

In the Matter of the Rehabilitation of:

Case Nos. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

AFFIDAVIT OF MICHAEL B. VAN SICKLEN

STATE OF WISCONSIN)
) ss.
COUNTY OF DANE)

Michael B. Van Sicklen, being first duly sworn on oath deposes and states as follows:

1. I am an attorney with Foley & Lardner LLP, and I am one of the Foley attorneys representing the Rehabilitator in the above-captioned proceeding. I have personal knowledge of the matters described herein.


2. On July 13, 2010, I sent a letter to counsel for KnowledgeWorks Foundation (“KnowledgeWorks”) and the Treasurer of the State of Ohio (the “Treasurer”) inquiring about their clients’ specific concerns with this proceeding and how their clients were prejudiced by an injunction order that would seem to protect them from immediate and substantial financial harm. A true and correct copy of this letter is attached as Exhibit 1. The letter was also sent to local counsel for Access to Loans for Student Loan Corporation (“ALL”) (which is also an issuer rather than a policy beneficiary), but did not otherwise address ALL.

3. On July 20, 2010, I sent another letter to counsel for KnowledgeWorks and the Treasurer responding to their request for discovery and again inquiring about their clients’ interest in this proceeding. A true and correct copy of this letter is attached as Exhibit 2.

4. To date, we have received no response to the inquiries in the letters attached as Exhibits 1 and 2.

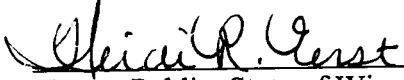
5. Attached as Exhibit 3 is a true and correct copy of the August 16, 2010 "Issuer Comment" published electronically by Moody's Investors Service, a company known for its experience and expertise in assessing financial guarantor issuers like Ambac.

DATED this 17th day of August, 2010.



Michael B. Van Sicklen

Subscribed and sworn to before me
this 17th day of August, 2010.



Notary Public, State of Wisconsin.
My Commission: expires 7-27-14



FOLEY & LARDNER LLP

VIA EMAIL AND FIRST-CLASS MAIL

July 13, 2010

ATTORNEYS AT LAW

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CLIENT/MATTER NUMBER
092281-0101

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Lexington, KY 40507-1749

Jeffrey A. Lipps
Carpenter Lipps & Leland LLP
280 Plaza, Suite 1300
280 North High Street
Columbus, OH 43215

Lawrence Bensky
Law Office of Lawrence Bensky, LLC
10 East Doty Street, Suite 800
Madison, WI 53703

Re: *In the Matter of the Rehabilitation of Segregated Account
of Ambac Assurance Corporation, Case No. 10CV1576
(Dane County Circuit Court)*

Dear Greg, Jeff and Larry:

I am writing on behalf of the Wisconsin Commissioner of Insurance, as the court-appointed Rehabilitator (the "Rehabilitator") of the Segregated Account of Ambac Assurance Corporation (the "Segregated Account") with regard to the above-referenced rehabilitation proceeding. Since the commencement of this rehabilitation action, I and other representatives of the Rehabilitator have fielded inquires and maintained dialogues with numerous policyholders and other parties-in-interest about the rehabilitation proceeding and its impact on their particular interests. By educating us regarding their specific concerns, we often have been able to avoid or minimize potentially adverse effects that this proceeding may have upon these parties-in-interest.

You have indicated in court filings and in communications with me that your clients, KnowledgeWorks Foundation ("KnowledgeWorks") and the Treasurer of the State of Ohio, on behalf of the State of Ohio (the "Treasurer"), oppose the establishment of the Segregated Account, the commencement of rehabilitation of the Segregated Account, and the injunction against certain actions relating to policies allocated to the Segregated Account. You have also indicated that the Treasurer is the issuer, and KnowledgeWorks the administrator, of

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BRUSSELS
CHICAGO
DETROIT

JACKSONVILLE
LOS ANGELES
MADISON
MIAMI

MILWAUKEE
NEW YORK
ORLANDO
SACRAMENTO

SAN DIEGO
SAN DIEGO/DEL MAR
SAN FRANCISCO
SHANGHAI

SILICON VALLEY
TALLAHASSEE
TAMPA
TOKYO
WASHINGTON, D.C.

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Greg E. Mitchell
Jeffrey A. Lipps
Lawrence Bensky
July 13, 2010
Page 2

revenue bonds with payments guaranteed by three Ambac financial guaranty insurance policies: (1) policy number 23838BE, insuring the obligations of the Treasurer under Series 2001A, 2001B, 2002A, and 2002B student loan revenue bonds; (2) policy number 26053BE, insuring the obligations of the Treasurer under Series 2006A student loan senior revenue bonds, and (3) policy number SW0240BE, insuring the obligations of the Treasurer under its swap agreement with UBS AG.

You have not, however, indicated what prejudice your clients are currently suffering or could potentially suffer from the establishment of the Segregated Account, the commencement of this proceeding, or the injunction in force in this action. Neither the Treasurer nor KnowledgeWorks are beneficiaries of the policies at issue and will never have a class three policy claim against Ambac or its Segregated Account. It is unclear from the documents you have presented to the Court how this rehabilitation proceeding could adversely affect your clients' interests. Other than your stated desire to sue the Rehabilitator outside of the rehabilitation proceeding, you have not identified any acts your clients seek to take or avoid taking that are affected by the terms of the injunction. From the Rehabilitator's point of view, the only apparent interest of your clients is an interest in maintaining the rehabilitation. As I mentioned prior to and during the July 9, 2010 hearing, the injunction in this matter is currently preventing UBS AG from declaring an event of default or termination event under the ISDA Master Agreement governing its transaction with the Treasurer (attached as Exhibit 8 to your filing), which would allow UBS AG to seek substantial, accelerated damages from the Treasurer.

Therefore, we do not understand why you have moved on behalf of your clients to dissolve the injunction and invalidate the Segregated Account. Such relief, if granted, could expose the Treasurer (as well as other issuers of Ambac-insured transactions in the Segregated Account) to accelerated termination damages and other potential actions by bond holders. The scale of such damages would not only cause unnecessary and immediate financial distress for issuers such as the Treasurer, but would also dramatically increase the claims against Ambac due to the inability of many issuers to pay such damages—and thus require the Rehabilitator to commence another delinquency proceeding involving Ambac.

We would like to better understand your clients' rationale for challenging the Rehabilitator's actions relating to this proceeding. If there are some concerns regarding specific provisions of the injunction, or unique circumstances or other factors pertaining your clients' position, we are willing to discuss them. We often have been able to accommodate concerns of parties-in-interest when doing so would not prejudice other policyholders or the prospects for rehabilitation. In order to have such discussions, however, we ask that you first explicate your reasons for opposing an injunction that seems to be protecting the Treasurer from immediate and



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Greg E. Mitchell
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July 13, 2010
Page 3

substantial financial harm without restraining your clients from actions they would have taken absent the rehabilitation. Absent such an explanation, it is hard for us to discern how your motions have any reasonable basis in law or fact.

Very truly yours,

FOLEY & LARDNER LLP

A handwritten signature in black ink, appearing to read 'Mike'.

Michael B. Van Sicklen

July 20, 2010

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CLIENT/MATTER NUMBER
092281-0101

VIA E-MAIL

Greg E. Mitchell
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Lexington Financial Center,
250 West Main Street, Suite 2800
Lexington, KY 40507-1749

Re: *In the Matter of the Rehabilitation of Segregated Account of
Ambac Assurance Corporation*
Case No. 10-CV-1576

Dear Mr. Mitchell:

We are confused by your July 19, 2010 letter, in which you request information “[i]n furtherance of [y]our Proposed Order Setting Schedule for Briefing and Hearings . . . filed with the Court on July 8, 2010[.]” It was clear from your exchange with the Court at the end of July 9 hearing in this matter that the Court did not agree with your proposed scheduling order or position regarding discovery requests. On July 13, the Court declined to enter your proposed scheduling order and instead entered the scheduling order proposed by the Rehabilitator. For your convenience, a copy of the scheduling order entered by the Court is attached. We do not understand your rationale in requesting that OCI take action in furtherance of a proposed form of order that the Court did not adopt.

In addition, we are still awaiting a response to our July 13, 2010 letter to you. We remain unclear as to how the clients represented by you and Mr. Lipps—the administrator and issuer of Ambac-insured bonds—are prejudiced by the establishment of the Segregated Account, the commencement of its rehabilitation, and the resulting injunction in place. As noted in our July 13 letter, it seems to us that the injunction is protecting your clients from the exercise of ipso facto contractual clauses by bond holders that could cause accelerated payments from your clients. It is also unclear how the injunction is harming or could harm your clients, who are not policy beneficiaries and will not even make claims for payments from the Segregated Account. Please respond to our July 13 letter so that we may better understand your rationale in continuing to challenge the injunction and clear up any misconceptions we may have regarding your clients and this proceeding.

Finally, we have learned that you sent the identical information request to counsel for Ambac under separate cover, without copying OCI. In the future, to avoid confusion, please direct

BOSTON
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CHICAGO
DETROIT

JACKSONVILLE
LOS ANGELES
MADISON
MIAMI

MILWAUKEE
NEW YORK
ORLANDO
SACRAMENTO

SAN DIEGO
SAN DIEGO/DEL MAR
SAN FRANCISCO
SHANGHAI

SILICON VALLEY
TALLAHASSEE
TAMPA
TOKYO
WASHINGTON, D.C.

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Greg E. Mitchell
July 20, 2010
Page 2

any such correspondence to counsel for both the Rehabilitator and Ambac. We do not understand your purpose in writing us separately concerning the same issues.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Michael B. Van Sicklen', written over a horizontal line.

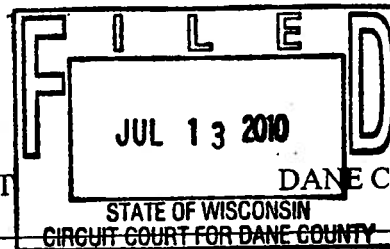
Michael B. Van Sicklen
Matthew R. Lynch

Enclosure

cc: Jeffrey A. Lipps
James C. Owen
Melissa Kern
Henry J. Ricardo

STATE OF WISCONSIN

CIRCUIT COURT



DANE COUNTY

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Handwritten initials, possibly "JB", in the right margin.

Segregated Account of Ambac Assurance Corporation

**ORDER SETTING SCHEDULE FOR BRIEFING AND HEARINGS
FOR MOTIONS FILED ON OR ABOUT JUNE 22, 2010 PERTAINING TO THE
COURT'S PRIOR ORDER ON INJUNCTIVE RELIEF AND RELATED MATTERS**

Tuesday, June 22, 2010, was the deadline set in this Court's March 24, 2010

Order regarding injunctive relief by which any party-in-interest was required to file any challenges pertaining to that order for injunctive relief. The following entities ("Movants") filed various sets of motion papers on June 22, 2010:

- Depfa Bank, plc;
- Wells Fargo Bank, N.A., solely in its capacity as trustee for certain RMBS certificateholders;
- Bank of America, N.A., solely in its capacity as trustee for certain RMBS certificateholders;
- PNC Bank, N.A.;
- One State Street, LLC;
- Deutsche Bank National Trust Company, solely in its capacity as trustee, and Deutsche Bank Trust Company Americas, solely in its capacity as trustee;
- U.S. Bank National Association, solely in its capacity as trustee for certain securitization trusts;
- Access to Loans for Learning Student Loan Corporation & Lloyds TSB Bank plc;
- The Bank of New York Mellon; and
- KnowledgeWorks Foundation and the Treasurer of the State of Ohio.

THE COURT HEREBY ORDERS THAT THE FOLLOWING SCHEDULE BE FOLLOWED FOR BRIEFING AND HEARINGS IN REGARD TO THE MOTIONS FILED BY THE ABOVE-REFERENCED MOVANTS:

I. RESPONSE SUBMISSIONS

All briefs, affidavits or other submissions in opposition to the above-referenced Movants' motions shall be filed on or before the close of business on Tuesday, August 17, 2010.

II. REPLY BRIEFS

All reply briefs by Movants shall be filed on or before the close of business on Wednesday, September 1, 2010.

*Note that all written submissions shall be filed with the Clerk for the Dane County Circuit Court, with courtesy copies provided to Judge Johnston at the Lafayette County Courthouse (via mail or hand delivery). All courtesy copies provided to Judge Johnston shall be three-hole punched.

II. HEARINGS

A. September 9, 2010 Hearing Commencing at 1:30 p.m. on All Non-Policy-Specific "Common Issues"

This hearing shall address all non-policy-specific "common" issues raised in any of the submissions by any of the Movants pertaining to the Court's March 24, 2010 injunction order, including challenges as to the scope or duration of the injunctive relief, specific provisions of the injunction order or the authority of the Court to issue such relief; issues raised by any of the Movants pertaining to the appropriateness, lawfulness or constitutionality of the Segregated Account; motions seeking intervention or discovery, and any other issue not specified below to be addressed at the September 13, 2010 hearing.

B. September 13, 2010 Hearing Commencing at 1:30 p.m.

This hearing shall pertain to the following motions dealing with specific issues pertaining to the allocation of a liability or policy to the Segregated Account or a specific contract disagreement pertaining to servicing or a commercial real estate lease.

- One State Street, LLC – This Movant’s contention that the disputed contingent liability regarding the New York commercial real estate office lease was improperly allocated to the Segregated Account, including all issues raised by this Movant pertaining to the lease.
- Access to Loans for Learning Student Loan Corporation & Lloyds TSB Bank plc – Movants’ policy-specific allegations regarding allocation of a particular policy or policies to the Segregated Account (as opposed to more generalized allegations noted above about the injunction or the lawfulness of the Segregated Account).
- KnowledgeWorks Foundation and the Treasurer of the State of Ohio – Movants’ policy-specific allegations regarding the allocation or possible future allocation of those particular policies to the Segregated Account (as opposed to more generalized allegations noted above about the injunction or the lawfulness of the Segregated Account).
- PNC Bank’s contentions regarding termination of its servicing contract – (as opposed to more generalized allegations noted above about the injunction or the lawfulness of the Segregated Account).

Note that both hearings shall commence at 1:30 p.m. before the William D.

Johnston in his courtroom in the Lafayette County Courthouse in Darlington, Wisconsin, and that the Court has blocked out the entire afternoon for each hearing.

IV. CASE TRACKING LETTER DESIGNATIONS

As to the motions filed on or about June 22, 2010, the Court has assigned a lettered designation, by entity, at the end of the case number to identify proceedings pertaining to the sets of motions filed by each entity. The Court previously indicated the reasons for such designations at the June 4, 2010 hearing. These designations should be used in the briefs and any other further submissions pertaining to Movants’ motions. Because HSBC’s interpleader is

already designated "Case No. 10 CV 1576-A," the motions by each Movant below start with the letter "B." There is no significance to the order of the letters; they reflect the order in which each Movants' motions were posted on the court-approved website for this rehabilitation proceeding.

10 CV 1576-B	Depfa Bank, plc
10 CV 1576-C	Wells Fargo Bank, N.A., solely in its capacity as trustee for certain RMBS certificateholders
10 CV 1576-D	Bank of America, N.A., solely in its capacity as trustee for certain RMBS certificateholders
10 CV 1576-E	PNC Bank, N.A.
10 CV 1576-F	One State Street, LLC
10 CV 1576-G	Deutsche Bank National Trust Company, solely in its capacity as trustee, and Deutsche Bank Trust Company Americas, solely in its capacity as trustee
10 CV 1576-H	U.S. Bank National Association, solely in its capacity as trustee for certain securitization trusts
10 CV 1576-I	Access to Loans for Learning Student Loan Corporation & Lloyds TSB Bank plc
10 CV 1576-J	The Bank of New York Mellon
10 CV 1576-K	KnowledgeWorks Foundation and the Treasurer of the State of Ohio

V. AMENDMENT OF SCHEDULING ORDER

A. Amendment by Stipulation.

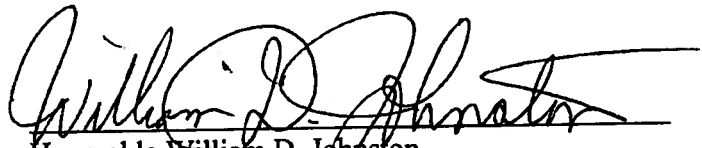
The parties may amend this order by stipulation and agreement which shall be reduced to writing and submitted with an appropriate order to the Court for signing and entry.

B. Amendment by Hearing.

If the parties cannot reach agreement or stipulation to amend this order, motion to amend may be filed with the Court. Upon receipt of such a motion, the Court will schedule the motion for hearing.

Dated: July 13, 2010.

BY THE COURT:


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

CC: To All Counsel
On The Attached list > 7/14/10
JB

CC: Attorney's in Dane County Case # 10-CV-1576

Alazraki, Marcia D
Bailey, Kristine
Bartzen, James E.
Bensky, Anne M
Bensky, Lawrence
Benson, Paul E.
Bentley, Philip
Bloomgarden, Craig S.
Callan, Laura E.
Canton, Amy
Christensen, Dale C.
Cisar, David I.
Crocker, Randall D.
Davidson, Andrew K.
Franke, John
Friedman, James A.
Gaughan, Anthony J.
Goodchild III, John C.
Greenwald, David M.
Honorable William D. Johnston
Hopper, Thomas Ross
Houghton, Leah M.
Ivanick, Peter A.
Jacquemot, Susan
Kern, Melissa A..
Killoran, Grant C.
Lipps, Jeffrey A.
Lovern, Susan E.
Lucey, Paul A.
Lynch, Matthew R.
Lyons, Gregory W.
McNeil, Kathleen G.
Mitchell, Greg E.
Moenick, Nathan L.
Morgan, Stephen L.
Munson, Jr., Earl H.
Muth, R. Timothy
Nowicki, Bryan K.
Parrett, Noreen Joy
Polakowski, Jessica L.
Primps, William G.
Reinthal, Richard W.
Ricardo, Henry J.

Riches, Jonathan Lee.
Roberts, Lynn
Rosenthal, John M.
Saffitz, Emily L.
Schlicht, Jane C.
Simon, John B.
Stolper, Daniel W.
Stroebe, Christopher J.
Trostle, Patrick J.
Van Sicklen, Michael B.
Van Tol, Peter
Walsh, David G.
Weed, Michael C.
Weiss, Allison H.
Welsch, Thomas J.
Whitmer, Steven T.
Williamson, Brady C.
Wisniewski, Kevin A.
Zeavin, Robert A.

AUGUST 16, 2010

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT

Ambac Policyholders Unlikely Affected by Looming Holdco Bankruptcy; Senior Policyholders to Benefit from Statutory Surplus Buildup

Analyst Contacts:

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Helen Remeza	1.212.553.2724
Vice President – Senior Analyst	
Helen.Remeza@moodys.com	

Extracted from "Moody's Weekly Credit Outlook", dated August 16, 2010

In its 9 August 10-Q filing, Ambac Financial Group (AFG, senior debt rated C) ramped up the tone of what it had hinted at as early as November 2009: a bankruptcy filing of the holding company. We reiterate that an insurance holding company bankruptcy is unlikely to have a direct material effect on the group's operating subsidiaries and their policyholders.¹

In the same filing, Ambac reported consolidated statutory capital and surplus of about \$1.5 billion in second-quarter 2010, up from \$160 million in the first quarter.² This was largely attributable to the \$2 billion surplus notes issued for the ABS CDS settlement in June 2010. Enhanced statutory surplus is credit positive for General Account policyholders.

Ambac Holdco is pursuing a restructuring through a prepackaged bankruptcy.

Ambac's holding company, AFG, is in a very weak liquidity position, with no access to insurance company resources and about \$122 million of debt due in August 2011. We rate Ambac's senior debt C, indicating a high likelihood of default with diminished recovery. As of 30 June, AFG had \$56.7 million in cash and cash equivalents, about 5% of \$1.2 billion senior debt outstanding.

The company is currently pursuing raising additional capital and restructuring its outstanding debt through a prepackaged bankruptcy (prepack) proceeding. This would save it time and money in court, compared to an ordinary Chapter 11, because the major stakeholders would agree on a restructuring plan beforehand. Firms can emerge from Chapter 11 with a successful prepack in fewer than six months.

What is Moody's Weekly Credit Outlook?

Moody's Weekly Credit Outlook provides our research clients with timely opinions on breaking credit market developments and trends. Published every Monday morning, the newsletter will help you start your week informed of Moody's latest opinions from across the organization.

¹ "Ambac's Remaining Policyholders to Benefit from CDS Termination: Unlikely to Be Affected by Holding Company Default", *Moody's Weekly Credit Outlook*, 14 June 2010.

² AAC's statutory financial statements include the results of the General Account and the Segregated Account, Ambac Assurance UK Ltd. and Everspan Financial Guarantee Corporation.

Holdco bankruptcy would have limited effect on insurance operating companies.

An AFG bankruptcy is unlikely to have direct material effect on the group's operating subsidiaries and their policyholders. Insurance operating companies generally continue to operate, uninterrupted by a parent's bankruptcy.

Ambac Assurance Corporation (AAC), the main operating subsidiary of AFG, is a distinct legal entity that is regulated by the Wisconsin Office of the Commissioner of Insurance (OCI). AAC's insurance policies are supported by the assets held within AAC. To protect policyholders, assets are required by Wisconsin laws to be set aside or reserved for claims payments. The creation of the Segregated Account and the termination of ABS CDOs helped stabilize the insurer's financial conditions.³

Part of Ambac's restructuring would likely involve creditors exchanging their debt for AFG's common stock. As a result, creditors may emerge as new owners of AFG, and they could influence the insurance subsidiaries' operation. In June 2010, Ambac exchanged \$20 million of the August 2011 debt for 13.6 million shares of common stock, or about 4.7% of total shares outstanding.

Enhanced statutory surplus is credit positive for General Account policyholders.

The ABS CDO settlement in June 2010 significantly improved the statutory surplus. In exchange for the termination of their CDS, bank counterparties received \$2.6 billion up front in cash and \$2 billion newly issued 10-year surplus notes. Surplus note payments are junior to the General Account policyholders' claims and can be deferred. As prescribed by OCI, the surplus notes were included in AAC's statutory surplus at their par value of \$2 billion. The surplus notes contributed to the claims paying resources for the General Account, but also represented a liability to the Segregated Account.

The substantial improvement in AAC's statutory capital position is credit positive for the policyholders in the General Account, mitigating the risk of a regulatory capital breach.

Following the recent commutations, AAC also has no remaining statutory impairments on its credit derivative portfolio. In addition, should the court approve OCI's rehabilitation plan, new surplus notes issued to fund Segregated Account claims would likely further enhance AAC's statutory capital position.

³ "Ambac's Restructuring Differentiates among Policyholders," Moody's Weekly Credit Outlook, 12 April 2010.

Report Number: 127069

Author
Helen Remeza

Production Associate
David Dombrovskis

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