Settling Bondholders provided the Trustee with a direction (a "Settlement Direction"), instructing the Trustee to, among other things: (a) file a Petition for Instruction in the Administration of the Trust under the Senior Indenture pursuant to Minn. Stat. § 501B.16 (the "Trust Petition Proceeding"), seeking instruction authorizing the Trustee to settle and resolve all Claims against the Bond Insurer based on the terms of the Commutation; (b) prosecute the Trust Petition Proceeding to a hearing on the merits of the reasonableness of the

⁸ In contrast, under the express terms of the Policy and the Rehabilitation Plan, the Bondholders' rights to receive payments from the Borrower are not retained by the Bondholders, but instead, are assigned to the Bond Insurer for each payment made to the Bondholders under the Policy or the Rehabilitation Plan.

Commutation under the Settlement Agreement; and (c) obtain all other approvals necessary to consummate the Commutation.

36. Trustee's Power to Settle Claims under Senior Indenture. The substantive law governing the Senior Indenture is the law of the State of Nevada as set forth in Section 12.07 of the Senior Indenture. As such, the applicable substantive law this Court should consider with respect to the administration of the Trust Estate and the discharge of the Trustee's duties includes the law of the State of Nevada.

37. The Uniform Trusts Act as adopted by the State of Nevada (N.R.S. §§ 163.010 through 163.200) confirms that a trustee has the powers provided in the trust instrument, expressed by law or granted by the court upon petition, as necessary or appropriate to accomplish a purpose of the trust, except a court may not grant a power expressly prohibited by the trust instrument. N.R.S. § 163.023. Nevada law expressly requires that, except as otherwise expressly provided in a trust instrument, all the powers enumerated in N.R.S. §§ 163.265 through 163.410, inclusive, must be incorporated in such trust instrument with the same effect as though such language were set forth verbatim in the instrument, and such powers are in addition to the common-law or statutory powers of the fiduciary. N.R.S. § 163.260(1). One such Trustee power incorporated into the Senior Indenture by Nevada law is the Trustee's power, as a fiduciary, to compromise, adjust, arbitrate, sue on or defend, abandon or otherwise deal with and settle claims in favor of or against the estate or trust as the fiduciary deems advisable. N.R.S. § 163.375. Under this provision, a fiduciary's decision is conclusive between the fiduciary and the beneficiaries of the estate or trust and the person against or for whom the claim is asserted, in the absence of fraud by such person. Likewise, in the absence of fraud, bad faith or gross negligence of the fiduciary, the fiduciary's decision is conclusive between the fiduciary and the beneficiaries of the estate or trust. N.R.S. § 163.375.

38. The Senior Indenture contains no express provisions that prohibit the Trustee from compromising claims on behalf of the Bondholders. Rather, the Senior Indenture grants the Trustee authority to settle claims, in that:

(a) Section 7.04 of the Senior Indenture vests in the Trustee the power to exercise the Bondholders' remedies, direct all proceedings and take any action as the Trustee shall deem most effectual.

(b) Subject to the conditional rights of the holders of a majority of the outstanding principal amount of the Bonds to direct enforcement proceedings, only the Trustee has the power to "affect, disturb or prejudice the security" of the Trust Estate under the Senior Indenture.

(c) The Senior Indenture irrevocably appoints the Trustee as the true and lawful attorney-in-fact of the Bondholders for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to the Bondholders under the provisions of the Bonds, the Senior Indenture and the Financing Agreement.

(d) The power to negotiate and agree upon settlements with respect to the Claims is inherent within the power to commence remedial procedures.

39. Trust Estate Includes Bond Insurer Payments. In the case at hand, the Bond Insurer payments made under the Policies are part of the Trust Estate, in that:

(a) The Trust Estate consists of all Revenues and any amounts held in any fund or account established pursuant to the Senior Indenture and pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Senior Indenture.

(b) The Senior Indenture defines "Revenues" to mean all moneys received by the Director or the Trustee for the account of the Director pursuant to, or with respect of, the Financing Agreement for the benefit of the Bonds, including without limiting the generality of the foregoing, the Senior Loan Payments (including both timely and delinquent payments, any late charges, and paid from whatever source).

(c) Claims for monetary damages under the Policies are claims for Senior Loan Payments that are delinquent or that are expected to be discharged in the Borrower's Bankruptcy Case and, as such, any payments made under the Policies are part of the Trust Estate.

40. Effect of Commutation. The Commutation would serve to release the Bond Insurer of all its obligations under the Policies, thus affecting the rights of all of the Bondholders. For that reason, and to afford all Bondholders an opportunity to review and evaluate the Commutation, the Trustee has commenced this proceeding.

41. Trustee Assessment of Commutation. Based on the information the Trustee has received to date, the Trustee has reviewed and assessed the Commutation. The Trustee believes that, compared to the alternatives of either continued litigation with the Bond Insurer or treatment under the Rehabilitation Plan, the Commutation provides Bondholders with a higher degree of certainty. As such, the Trustee believes that it is reasonable for the Commutation to be presented to this Court, for the Bondholders to review and consider the Commutation as part of this proceeding, and for the Court to determine whether or not the Commutation is in the best interest of all Bondholders, in light of the available alternatives.

42. Trustee's Administration Costs. Whether or not the Commutation is consummated, the Trustee will continue to have responsibilities to perform under the Senior Indenture with respect to the administration of the Trust Estate, including, without limitation, the prosecution of the claims in Bankruptcy Court. The Trustee must have resources to continue to meet these duties and obligations, and the Senior Indenture and the Financing Agreement expressly grant the Trustee certain rights, immunities and privileges to obtain such resources (collectively, the "Reimbursement and Indemnification Rights")⁹. To allow the Trustee to perform its duties as required by the Bankruptcy Case, the Senior Indenture and the Commutation provisions of the Settlement Agreement, this Court's Order should authorize the Trustee to withhold from the Commutation Cash Payment such sums as necessary to meet the Trustee's costs and expenses in administering the Trust Estate.

⁹ The Reimbursement and Indemnification Rights include: compensation and reimbursement to the Trustee under Section 8.06 of the Senior Indenture; no expenditure or risk of Trustee funds or otherwise incurrence of financial liability under Section 8.01(A) and 8.03(E) of the Senior Indenture; payment of reasonable fees and expenses incurred by Trustee under Section 7.3 of the Financing Agreement; security and indemnification for the Trustee in exercise of rights or powers at direction of Bondholders under Section 8.03(B) and 7.05 of the Senior Indenture; lien on all funds prior to and superior to lien of the Bondholders for compensation, all reasonable expenses and charges of the Trustee under Section 8.06 of the Senior Indenture; and if an Event of Default occurs and is continuing, all Revenues and any other funds shall be applied by the Trustee first to payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Bondholders and payment of the reasonable charges and expenses of the Trustee incurred in and about the performance of its powers and duties under the Senior Indenture as set forth in Section 7.03 of the Senior Indenture.

43. Jurisdiction of the Court. This Court has the jurisdiction to bind all parties with an interest in the Trust Estate with an Order directing the Trustee to proceed with the Commutation.

44. Venue is Proper. Venue is proper in Hennepin County because the Trustee has a main place of business in Minneapolis, Minnesota, and the place of administration of the trust is in Minneapolis, Minnesota. Minn. Stat. § 501B.17.

Request for Relief

WHEREFORE, pursuant to the provisions of Minn. Stat. § 501B.16 and all other applicable law, the Trustee respectfully requests that this Court:

1. Make and enter herein an Order designating the time and place when the respective parties in interest may be heard upon the matters set forth in this Petition; that notice of the hearing be served in the manner specified in the accompanying Order and as provided by Minn. Stat. § 501B.18;

2. Undertake to represent all parties in interest who are unascertained or not in being, or who are minors or incapacitated, pursuant to the provisions of Minn. Stat. § 501B.19;

3. At such designated time and place this Court make a further Order as follows:

(a) Determining that the Bond Insurer payments under the Policies are part of the Trust Estate.

(b) Determining that the Commutation provisions in the Settlement Agreement are reasonable, and that it is within the authority of the Trustee to consummate the Commutation, taking into account the Trustee's Reimbursement and Indemnification Rights.

(c) Determining whether or not the Commutation is in the best interest of all Bondholders, in light of the available alternatives, and based upon the Court's determination that the Commutation is in the best interest of all Bondholders, directing the Trustee to proceed with and consummate the Commutation as set forth in the Settlement Agreement, taking into account the Trustee's Reimbursement and Indemnification Rights.

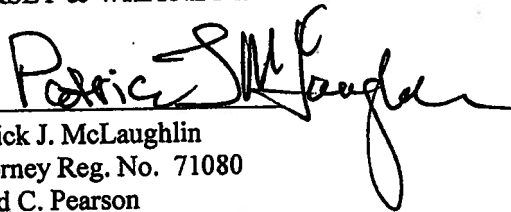
(d) In the event the Court directs the Trustee to proceed with the Commutation, authorizing the Trustee to withhold from the Commutation Cash Payment paid to the Bondholders such sums as the Trustee deems necessary to continue to meet its obligations in the administration of the Trust Estate in accordance with the express provisions of the Senior Indenture.

(e) Declaring the Trustee's actions to be consistent with the Trustee's fiduciary duties and obligations to the Bondholders under the Senior Indenture.

4. Granting such other and further relief as this Court may deem lawful, just and proper.

Dated: February 1, 2011

DORSEY & WHITNEY LLP

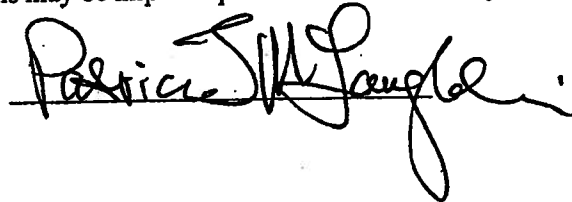
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ACKNOWLEDGMENT

The undersigned acknowledges that sanctions may be imposed pursuant to Minn. Stat. § 549.211.



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