

July 7, 2011

VIA HAND DELIVERY

Jody Baux
Ambac Clerk, Dane County Circuit Court
Dane County Courthouse
215 South Hamilton Street
Madison, Wisconsin 53703

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

Dear Ms. Baux:

Enclosed for filing in the above-referenced matter are the Rehabilitator's Application for Approval of Engagement of PricewaterhouseCoopers LLP and proposed Order Approving Engagement of PricewaterhouseCoopers LLP.

We have served these documents on all parties-in-interest on the service list via email and posted copies on the Court-approved website. Thank you for your attention to this matter.

Sincerely,



Naikang Tsao

Enclosures

cc: Honorable William D. Johnston (with enclosures, via facsimile)
All Counsel of Record (with enclosures, via email)

ATTORNEYS AT LAW

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CLIENT/MATTER NUMBER
092281-0101

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

**REHABILITATOR'S APPLICATION FOR APPROVAL OF ENGAGEMENT OF
PRICEWATERHOUSECOOPERS LLP**

The Commissioner of Insurance for the State of Wisconsin, as the court appointed Rehabilitator of the Segregated Account of Ambac Assurance Corporation (the "Segregated Account"), hereby submits the following Application for Approval of Engagement of PricewaterhouseCoopers ("PwC"). The basis for this Application is as follows:

1. In accordance with Wis. Stat. § 645.33(3), which encourages the Rehabilitator to "consult with and obtain formal or informal advice and aid of insurance experts," the Order for Rehabilitation authorizes the Rehabilitator and the Special Deputy Commissioner for the Segregated Account "to negotiate and enter into additional contracts for professional services, providing for reasonable compensation and expenses, for such further attorneys, accountants, financial advisors, experts, and contractors as they deem necessary to effectuate the rehabilitation of the Segregated Account." (Dkt. 11, ¶ 8.)

2. The Rehabilitator has reached an agreement to engage PwC to provide consulting services with respect to tax matters arising out of the rehabilitation proceeding, and relating to the Plan of Rehabilitation for the Segregated Account or possible amendments thereto.¹

Attached to this Application is a copy of the PwC engagement letter, dated July 6, 2011, which further discusses the scope of its services.

¹ On July 6, 2011, Ambac's holding company, Ambac Financial Group, Inc. ("AFG"), filed its Chapter 11 Plan of Reorganization in New York federal bankruptcy court. That Plan of Reorganization may have tax implications for the Segregated Account and the Rehabilitator's Plan of Rehabilitation.

3. PwC's services will include substantial direct services from Addison H. Shuster, Kevin Brown and Adam Thaler.

- Addison Shuster is an attorney and certified public accountant with over 30 years of experience with PwC and is recognized as a leading tax advisor to the financial guaranty industry. He has served as tax advisor to the Association of Financial Guaranty Insurers, a trade association for the bond insurance industry, on a number of industry issues and has held the office of President and currently serves on the Executive Committee of the Society of Insurance Financial Management and is a member of the Federal Bar Association's Insurance Tax Committee.
- Kevin Brown is a principal and leader of PwC's Washington National Tax Services' Tax Controversy and Dispute Resolution Team. Prior to working at PwC, he served as Chief Operating Officer for the Red Cross, served in a number of roles at the United States Internal Revenue Service, including Acting Commissioner of the IRS, where he managed over 100,000 IRS employees, and Deputy Commissioner for Services and Enforcement, where he was responsible for four IRS operating divisions, and worked as an attorney in the U.S. Department of Justice, Tax Division.
- Adam Thaler is a partner in PwC's US Mergers and Acquisition Tax Group, specializing in the tax aspects of business transactions, and leads up the Group's financial services team.

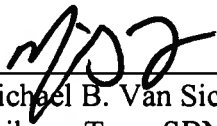
4. The Rehabilitator believes that PwC and Messrs. Shuster, Brown and Thaler are exceptionally well-qualified to provide consulting for the Segregated Account, and the fees and expenses are reasonable and necessary.

For the foregoing reasons, the Court should approve the Application. A proposed order is attached.

Dated this 7th day of July, 2011.

FOLEY & LARDNER LLP

By:



Michael B. Van Sicklen, SBN 1017827
Naikang Tsao, SBN 1036747
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*Attorneys for Wisconsin Commissioner of
Insurance, As Court-Appointed Rehabilitator of
the Segregated Account of Ambac Assurance
Corporation*



July 6, 2011

Wisconsin Commissioner of Insurance,
as court-appointed Rehabilitator
by: Roger Peterson
Special Deputy Commissioner for the Segregated Account
Segregated Account of Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004

Dear Mr. Peterson:

This engagement letter confirms that the court-appointed Rehabilitator ("Rehabilitator," "you" or "Client") of the Segregated Account of Ambac Assurance Corporation ("Segregated Account") has engaged PricewaterhouseCoopers LLP ("we" or "us" or "PwC") to provide the services described below.

Scope of Our Services

The Rehabilitator is engaging us to provide tax consulting services to the Rehabilitator and Special Deputy Commissioner of the Segregated Account with respect to certain tax matters arising in the proceedings of In the Matter of the Rehabilitation of: Segregated Account of Ambac Assurance Corporation, Case No. 10 CV 1576 (the "Case"), which is currently pending in the State of Wisconsin Circuit Court for Dane County (the "Court"), and relating to the Plan of Rehabilitation for the Segregated Account or possible amendments thereto, preserving and quantifying net operating losses and the potential impacts of cancellation of indebtedness income, and related planning, structuring and strategies (the "Services"). We will work under and at the direction of the Rehabilitator's legal counsel and will coordinate with the Rehabilitator's existing advisory team. We will communicate our findings to the Rehabilitator's legal counsel in the form of memoranda, spreadsheets, slide decks, and emails as appropriate and as requested. PwC understands that the U.S. Internal Revenue Service is presently adverse to the Rehabilitator and the Segregated Account in the Case and in other federal court proceedings. PwC's deliverables will constitute Other Written Advice under Circular 230 (see below) and may be protected from disclosure by OCI by the privilege set forth in § 601.465, Wis. Stat. and the attorney work product doctrine.

Administrative Subcontractors

We may engage other subcontractor(s) to perform certain of PwC's internal business, administrative and regulatory compliance functions (collectively, "administrative functions") to efficiently and more cost effectively operate PwC's business. You acknowledge that we may disclose Segregated Account information, including any tax return information regarding the Segregated Account provided to PwC, to such subcontractor involved in the performance of such administrative functions, including any subcontractor located outside of the United States. These subcontractors are subject to the same requirements with respect to handling your information as we are. PwC will be solely responsible for any breach by our subcontractors with respect to handling your information. PwC shall, at your request, exercise its contractual right(s) to enforce compliance by its subcontractors in the event of any breach of requirements with respect to their handling of your information, including, as appropriate, seeking injunctive relief.

Consents to Disclose Client Information

The Rehabilitator authorizes PwC to participate in discussions with and to disclose Segregated Account information, including any tax return information regarding the Segregated Account provided to PwC, to the Rehabilitator's agents, representatives, administrators or professional

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advisors (including accountants, attorneys, financial and other professional advisors), their respective officers, directors or employees, and other parties as you may direct; provided that PwC shall limit such disclosures as directed by the Rehabilitator's counsel for the purpose of avoiding the waiver of any privileges, defenses to disclosure or protections otherwise applicable to such information, including the protections provided by § 601.465, Wis. Stat.

You have the ability to request a more limited disclosure than that authorized by the provisions of this engagement letter, as you may direct. This consent is valid until the later of three years following receipt of your information or completion of the Services covered by this engagement letter.

Ownership and Use

We are providing these Services and deliverables solely for your use and benefit and pursuant to a client relationship exclusively with you. We disclaim any contractual or other responsibility or duty of care to others based upon these Services or upon any deliverables or advice we provide.

You will own all tangible written material prepared for and delivered to you under this engagement letter, except as follows: we own our working papers, preexisting materials and any general skills, know-how, processes, or other intellectual property (including a non-client specific version of any deliverables) which we may have discovered or created as a result of the Services. You have a nonexclusive, non-transferable license to use such materials included in the deliverables for your own use as part of such deliverables.

In addition to deliverables, we may develop software or electronic materials (including spreadsheets, documents, databases and other tools) to assist us with an engagement. If we make these available to you, they are provided "as is" and your use of these materials is at your own risk.

Our Responsibilities

We will perform the Services in accordance with the Statements on Standards for Tax Services established by the American Institute of Certified Public Accountants. Accordingly, we will not provide an audit or attest opinion or other form of assurance, and we will not verify or audit any information provided to us.

Your Responsibilities

The Rehabilitator, through his legal counsel, is responsible for all management functions and decisions relating to this engagement, including evaluating and accepting the adequacy of the scope of the Services in addressing your needs. You are also responsible for the results achieved from using any Services or deliverables, and it is your responsibility to establish and maintain your internal controls. You will designate a competent member of your management to oversee the Services.

We expect that you will provide timely, accurate and complete information and reasonable assistance, and we will perform the engagement on that basis.

Conflicts

The Rehabilitator acknowledges and agrees that we may be engaged to provide fresh-start accounting services to Ambac Financial Group, Inc. (the "AFG Services"). We agree that in the event of such an engagement, none of the professionals or other individuals involved in providing the Services, either presently or in the past, will be involved in providing the AFG Services, nor will they be permitted to discuss the Services with the individuals providing the AFG Services. Moreover, the individuals involved in providing the AFG Services will have no access to any



Information from the files or other materials in our possession as a result of the provision of the Services.

Fees and Expenses

Our fee is based on the time required by our professionals to complete the engagement. Individual hourly rates vary according to the experience and skill required. The hourly rates for the engagement will be as follows: Partner - \$750-\$900; Director - \$650; Manager - \$525; Senior Associate - \$425; and Associate - \$300. PwC will provide a list of the professionals that it expects will bill time in connection with the provision of the Services, along with the individual billing rate of each professional. Hourly rates may be revised from time to time, and you will be notified in advance of any adjusted rates being reflected in any billings. To the extent requested by you, we will provide an estimate of our fees for specific components of the Services.

We also will bill Client for our reasonable out-of-pocket expenses and our internal per ticket charges for booking travel. You agree to reimburse us for sales, use or value added tax, if applicable, which will be included in the invoices for Services or at a later date if it is determined that such taxes should have been collected.

Payment Schedule

Our standard practice is to render our invoices on a monthly basis. Payment of our invoices is due on presentation and expected to be received within 15 days of the invoice date.

Termination and Dispute Resolution

Either party may terminate the Services by giving notice to that effect. This engagement letter shall be governed by, and interpreted under, the laws of the state of Wisconsin. Solely with respect to any action or proceeding pertaining to an alleged breach of this engagement letter, or for recognition or enforcement of any judgment in respect of this engagement letter, each of the parties hereto irrevocably and unconditionally submits to the exclusive jurisdiction of the Circuit Court in Dane County, Wisconsin. The parties hereby agree not to demand a trial by jury in any action, proceeding or counterclaim arising out of or relating to PwC's Services and fees for this engagement, and that any and all claims in respect to this engagement letter shall be determined in said court to the full extent permitted by law.

Limitations on Liability

Except to the extent finally determined to have resulted from our gross negligence or intentional misconduct, our aggregate liability for all claims, losses, liability or damages in connection with this engagement letter or the Services, whether as a result of breach of contract, tort (including negligence) or otherwise, regardless of the theory of liability asserted, is limited to no more than the total amount of annual fees paid to us for the particular Service giving rise to the liability under this engagement letter. In addition, we will not be liable in any event for lost profits, consequential, indirect, punitive, exemplary or special damages. Also, we shall have no liability to you arising from or relating to any third party hardware, software, information or materials selected or supplied by you.

Indemnification

PwC understands and agrees that the State of Wisconsin, the Wisconsin Office of the Commissioner of Insurance ("OCI"), the Rehabilitator, and any agents, representatives, advisors, or attorneys authorized to act on their behalf (a) do not waive any form of immunity, including but not limited to common law immunity, statutory immunity or general sovereign immunity, under the laws of the Wisconsin, any other state, or the United States; and (b) shall not be liable for monetary damages of any kind for breach of this Agreement. To the extent PwC is found by the



Circuit Court of Dane County, Wisconsin to have suffered damages as a result of a breach of this engagement letter, the Rehabilitator and PwC agree that the Rehabilitator will direct the Segregated Account to pay PwC those damages from the Segregated Account as a first-priority, administrative claim in the Case, except that in no event will such recoverable damages include lost profits, consequential, indirect, punitive, exemplary or special damages.

Notwithstanding the foregoing, the Rehabilitator and PwC agree that the Rehabilitator will direct the Segregated Account to indemnify and hold us and our respective partners, principals and employees harmless from and against any and all third party claims resulting from any of the Services or deliverables under this engagement letter, except to the extent determined to have resulted from our gross negligence or intentional misconduct relating to such Services and/or deliverables. Any such indemnification to be paid by the Segregated Account shall be treated as a first-priority, administrative claim in the Case.

Regulatory Matters

Notwithstanding anything to the contrary in this engagement letter, the Rehabilitator has no obligation of confidentiality with respect to any materials, advice or portions of deliverables to the extent they concern the tax structure or tax treatment of any transaction. Nothing herein is intended to constitute a waiver of any privileges, defenses to disclosure or protections otherwise applicable to such information, including the protections provided by § 601.465, Wis. Stat.

Other Written Advice

Based on our discussions, it is anticipated that the written advice PwC provides during the course of this engagement will be Other Written Advice as defined by Circular 230. Accordingly, unless otherwise prohibited or we agree to issue a Covered Opinion as defined by Circular 230, our written advice may include a disclosure stating that the advice was not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed, including, but not limited to penalties that may apply if the transaction that is the subject of our engagement is found to lack economic substance or fails to satisfy any other similar rule of law. Our advice will contain any other disclosures required by Circular 230.

Codification of Economic Substance

PwC has not been requested nor engaged to provide advice regarding the Rehabilitator's determination of the economic substance of any proposed or completed transaction and under no circumstances, should any work performed under this engagement letter be construed as providing such advice. Any advice regarding the economic substance of a proposed or completed transaction must be the subject of a separate engagement letter.

Tax Return Disclosure and Tax Advisor Listing Requirements

Certain federal and state regulations require taxpayers to disclose their participation in certain reportable transactions to the taxing authorities. Certain federal and state regulations also require PwC to submit information returns and maintain lists of certain client engagements if PwC is a material advisor to clients that have participated in a reportable transaction. The parties hereto acknowledge and agree that Client is not a taxpayer; however, to the extent that Client is deemed to participate in a reportable transaction in its capacity as the court-appointed Rehabilitator of the Segregated Account, Client shall advise PwC if Client determines that any matter covered by this engagement letter is a reportable transaction that is required to be disclosed. Therefore, if PwC determines, after consultation with Client, that Client, in its capacity as the court-appointed Rehabilitator of the Segregated Account, has participated in a transaction causing PwC to have a registration and/or list maintenance obligation, PwC will place Client's name and other required information on a list. PwC will contact Client if PwC is required to



provide Client's name to the U.S. Internal Revenue Service or any state in connection with any matter under this engagement letter.

Federal (Internal Revenue Code Section 6694) and State Preparer Standards

Federal law and certain state laws impose obligations on tax return preparers with respect to a position reported on a tax return or claim for refund that does not meet certain standards regarding levels of confidence. The parties hereto acknowledge and agree that Client is not a taxpayer; however, to the extent that Client, in its capacity as the court-appointed Rehabilitator of the Segregated Account, is deemed to have taken a position reported on a tax return or claim for refund that we identify as not meeting these standards, we will advise you about your penalty exposure and whether you can avoid penalty through disclosure. If we are preparing the return or claim for refund and it is concluded that disclosure is required, we will prepare the disclosure and provide it to you.

Other Matters

By entering into this engagement letter you are binding your subsidiaries and affiliates to the extent that you have authority to do so. We disclaim any contractual or other responsibility or duty of care to any other subsidiaries or affiliates.

Notwithstanding anything to the contrary in this engagement letter, the obligations of the parties hereunder shall be fully conditioned on the issuance by the Court of an order approving the terms and conditions hereof.

No party to this engagement letter may assign or transfer this engagement letter, or any rights, obligations, claims or proceeds from claims arising under it, without the prior written consent of the other party, and any assignment without such consent shall be void and invalid. If any provision of this engagement letter is found to be unenforceable, the remainder of this engagement letter shall be enforced to the extent permitted by law. If we perform the Services prior to both parties executing this engagement letter, this engagement letter shall be effective as of the date we began the Services.

This engagement letter supersedes any prior understandings, proposals or agreements with respect to the Services, and any changes must be agreed to in writing.

PwC is owned by professionals who hold CPA licenses as well as by professionals who are not licensed CPAs. Depending on the nature of the services we provide, non-CPA owners may be involved in providing services to you now or in the future.

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We are pleased to have the opportunity to provide services to you. If you have any questions about this engagement letter, please discuss them with Addison Shuster at (646) 471-3880 or Adam Thaler at (646) 471-2905. If the Services and terms outlined in this engagement letter are acceptable, please sign one copy of this engagement letter in the space provided and return it to the undersigned. You may return the signed copy to Addison Shuster or Adam Thaler by mail or air courier to 300 Madison Avenue, New York, NY 10017, by facsimile to Addison Shuster at (813) 329-0826 or Adam Thaler at (813) 329-4943 or attached as a pdf, jpeg or similar file type to an e-mail to Addison Shuster at addison.shuster@us.pwc.com or Adam Thaler at adam.thaler@us.pwc.com.

Very truly yours,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

By: Addison Shuster, Partner

Adam Thaler, Principal

Adam Thaler

ACKNOWLEDGED AND AGREED:

Rehabilitator of the Segregated Account of Ambac Assurance Corporation

Signature of client official:

Roger A. Peterson

Please print name:

Roger A. Peterson

Title:

Special Deputy Commissioner

Date:

July 6, 2011

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

**ORDER APPROVING ENGAGEMENT OF
PRICEWATERHOUSECOOPERS LLP**

This matter came before this Court on the Application of the Wisconsin Commissioner of Insurance, as appointed Rehabilitator for the Segregated Account of Ambac Assurance Corporation, for Approval of Engagement of PricewaterhouseCoopers LLP, dated July 7, 2011. In accordance with Wis. Stat. § 645.33(3) and the Order for Rehabilitation dated March 24, 2010, and for other good cause,

IT IS HEREBY ORDERED that the Application for Approval of Engagement of PricewaterhouseCoopers LLP, dated July 7, 2011, is approved.

Dated: _____ 2011

BY THE COURT

Honorable William D. Johnston
Lafayette County Circuit Court Judge
Presiding by Judicial Appointment