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In the Matter of the Rehabilitation of:

Segregated Account of
Ambac Assurance Corporation,

SEAN DILWEG and OFFICE OF THE
COMMISSIONER OF INSURANCE,

Appeal No. 2010-AP-1291

and Appeal No. 2010-AP-2022

Plaintiffs/Respondents, et al.,

v.

WELLS FARGO BANK/Trustee of
Bondholders,

Defendants, et al.

Dane County Circuit Court Case No. 2010-CV-1576
The Honorable William D. Johnston
Lafayette County Circuit Court, Presiding by Judicial Assignment

**LVM BONDHOLDERS' RESPONSE TO MOTION TO
CONSOLIDATE APPEALS AND MODIFY BRIEFING
REQUIREMENTS, AND CROSS-MOTION TO
CONSOLIDATE APPEALS, MODIFY BRIEFING
REQUIREMENTS, AND BIFURCATE ORAL ARGUMENT**

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Appellants Eaton Vance Management, Nuveen Asset Management, Restoration Capital Management LLC, and Stone Lion Capital Partners L.P. (collectively, the "LVM Bondholders") respectfully submit this response and cross-motion to the Motion to Consolidate Appeals and Modify Briefing Requirements filed on September 20, 2010, by the Wisconsin Office of the Commissioner of Insurance and Sean Dilweg, Commissioner of Insurance of the State of Wisconsin (together, "OCI"), as Rehabilitator of the Segregated Account of Ambac Assurance Corporation ("Ambac," and together with OCI, "Respondents"). By way of their response and cross-motion, the LVM Bondholders (i) join in OCI's motion to consolidate appeal numbers 2010-AP-1291 and 2010-AP-2022 and to modify the briefing schedule and applicable word limitations, albeit on slightly revised terms which have now been agreed to by all parties to the appeal, and (ii) request that, if the Court grants Appellants' request for oral argument, the argument of the two appeals be bifurcated so that the issues may be addressed separately.

I. The Appeals Should Be Consolidated and the Briefing Schedule Revised As Agreed by the Parties

Since the submission of OCI's motion on September 20, the LVM Bondholders have conferred with OCI and Ambac, with co-appellant Federal Home Mortgage Corporation ("Freddie Mac"), and with co-appellants Aurelius Capital Management, LP, Fir Tree, Inc., King Street Capital, L.P., King Street Capital Master Fund, Ltd., Monarch Alternative Capital, LP, and Stonehill Capital Management LLC (collectively, the "RMBS Policyholders," and together with the LVM Bondholders and Freddie Mac, the "Appellants"). As a result of those discussions, and subject to the Court's approval, Appellants have agreed to join in OCI's request for consolidation of the appeals and modification of word limitations and briefing schedule (in order to accommodate counsels' planned family vacation and wedding/honeymoon), and OCI and Ambac have agreed to an extension of the time within which Appellants must file their reply briefs (in order to accommodate the Thanksgiving holiday and Hanukkah).

The LVM Bondholders have agreed to join in Respondents' request for consolidation in light of the efficiencies that will result from a consolidated briefing schedule. Nevertheless, it remains the case that the

two appeals, while arising out of the same proceeding in the Circuit Court, are addressed to separate issues: In appeal number 2010-AP-1291, the LVM Bondholders, RMBS Policyholders and Freddie Mac appeal the denial of their motions addressed to the settlement of Ambac's obligations under guaranties of credit default swap agreements with certain banks (the "CDS Settlement"), and the RMBS Policyholders appeal the denial of their motion challenging the creation of the Segregated Account; in appeal number 2010-AP-2022, the LVM Bondholders appeal the denial of their motion challenging the lawfulness of the allocation of their particular policy to the Segregated Account.¹ In light of the distinct nature of the matters at issue in the two appeals, the parties have agreed that, subject to the Court's approval, the LVM Bondholders may file a separate reply brief in each of the two appeals if they so choose (one addressing the CDS

¹ The LVM Bondholders' appeal under case number 2010-AP-2022 is from the Circuit Court's decision dated July 16, 2010, which denied a motion filed by the LVM Bondholders on June 9, 2010, challenging the allocation of the LVM Bond Policy to the Segregated Account of Ambac. That motion sought an order declaring that the allocation of the LVM Bond Policy to the Segregated Account, while all of the other municipal bond policies of Ambac remained in the General Account, was contrary to the terms and express purpose of Wisconsin's segregated account statute, Wis. Stat. Sec. 611.24, and also violated settled anti-discrimination principles derived from the Equal Protection Clauses of the U.S. and Wisconsin Constitutions. The May 27, 2010 Order that is the subject of appeal number 2010-AP-1291, while it addressed certain legal challenges by the RMBS Policyholders to the creation of the Segregated Account, did not address the issues raised by the LVM Bondholders' June 9 motion which rests on different grounds and seeks different relief.

settlement at issue in appeal number 2010-AP-1291, the other addressing the allocation of the LVM Bond Policy to the Segregated Account at issue in appeal number 2010-AP-2022), provided that the total word count for the two briefs will not exceed 4,800 words.² This limitation would not affect the permissible length of the reply briefs to be filed by the RMBS Policyholders and Freddie Mac in appeal number 2010-AP-1291, which would continue to be governed by the Wisconsin appellate rules.

The particulars of the jointly-requested briefing schedule and modification of word limitations are set forth in paragraphs 1-6 at pages 7-8 below.

II. Oral Argument of the Appeals Should Be Bifurcated

Appellants in appeal number 2010-AP-1291 have requested oral argument, and the LVM Bondholders will request argument in appeal number 2010-AP-2022 as well. The LVM Bondholders have not reached agreement with OCI and Ambac as to whether there should be oral argument or how oral argument should be handled in the consolidated appeals. Nevertheless, for the same reasons that may warrant the LVM

² For the same reasons, while the parties have not reached agreement on the issue, the LVM Bondholders request in Point II below that oral argument of the two appeals be bifurcated so that the issues involved in the two appeals may be addressed separately.

Bondholders' submission of separate reply briefs in the two appeals, as discussed in Point I above, the LVM Bondholders respectfully request that oral argument of the two appeals – if it is granted by the Court – be bifurcated so that the issues relating to each of the consolidated appeals are addressed separately, perhaps in consecutive argument sessions.

Conclusion

For the reasons set forth above, the LVM Bondholders, on behalf of themselves as well as the RMBS Policyholders and Freddie Mac, and with the consent of OCI and Ambac with respect to the proposed consolidation and modification of briefing schedules and word limitations only (paragraphs 1 through 6 below), respectfully request the entry of an Order:

1. Consolidating appeal numbers 2010-AP-1291 and 2010-AP-2022;
2. Permitting Respondents OCI and Ambac each to file one brief addressing the issues contained in all Appellants' briefs, within thirty days after the filing of the last Appellant's brief in appeal number 2010-AP-2022 (which is currently due to be filed on October 18, 2010), or November 17, 2010;

3. Extending the word limitation of each Respondent's single brief from 11,000 words to 16,000 words;

4. Extending the deadline for the submission of Appellants' reply briefs to December 17, 2010;

5. Permitting the LVM Bondholders to file a separate reply brief in each of the two appeals, if they so choose (one addressing the CDS settlement at issue in appeal number 2010-AP-1291, the other addressing the allocation of the LVM Bond Policy to the Segregated Account at issue in appeal number 2010-AP-2022), with a total word limitation of 4,800 words for the two briefs;

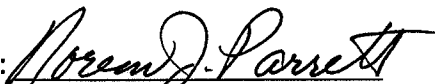
6. If the LVM Bondholders elect to file one consolidated reply brief, extending the word limitation of their reply brief from 3,000 words to 4,800 words; and

7. In the event that the Court grants the Appellants' request for oral argument, bifurcating the argument so that the issues relating to each of the appeals are addressed separately.

Dated this 1st day of October, 2010.

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