

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

IN RE AMBAC FINANCIAL GROUP,
INC. SECURITIES LITIGATION

Case No. 08-cv-00411-NRB

STANLEY TOLIN and EDWARD
WALTON, Individually and On Behalf of
All Others Similarly Situated,

Case No. 08-cv-11241-CM

Plaintiffs,

v.

AMBAC FINANCIAL GROUP, INC.,
ROBERT J. GENADER and SEAN T.
LEONARD,

Defendants.

**STIPULATION OF SETTLEMENT WITH AMBAC AND THE INDIVIDUAL
DEFENDANTS**

This Stipulation of Settlement (the “Stipulation”) is entered into between and among the following Settling Parties (as defined in paragraph 1 below) by and through their respective counsel: (i) the Lead Plaintiffs in the Ambac Class Action (as defined below), the Public School Teachers’ Pension & Retirement Fund of Chicago, Arkansas Teacher Retirement System, Public Employees’ Retirement System of Mississippi; Plaintiff Painting Industry Insurance and Annuity Funds; and plaintiffs in the Tolin Action (as defined below), Stanley Tolin, and Edward Walton (collectively, “Plaintiffs”), on behalf of themselves and the members of the Class (as hereinafter defined); (ii) Ambac Financial Group, Inc. (“Ambac” or the “Company”)¹; and (iii) Michael A. Callen (“Callen”), Jill M. Considine (“Considine”), Robert J. Genader (“Genader”), W. Grant Gregory (“Gregory”), Philip B. Lassiter (“Lassiter”), Sean T. Leonard (“Leonard”), Thomas C. Theobald (“Theobald”), John W. Uhlein, III (“Uhleln”), Laura S. Unger (“Unger”), Henry D.G. Wallace (“Wallace”), David W. Wallis (“Wallis”), Gregg L. Bienstock (“Bienstock”), Kevin J. Doyle (“Doyle”), Philip Duff (“Duff”), Thomas J. Gandolfo (“Gandolfo”), Kathleen McDonough (“McDonough”), William T. McKinnon (“McKinnon”), Douglas C. Renfield-Miller (“Renfield-Miller”), and Robert G. Shoback (“Shoback”; collectively, “Individual Defendants”) (collectively, Ambac and the Individual Defendants are the “Settling Defendants”). The Stipulation is intended by the Settling Parties to fully, finally and forever resolve, discharge and settle the Settled Claims, upon and subject to the terms and conditions hereof.

WHEREAS:

¹ On November 8, 2010, Ambac commenced a voluntary case under Chapter 11 of Title 11 of the United States Code. As explained below, the Ambac Settlement is conditioned on receiving an order of the Bankruptcy Court approving Ambac’s participation in the Settlement.

A. All terms with initial capitalization not otherwise defined herein shall have the meanings ascribed to them in paragraph 1 herein.

B. Beginning on or about January 16, 2008, putative class action complaints were filed against Ambac and certain Individual Defendants in the United States District Court for the Southern District of New York, asserting violations of the federal securities laws. Pursuant to the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), notice to the public was issued setting forth the deadline by which putative class members could move the Court to be appointed to act as lead plaintiff.

C. By Order dated May 9, 2008, the Court consolidated the related actions in the Ambac Class Action, appointed Lead Plaintiffs as the lead plaintiffs in the Ambac Class Action, and appointed Bernstein Litowitz Berger & Grossmann LLP and Kaplan Fox & Kilsheimer LLP as lead counsel in the Ambac Class Action (“Lead Counsel”).

D. On August 25, 2008, Lead Plaintiffs on behalf of a putative class of persons who purchased or acquired Ambac securities filed the Consolidated Amended Class Action Complaint (the “Ambac Complaint”) in the Ambac Class Action, asserting claims under §§ 11, 12 and 15 of the Securities Act of 1933 and §§ 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder against Ambac, Genader, Leonard, Uhlein, Wallis, Callen, Lassiter, Considine, Gregory, Theobald, Unger, Wallace, Duff, the Underwriter Defendants; Lehman Brothers Inc., Credit Suisse Securities (USA) LLC, Banc of America Securities LLC, Keefe, Bruyette & Wood, Inc., and KPMG LLP (“KPMG”) (collectively “Defendants”).

E. On October 21, 2008, Defendants in the Ambac Class Action moved to dismiss the Ambac Complaint, which Lead Plaintiffs opposed on December 19, 2008. Reply memoranda were filed on February 10, 2009.

F. On December 24, 2008, the initial complaint in the Tolin Action, which alleged violations of the federal securities laws based on certain factual allegations similar to certain of the factual allegations in the Ambac Class Action, but on behalf of a different class of purchasers, was filed.

G. An Amended Class Action Complaint in the Tolin Action (collectively, with the Ambac Complaint, "Complaints") was filed on January 20, 2009, asserting violations of the federal securities laws against Ambac, Genader and Leonard, on behalf of a putative class of persons who purchased or acquired Structured Repackaged Asset-Backed Trust Securities, Callable Class A Certificates, Series 2007-1, STRATS(SM) Trust for Ambac Financial Group, Inc. Securities, Series 2007-1.

H. On April 15, 2009, Ambac and the individual defendants in the Tolin Action moved to dismiss the Amended Class Action Complaint in the Tolin Action, which plaintiffs in the Tolin Action opposed on May 15, 2009. A reply memorandum was filed on May 22, 2009.

I. In order to facilitate settlement and mediation efforts, on July 15, 2009, upon application of all parties, the Court ordered Defendants' pending motions to dismiss in the Ambac Class Action withdrawn without prejudice to re-filing motions to dismiss.

J. Lead Plaintiffs, plaintiffs in the Tolin Action, the Settling Defendants, and the Underwriter Defendants, among others, participated in an in-person mediation before Judge Nicholas Politan (Ret.) on July 30, 2009, in New York, New York. No settlement was reached at the mediation.

K. On August 27, 2009, renewed motions to dismiss by Defendants; renewed opposition thereto by Lead Plaintiffs, and Defendants' renewed reply briefs, were filed in the Ambac Class Action.²

L. Following a hearing held on December 17, 2009, by Order dated February 22, 2010, the Court granted in part and denied in part Defendants' motions to dismiss the Ambac Complaint in the Ambac Class Action, sustaining claims under the Exchange Act and claims under the Securities Act with respect to Ambac's February 2007 DISCS Offering, and dismissing claims under the Securities Act with respect to Ambac's March 2008 Offering. All claims against Defendants KPMG, Philip Duff, Credit Suisse Securities (USA) LLC, Banc of America Securities LLC, and Keefe Bruyete & Wood, Inc. in the Ambac Class Action were dismissed.

M. On December 23, 2009, Judge McMahon denied defendants' motion to dismiss in the Tolin Action. Defendants in that action filed a motion for reconsideration or certification for interlocutory appeal on January 6, 2010, and on February 2, 2010 Judge McMahon recalled her prior opinion and on February 5, 2010 granted reargument on the motion to dismiss. Judge McMahon thereafter heard oral argument on the motion to dismiss on August 5, 2010. The motion to dismiss in the Tolin Action remained pending as of the time Judge McMahon was advised that the parties had reached an agreement in principle to settle the Tolin Action.

N. On March 8, 2010, certain Defendants in the Ambac Class Action filed a motion for certification for interlocutory appeal of the Court's February 22, 2010 Order denying in part their motions to dismiss; other Defendants joined in the motion on March 15, 2010. Lead

² Underwriter Defendant Lehman Brothers Inc. was not included in the renewed motion to dismiss (or proceedings thereafter) as a result of the December 23, 2008 Order of Stay consistent

Plaintiffs filed their opposition on March 22, 2010, and certain Defendants filed their reply on March 29, 2010. The Court denied the motion for certification for interlocutory appeal by Order dated April 29, 2010.

O. On or about April 22, 2010, Lead Plaintiffs, the Settling Defendants, the Underwriter Defendants, and the D&O Insurers, among others, participated in a second in-person mediation session with Judge Politan. No settlement was reached at the mediation, but the parties agreed that mediation efforts would continue through discussions between and among Judge Politan (the mediator), the Lead Plaintiffs, plaintiffs in the Tolin Action, the Settling Defendants, the Underwriter Defendants and the D&O Insurers, and such discussions continued through the remainder of 2010.

P. Although mediation efforts continued, on May 7, 2010, certain Defendants filed Answers to the Ambac Complaint in the Ambac Class Action.

Q. On July 2, 2010, Lead Plaintiffs, the Settling Defendants, and the D&O Insurers participated in a third in-person mediation session with Judge Politan. At the conclusion of the session, an agreement in principle was reached that would resolve the claims in the Ambac Complaint in the Ambac Class Action.

R. On August 10, 2010, Lead Plaintiffs, plaintiffs in the Tolin Action, and the Settling Defendants participated in a fourth in-person mediation session with Judge Politan. At the conclusion of the session, an agreement in principle was reached that would also resolve the claims in the Complaint in the Tolin Action.

with the Order Commencing Liquidation, dated September 19, 2008, and the Automatic Stay provisions of the United States Bankruptcy Code.

S. After the aforementioned agreements in principle were reached, the parties worked to reach agreement on a memorandum of understanding that would document the agreements that had been reached.

T. On November 8, 2010, Ambac filed in the Bankruptcy Court (as defined below) a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code.

U. On or about November 10, 2010, Lead Plaintiffs, certain of the Settling Defendants, and the Underwriter Defendants participated in a fifth in-person mediation session with Judge Politan.

V. On December 3, 2010, after considerable negotiation, Lead Plaintiffs and the Underwriter Defendants executed a Memorandum of Understanding reflecting an agreement in principle to settle claims in the Ambac Class Action against the Underwriter Defendants and their related parties.

W. On December 8, 2010, after considerable negotiation, Lead Plaintiffs, the plaintiffs in the Tolin Action, Ambac, the Individual Defendants, and the D&O Insurers executed a Memorandum of Understanding reflecting an agreement in principle to settle claims in the Ambac Class Action and Tolin Action against Ambac, the Individual Defendants and their related parties (the "Ambac/Individuals MOU"). In the Ambac/Individuals MOU, the parties also contemplated the resolution, release and bar of certain claims that have been or could be brought by Ambac or any shareholder or creditor of Ambac (including any claims purportedly brought derivatively on behalf of Ambac) against any of Ambac's current or former officers, directors or employees, including those related to the subject matter of the Securities Actions or the subject matter of the claims asserted in the Derivative Actions (as defined below).

X. The Settling Defendants have denied and continue to deny that they have committed any act or omission giving rise to any liability and/or violation of law, including any violations of the federal securities laws or any other legal obligation or duty potentially giving rise to the Settled Claims, and are entering into this Settlement to eliminate the burden and expense of further litigation and the risk of an adverse judgment were the Securities Actions to proceed. Neither the Settlement nor any of its terms shall in any way be construed or deemed to be evidence of, or an admission or concession on the part of any of the Settling Defendants with respect to, any claim of fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that the Settling Defendants have, or could have, asserted. The Settling Parties recognize, however, that the Securities Actions have been filed by Plaintiffs and defended by the Settling Defendants in good faith, that no party has violated Rule 11 of the Federal Rules of Civil Procedure, that the Securities Actions are being voluntarily settled on terms that each party believes to be reasonable considering the merits of its claims or defenses and taking into account the expense and uncertainty of continued litigation. This Stipulation shall not be construed or deemed to be a concession by Plaintiffs of any infirmity in the claims asserted in the Securities Actions.

Y. Lead Counsel and Tolin's Counsel have conducted an extensive investigation relating to the claims and the underlying events and transactions alleged in the Complaints. Lead Counsel and Tolin's Counsel have analyzed evidence adduced during their investigations and in discovery and have researched the applicable law with respect to the claims of Plaintiffs and the Class against Defendants, as well as the potential defenses thereto.

Z. Based upon their investigation, Lead Counsel and Tolin's Counsel have concluded that the terms and conditions of this Stipulation are fair, reasonable and adequate to

Plaintiffs and the Class, and in their best interests, and have agreed to settle the claims raised in the Securities Actions pursuant to the terms and provisions of this Stipulation, after considering (i) the substantial benefits that Plaintiffs and the members of the Class will receive from resolution of the Securities Actions as against the Defendants, (ii) the attendant risks of litigation, and (iii) the desirability of permitting the Settlement to be consummated as provided by the terms of this Stipulation.

AA. The Settling Parties agree that certification of a class, for settlement purposes only, is appropriate in the Securities Actions. For purposes of this Settlement only, the Class is defined in paragraph 1 below. Nothing in this Stipulation shall serve or be used in any fashion, either directly or indirectly, as evidence or support for certification of a litigation class, and the Settling Parties intend that the provisions herein concerning certification of the Class shall have no effect whatsoever in the event the Settlement does not become Final.

NOW THEREFORE, without any admission or concession on the part of Plaintiffs of any lack of merit of the Securities Actions whatsoever, and without any admission or concession of any liability or wrongdoing or lack of merit in the defenses whatsoever by the Settling Defendants, it is hereby STIPULATED AND AGREED, by and among the Settling Parties, through their respective attorneys, subject to approval of the Court pursuant to Rule 23(e) of the Federal Rules of Civil Procedure and also subject to the approvals of the Bankruptcy Court as provided for herein, in consideration of the benefits flowing to the parties hereto from the Settlement, that all Settled Claims as against the Released Parties and all Released Parties' Claims shall be fully, finally and forever compromised, settled, released, discharged and dismissed with prejudice, upon and subject to the following terms and conditions:

DEFINITIONS

1. As used in this Stipulation, the following terms shall have the meanings specified below.

(a) “Ambac” or the “Company” means Ambac Financial Group, Inc.

(b) “Ambac Class Action” means the action encaptioned *In re Ambac Financial Group, Inc. Securities Litigation*, No. 08-cv-411-NRB (S.D.N.Y.).

(c) “Ambac Complaint” means the Consolidated Amended Class Action Complaint filed in the Ambac Class Action on August 25, 2008.

(d) “Ambac Settlement” means the settlement set forth in this Stipulation among Plaintiffs, Ambac, and the Individual Defendants. “Ambac Settlement” and “Settlement” may be used interchangeably herein.

(e) “Ambac Settlement Amount” means the total amount of \$27,100,000 in cash as set forth below in paragraph 8. “Ambac Settlement Amount” and “Settlement Amount” may be used interchangeably herein.

(f) “Authorized Claimant” means a Class Member who submits a timely and valid Proof of Claim Form to the Claims Administrator (in accordance with the requirements established by the Court) that is approved for payment from the Net Settlement Fund.

(g) “Bankruptcy Court” means the United States Bankruptcy Court for the South District of New York.

(h) “Bankruptcy Court Approval Order” means the order of the Bankruptcy Court including any necessary approval related to Ambac’s entry into and performance under this Stipulation and containing the releases, bars and injunctions provided in paragraph 35(f).

(i) “Claim” means a completed and signed Proof of Claim Form submitted to the Claims Administrator in accordance with the instructions on the Proof of Claim Form.

(j) “Claim Form” or “Proof of Claim Form” means the Proof of Claim Form and Release (substantially in the form attached hereto as Exhibit A-2 to Exhibit A) that a Class Member must complete if that Class Member seeks to be eligible to share in a distribution of the Net Settlement Fund.

(k) “Claimant” means a person or entity that submits a Claim Form to the Claims Administrator seeking to be eligible to share in the proceeds of the Settlement Fund.

(l) “Claims Administrator” means the claims administrator selected by Lead Counsel.

(m) “Class” means all persons who purchased or otherwise acquired any Ambac securities, including Ambac equity or debt securities or options thereon, or any Structured Repackaged Asset-Backed Trust Securities, Callable Class A Certificates, Series 2007-1, STRATS(SM) Trust for Ambac Financial Group, Inc. Securities, Series 2007-1 (“STRATS”) (collectively “Ambac Securities”) in the period from October 19, 2005, through and including July 18, 2009. Excluded from the Class are Defendants; members of the immediate families of any Defendant; and their legal representatives, heirs, successors or assigns. Also excluded from the Class are any persons who exclude themselves by filing a timely and valid request for exclusion in accordance with the requirements set forth in the Notice.

(n) “Class Distribution Order” means an order entered by the Court authorizing and directing that the Net Settlement Fund be distributed, in whole or in part, to Authorized Claimants.

(o) “Class Member” means a person or entity that is a member of the Class and that does not exclude himself, herself or itself by filing a timely and valid request for exclusion in accordance with the requirements set forth in the Notice.

(p) “Class Period” means the period from October 19, 2005, through and including July 18, 2009.

(q) “Complaints” means, collectively, the Ambac Complaint and the Tolin Complaint.

(r) “Court” means the United States District Court for the Southern District of New York.

(s) “D&O Insurers” means four of the insurers that issued specified policies of directors and officers liability insurance for the benefit of the Individual Defendants, that are contributing to the Settlement Amount, and that are parties to the Insurer Agreement and the MOU.

(t) “Defendants” means Ambac, Genader, Leonard, Uhlein, Wallis, Callen, Lassiter, Considine, Gregory, Theobald, Unger, Wallace, Duff, the Underwriter Defendants; Lehman Brothers Inc., Credit Suisse Securities (USA) LLC, Banc of America Securities LLC, Keefe, Bruyette & Wood, Inc., and KPMG LLP.

(u) “Derivative Actions” means *In re Ambac Financial Group, Inc. Derivative Litigation*, No. 08-cv-854-SHS (S.D.N.Y.), *In re Ambac Financial Group, Inc. Shareholder Derivative Litigation*, C.A. No. 3521-VCL (Del. Ch.), and/or *In re Ambac Financial Group, Inc. Shareholder Derivative Litigation*, No. 650050/2008E (N.Y. Sup.), and/or any of the individual actions included therein or any of them.

(v) “Dismissal Order” means the stipulation of dismissal with prejudice to be entered in the Tolin Action upon all other conditions to the Effective Date of the Ambac Settlement having occurred, reciting that the claims of the members of the putative class in the Tolin Action were included within the Class in, and resolved as part of the Settlement approved in, the Ambac Class Action.

(w) “Effective Date” means the first date by which all of the events and conditions specified in paragraphs 35 (and all subparagraphs thereto) of this Stipulation have been met, have been waived, or have occurred, as set forth in those paragraphs.

(x) “Escrow Account” means an interest-bearing escrow account(s) maintained at the Escrow Agent, which account shall be under the exclusive control of Lead Counsel.

(y) “Escrow Agent” means Valley National Bank.

(z) “Escrow Agreement” means the agreement(s) among Lead Counsel and the Escrow Agent setting forth the terms under which the Escrow Agent shall maintain the Escrow Account.

(aa) “Final” when referring to an order or judgment means: (i) that the time for appeal or appellate review of the order or judgment has expired, and no appeal has been taken; or (ii) if there has been an appeal, (a) that the appeal has been decided by all appellate courts without causing a material change in the order or judgment; or (b) that the order or judgment has been upheld on appeal and is no longer subject to appellate review by further appeal or writ of certiorari. “Final” when referring to the Settlement means that all of the conditions to the Effective Date have been met, unless waived in accordance with the Stipulation.

(bb) “Final Approval Hearing” or “Settlement Hearing” means the hearing set by the Court under Rule 23(e) of the Federal Rules of Civil Procedure to consider final approval of the Settlement.

(cc) “Individual Defendants” means Michael A. Callen, Jill M. Considine, Robert J. Genader, W. Grant Gregory, Philip B. Lassiter, Sean T. Leonard, Thomas C. Theobald, John W. Uhlein, III, Laura S. Unger, Henry D.G. Wallace, David W. Wallis, Gregg L. Bienstock, Kevin J. Doyle, Philip Duff, Thomas J. Gandolfo, Kathleen McDonough, William T. McKinnon, Douglas C. Renfield-Miller, and Robert G. Shoback.

(dd) “Insurer Agreement” means the separate document agreed upon and executed by or on behalf of Ambac, the Individual Defendants, and the D&O Insurers.

(ee) “Judgment” means an order of judgment and dismissal, substantially in the form attached hereto as Exhibit B, to be entered by the Court pursuant to Federal Rule of Civil Procedure 54(b). Any plan of allocation submitted by Lead Counsel or any order entered regarding any motion for attorneys’ fees and expenses filed by Lead Counsel shall in no way affect or delay the finality of the Judgment and shall not affect or delay the Effective Date of the Settlement.

(ff) “KPMG” means KPMG LLP.

(gg) “Lead Counsel” means the law firms of Bernstein Litowitz Berger & Grossmann LLP and Kaplan Fox & Kilsheimer LLP.

(hh) “Lead Plaintiffs” means the Public School Teachers’ Pension & Retirement Fund of Chicago, Arkansas Teacher Retirement System, and Public Employees’ Retirement System of Mississippi.

(ii) “Litigation Expenses” means the reasonable costs and expenses incurred by Plaintiffs’ Counsel in connection with commencing and prosecuting the Action, for which Lead Counsel intend to apply to the Court for reimbursement from the Settlement Fund. Litigation Expenses may also include reimbursement of the expenses of Plaintiffs in accordance with 15 U.S.C. § 78u-4(a)(4). All Litigation Expenses, whether of Plaintiffs’ Counsel or Plaintiffs, shall be paid solely from the Settlement Fund.

(jj) “Net Settlement Fund” means the Settlement Fund less: (i) any Taxes; (ii) any Notice and Administration Costs; (iii) any Litigation Expenses awarded by the Court; and (iv) any attorneys’ fees awarded by the Court.

(kk) “Notice” means the Notice of Pendency of Class Action and Proposed Settlement, Final Approval Hearing, and Motion for Attorneys’ Fees and Reimbursement of Litigation Expenses (substantially in the form attached hereto as Exhibit A-1 to Exhibit A), which is to be sent to members of the Class.

(ll) “Notice and Administration Costs” means the costs, fees and expenses that are incurred by the Claims Administrator in connection with (i) providing notice to the Class; and (ii) administering the Claims process.

(mm) “Plaintiffs” means Lead Plaintiffs, and Plaintiffs Painting Industry Insurance and Annuity Funds, Stanley Tolin, and Edward Walton.

(nn) “Plaintiffs’ Counsel” means Lead Counsel and all other counsel who, at the direction and under the supervision of Lead Counsel, represent Class Members in the Action, and Tolin’s counsel.

(oo) “Plan of Allocation” means the proposed plan of allocation of the Net Settlement Fund set forth in the Notice.

(pp) “Preliminary Approval Order” means the order (substantially in the form attached hereto as Exhibit A) to be entered by the Court preliminarily approving the Settlement and directing that Notice be provided to the Class.

(qq) “Released Ambac Parties” means (i) Ambac and any and all of its current or former parents, affiliates, subsidiaries, predecessors and successors, as well as any and all of its or their current or former officers, directors, employees, agents, insurers, reinsurers, attorneys, auditors, accountants, assigns, creditors, administrators, heirs, estates and legal representatives, (ii) any and all of the Individual Defendants, and any and all of their respective current or former agents, insurers, reinsurers, attorneys, auditors, accountants, successors, assigns, creditors, administrators, heirs, estates and legal representatives, and (iii) any and all of the D&O Insurers and any and all of their respective current or former parents, affiliates, subsidiaries, predecessors, officers, directors, employees, agents, insurers, reinsurers, attorneys, auditors, accountants, successors, assigns, creditors, administrators, heirs, estates and legal representatives. Notwithstanding any other provision to the contrary herein, Released Ambac Parties does not include the Underwriter Defendants and does not include RLI Insurance Company. Notwithstanding any other provision to the contrary herein, nothing in this Stipulation of Settlement is intended to, and this Settlement and Stipulation do not, reflect or effect a release of RLI Insurance Company by any party.

(rr) “Released Parties” means the Released Ambac Parties. “Released Parties” and “Released Ambac Parties” may be used interchangeably herein.

(ss) “Released Parties’ Claims” means any and all claims, rights, causes of action, liabilities or any other matters, whether known or Unknown, foreseen or unforeseen, whether arising under federal, state, common or foreign law, which arise out of the institution,

prosecution or settlement of the Securities Actions, that have been or could have been asserted by any or all of the Released Parties against Plaintiffs or Plaintiffs' Counsel, or against the Class Members. Released Parties' Claims does not include any claims by any Released Party that may be necessary to enforce the Settlement, which survive the Effective Date, if any. Notwithstanding any other provision to the contrary herein, Released Parties' Claims shall not include any claims by the Released Parties against RLI Insurance Company, the Underwriter Defendants, or the D&O Insurers.

(tt) "Released Underwriter Parties" means any and all of the Underwriter Defendants, their past or present parents, subsidiaries, affiliates, successors and predecessors, or other individual or entity in which any of the foregoing entities has a majority interest or which is related to or affiliated with any of the foregoing entities; and their respective officers, directors, agents, employees, attorneys, advisors, investment advisors, auditors, accountants, insurers, successors, and assigns of such entities and individuals.

(uu) "Securities Actions" means the Ambac Class Action and the Tolin Action.

(vv) "Settled Claims Against Ambac and Individual Defendants" or "Settled Claims" means any and all manner of claims, actions, causes of actions, suits, controversies, costs, damages, judgments, and demands whatsoever, known or Unknown, suspected or unsuspected, accrued or unaccrued, arising under the laws, regulations or common law of the United States of America, any state or political subdivision thereof, or any foreign country or jurisdiction, in law, contract, or in equity, that were, could have been, or might have been asserted in any of the Securities Actions or the Derivative Actions, in connection with, arising out of, related to, or based upon, in whole or in part, directly or indirectly, any action or omission or failure to act, including but not limited to any action or omission or failure to act within the

Class Period or relevant periods specified in any of the Derivative Actions. Notwithstanding the foregoing, “Settled Claims” does not include any claims to enforce obligations under the Settlement that survive the Effective Date, if any.

(ww) “Settled Claims” means the Settled Claims Against Ambac and Individual Defendants and the terms may be used interchangeably herein.

(xx) “Settlement” means this Stipulation of Settlement and the settlement contained herein. “Settlement” and “Ambac Settlement” may be used interchangeably herein.

(yy) “Settlement Amount” means the sum of \$27.1 million in cash paid or to be paid into the Escrow Account by Ambac and the D&O Insurers as set forth in paragraph 8. The obligations of Ambac and each of the D&O Insurers to pay its portion of the Settlement Amount are several, as set forth in paragraph 9. “Settlement Amount” and “Ambac Settlement Amount” may be used interchangeably herein.

(zz) “Settlement Fund” means the Settlement Amount plus accrued interest.

(aaa) “Settling Defendants” means (i) Ambac and (ii) the Individual Defendants.

(bbb) “Settling Defendants’ Counsel” means the law firms representing the Settling Defendants as indicated on the signature block below.

(ccc) “Settling Parties” means the Settling Defendants and Plaintiffs on behalf of themselves and the Class Members.

(ddd) “Stipulation” means this Stipulation of Settlement.

(eee) “Summary Notice” means the Summary Notice, substantially in the form attached hereto as Exhibit A-3 to Exhibit A, to be published as set forth in the Preliminary Approval Order.

(fff) “Supplemental Agreement” means the Ambac Supplemental Agreement as defined below in paragraph 41.

(ggg) “Taxes” means: (i) all federal, state, local and/or foreign taxes of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) arising with respect to the Settlement Fund (including any taxes for any period during which the Settlement Fund does not qualify as a “qualified settlement fund” within the meaning of Treasury Regulation § 1.468B-1, if any); and (ii) the reasonable expenses and costs incurred by Lead Counsel in connection with determining the amount of, and paying, any taxes owed by the Settlement Fund (including, without limitation, reasonable expenses of tax attorneys and accountants).

(hhh) “Tolin Action” means the action encaptioned *Tolin v. Ambac Financial Group, Inc. et al.*, No. 08-cv-11241-CM (S.D.N.Y.).

(iii) “Tolin Complaint” means the Amended Class Action Complaint filed in the Tolin Action on January 20, 2009.

(jjj) “Tolin’s Counsel” means the law firm of Gardy & Notis, LLP.

(kkk) “Underwriter Defendants” means Citigroup Global Markets, Inc., UBS Securities LLC, Goldman, Sachs & Co., J.P. Morgan Securities Inc., HSBC Securities (USA) Inc., Merrill Lynch, Pierce, Fenner, & Smith Incorporated, and Wachovia Capital Markets, LLC, now known as Wells Fargo Securities, LLC.

(lll) “Underwriter Settlement” means the settlement set forth in the stipulation between Lead Plaintiffs and the Underwriter Defendants.

(mmm) “Unknown Claims” means (i) any and all Settled Claims that any Plaintiff and/or Class Member, and each of their agents or attorneys, or their current or former officers,

directors or employees, does not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties, and (ii) any Released Parties' Claims that the Settling Defendants, and each of their agents or attorneys, or their current or former officers, directors or employees, do not know or suspect to exist in their favor, which in the case of both (i) and (ii) if known by them might have affected their settlement with and release of the Released Parties (or Plaintiffs, as appropriate), or might have affected their decision not to object to this Settlement or not exclude themselves from the Class. With respect to any and all Settled Claims and Released Parties' Claims, the Settling Parties stipulate and agree that, upon the Effective Date, Plaintiffs and the Settling Defendants shall expressly waive, and each Class Member shall be deemed to have waived, and by operation of the Judgment shall have expressly waived, to the fullest extent permitted by law, any and all provisions, rights and benefits conferred by Cal. Civ. Code § 1542 and analogous statutes, and any law of any state or territory of the United States, or principle of common law, or the law of any foreign jurisdiction, that is similar, comparable or equivalent to Cal. Civ. Code § 1542, which provides:

A general release does not extend to claims, which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

Plaintiffs and Class Members may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Settled Claims, but each Plaintiff shall expressly – and each Class Member by operation of the Judgment shall be deemed to have – upon the Effective Date, fully, finally and forever settle and release any and all Settled Claims, known or Unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the

future, including, but not limited to, conduct which is negligent, reckless, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. Plaintiffs and the Settling Defendants acknowledge, and Class Members by law and operation of the Judgment shall be deemed to have acknowledged, that the inclusion of “Unknown Claims” in the definition of Settled Claims Against Ambac and Individual Defendants and Released Parties’ Claims was separately bargained for and was a material element of the Settlement.

STIPULATION OF CLASS CERTIFICATION

2. Solely for purposes of this Settlement, the Settling Parties stipulate to the certification of a Class (as defined above), pursuant to Rules 23(a) and (b)(3) of the Federal Rules of Civil Procedure. The certification of the Class shall be binding only with respect to the Settlement of the Securities Actions and only if the Judgment contemplated by this Stipulation becomes Final and the Effective Date occurs.

RELEASE OF CLAIMS

3. Pursuant to the Judgment, which shall be entered by the Court, upon the Effective Date, Plaintiffs and each of the Class Members shall release, and shall be deemed by operation of law to have fully, finally and forever released, relinquished, waived, discharged and dismissed, each and every Settled Claim Against Ambac and Individual Defendants, and shall forever be enjoined and barred from prosecuting any or all Settled Claims Against Ambac and Individual Defendants, against any Released Ambac Party. Plaintiffs further covenant on their own behalf and on behalf of the Class not to sue any Released Ambac Party on the basis of any of the Settled Claims Against Ambac and Individual Defendants or to assist any person in commencing or

maintaining any suit relating to any Settled Claim Against Ambac and Individual Defendants, including any derivative suit.

4. Pursuant to the Judgment, upon the Effective Date, each of the Released Parties, shall release and be deemed by operation of law to have released, waived, discharged and dismissed each and every of the Released Parties' Claims, and shall forever be enjoined from prosecuting any or all of the Released Parties' Claims against Plaintiffs, their officers, directors, employees, agents and attorneys, and all other Class Members. Notwithstanding any provision herein to the contrary, no provision of this Settlement or Stipulation, represents or should be deemed to represent a release by the Released Parties of any claim against the D&O Insurers; any such releases will be set out solely in the Insurer Agreement.

5. Pursuant to the Judgment, upon the Effective Date, the Individual Defendants shall release and discharge Ambac of and from any right of indemnity with respect to the Settled Claims Against Ambac and Individual Defendants that are released under the terms of this Stipulation, except as otherwise provided (i) in this Stipulation, (ii) in the Insurer Agreement, or (iii) in the proposed Judgment.

6. Pursuant to the Judgment, upon the Effective Date, Ambac and the Individual Defendants shall be deemed to have released claims and claims over for contribution or indemnity (or any other claim or claim-over, however denominated on whatsoever theory) against the Underwriter Defendants in connection with the action encaptioned *In re Ambac Financial Group, Inc. Securities Litigation*, No. 08-cv-411-NRB (S.D.N.Y.), the action encaptioned *Tolin v. Ambac Financial Group, Inc. et al.*, No. 08-cv-11241-CM (S.D.N.Y.), and any other actions arising out of the same subject matter; provided, however, that nothing in this paragraph shall alter the contractual rights, if any, between Ambac, on the one hand, and the

Underwriter Defendants, on the other hand, under any applicable Underwriting Agreements with respect to any right of indemnification in connection with the payment of the Settlement Amount or incurrence of defense costs, which claims as between Ambac and the Underwriter Defendants are not barred, released, or discharged by the Judgment. The release provided in this paragraph shall become effective only upon receipt by Ambac and the Individual Defendants of a comparable release from the Underwriter Defendants.

7. If Plaintiffs on their own behalf, or on behalf of all or some portion of the Class, enter into a settlement with any other defendant named in the Securities Actions other than Ambac and the Individual Defendants, or any party who is or may be added as a defendant in the Securities Actions or Derivative Actions or named or claimed against in any other action arising out of, or which is in any way related to the Settled Claims Against Ambac and Individual Defendants, or any other party acting for or on behalf of such defendant or party (collectively, “Other Settling Party”), counsel for Plaintiffs or all or such portion of the Class (if a settlement on behalf of all or such portion of the Class) shall obtain from such Other Settling Party releases of claims (including any claims for attorneys’ fees, expenses or costs in this litigation) or claims-over of such Other Settling Party against the Released Ambac Parties and, upon Lead Counsel’s request, and contingent upon there being a Final judgment as defined above, the Released Ambac Parties will deliver a comparable release of their claims (including any claims for attorneys’ fees, expenses or costs in this litigation) or claims-over against such Other Settling Party, except that such comparable releases of the Released Ambac Parties and of such Other Settling Parties shall not extend to claims or claims-over arising out of any claim which is not covered by the respective settlements of such parties. Such releases shall be contingent upon the occurrence of both the Effective Date of the Settlement having occurred and a Final order(s) having been

issued approving the settlement with such Other Settling Party. Except as provided herein, the Released Ambac Parties are not otherwise by this Settlement releasing or agreeing to release any claims or claims-over the Released Ambac Parties now have or may have in the future against any person or entity not a party hereto. Counsel to the Class shall obtain court approval of all other settlements and shall give the Released Ambac Parties sufficient notice of any proceedings in connection with such other class settlements so as to permit the Released Ambac Parties to timely object to the extent necessary to enforce their rights.

THE SETTLEMENT CONSIDERATION

8. In consideration of the Settlement of the Settled Claims Against Ambac and Individual Defendants against the Released Ambac Parties, Ambac and the D&O Insurers shall severally pay the total sum of \$27,100,000 as set forth below:

(a) Pursuant to the Insurer Agreement, the D&O Insurers shall pay the sum of \$24,600,000 in cash into the Escrow Account by check or by wire transfer within fifteen (15) business days after (i) entry of the Preliminary Approval Order and (ii) the provision by Lead Plaintiffs to the D&O Insurers (with a copy to Settling Defendants' Counsel) of information necessary to effectuate a payment by check or wire transfer of funds, including as necessary the bank name and ABA routing number, account name and number, and/or a signed W-9 reflecting any taxpayer or employer identification number for the Settlement Fund. The payment obligations of each D&O Insurer pursuant to this subparagraph 8(a) shall be several and in the amounts set forth in the Insurer Agreement. Ambac and the Individual Defendants shall have no responsibility for paying this sum of \$24,600,000 into the Escrow Account; and

(b) Ambac previously paid the sum of \$2,500,000 in cash into the Escrow Account pursuant to the Escrow Agreement. Neither Ambac nor the Individual Defendants shall have any responsibility or obligation to make any other payments into the Escrow Account.

9. Other than the several obligation of Ambac and the D&O Insurers to pay or cause to be paid these amounts to the Escrow Agent, the Settling Defendants shall have no obligation to make any payment into the Escrow Account pursuant to this Stipulation. Ambac shall not be liable for any portion of the payments to be provided by the D&O Insurers; the D&O Insurers shall not be liable for any portion of the payment that has been provided by Ambac; and the Individual Defendants shall not be liable for any portion of the payment that is to be or that has been provided by Ambac or the D&O Insurers. The interest earned on the Settlement Fund shall be for the benefit of the Class if the Settlement becomes Final. If the Settlement Amount is not fully deposited into the Escrow Account as set forth above, Lead Plaintiffs may, in their sole discretion: (i) enforce the Settlement by seeking to compel payment of any payment required to be made by Ambac or a D&O Insurer pursuant to the terms of this Stipulation or the Ambac/Individuals MOU to which the D&O Insurers, as well as Lead Plaintiffs, were signatories; (ii) enforce the Settlement despite the Settlement Amount not being fully deposited into the Escrow Account; or (iii) terminate the Settlement, in which case paragraphs 37 or 39, as applicable, below shall govern.

USE OF SETTLEMENT FUND

10. The Settlement Fund shall be used to pay any: (i) Taxes; (ii) Notice and Administration Costs pursuant to paragraph 17 below and as otherwise approved by the Court; (iii) attorneys' fees awarded by the Court; (iv) Litigation Expenses awarded the Court; and (v)

other Court-approved deductions. The balance remaining in the Settlement Fund shall be distributed to Authorized Claimants as provided below.

11. The Net Settlement Fund shall be distributed to Authorized Claimants as provided herein. The Released Parties shall have no responsibility or liability for the maintenance or distribution of the Settlement Fund pursuant to this Settlement. Except as provided herein or pursuant to orders of the Court, the Net Settlement Fund shall remain in the Escrow Account prior to the Effective Date. All funds held by the Escrow Agent shall be deemed to be in the custody of the Court and shall remain subject to the jurisdiction of the Court until such time as the funds shall be distributed or returned pursuant to the terms of this Stipulation and/or further order of the Court. The Escrow Agent shall invest any funds in excess of U.S. \$100,000 in United States Treasury Bills having maturities of 180 days or less, or money market mutual funds comprised of investments secured by the full faith and credit of the United States Government, or an account fully insured by the United States Government Federal Deposit Insurance Corporation (FDIC). Any funds held in escrow in an amount of less than U.S. \$100,000 may be held in an interest-bearing account insured by the FDIC or money market mutual funds comprised of investments secured by the full faith and credit of the United States Government or fully insured by the United States Government. All risks related to the investment of the Settlement Fund shall be borne by the Settlement Fund.

12. The Settling Parties agree that the Settlement Fund is intended to be a “qualified settlement fund” within the meaning of Treasury Regulation § 1.468B-1, and that Lead Counsel, as administrator of the Settlement Fund within the meaning of Treasury Regulation § 1.468B-2(k)(3), shall be solely responsible for filing or causing to be filed all informational and other tax returns as may be necessary or appropriate (including, without limitation, the returns described in

Treasury Regulation §§ 1.468B-2(k) and (1)) with respect to the Settlement Fund. Such returns shall be consistent with this paragraph and in all events shall reflect that all Taxes shall be paid out of the Settlement Fund as provided by paragraph 13 below. Lead Counsel shall also be solely responsible for causing payment to be made from the Settlement Fund of any Taxes owed with respect to the Settlement Fund. Ambac agrees to provide promptly to Lead Counsel upon request from Lead Counsel the required statement described in Treasury Regulation § 1.468B-3(e). Lead Counsel, as administrator of the Settlement Fund within the meaning of Treasury Regulation §1.468B-2(k)(3), shall timely make such elections as are necessary or advisable to carry out this paragraph, including, as necessary, making a “relation back election,” in accordance with Treasury Regulation § 1.468B-1(j) (2), to cause the qualified settlement fund to come into existence at the earliest allowable date, and shall take or cause to be taken all actions as may be necessary or appropriate in connection therewith.

13. All Taxes shall be paid out of the Settlement Fund, and shall be timely paid by the Escrow Agent pursuant to the disbursement instructions set forth in the Escrow Agreement, and without prior Order of the Court. Any tax returns prepared with respect to the Settlement Fund (as well as any election set forth therein) shall be consistent with the previous paragraph and in all events shall reflect that all Taxes shall be paid out of the Settlement Fund as provided herein. The Settling Parties agree that the Released Parties shall be held harmless from and shall be entitled to indemnification out of the Settlement Fund for any Taxes and related expenses of any kind whatsoever (including without limitation, taxes payable by reason of any such indemnification). The Settling Defendants shall notify the Escrow Agent promptly if they receive any notice of any claim for Taxes relating to the Settlement Fund.

14. This is not a claims-made settlement; there will be no reversion. Upon the occurrence of the Effective Date, neither the Settling Defendants nor the D&O Insurers will have any right to the return of the Settlement Fund or any portion thereof irrespective of the number of Claims filed, the collective amount of losses of Authorized Claimants, the percentage of recovery of losses, or the amounts to be paid to Authorized Claimants from the Net Settlement Fund.

15. The Claims Administrator shall discharge its duties under Lead Counsel's supervision and subject to the jurisdiction of the Court. Except as otherwise expressly provided herein, the Released Parties shall have no responsibility whatsoever for the administration of the Settlement, and shall have no liability whatsoever to any person, including, but not limited to, the Class Members, in connection with any such administration.

16. Lead Counsel shall cause the Claims Administrator to mail the Notice and Proof of Claim to those members of the Class at the address of each such person as set forth in the records of Ambac (or its transfer agent(s)), or who otherwise may be identified through further reasonable effort. Lead Counsel will cause to be published the Summary Notice pursuant to the terms of the Preliminary Approval Order or in whatever other form or manner might be ordered by the Court. For the purpose of identifying and providing notice to the Class, within five (5) business days of the date of entry of the Preliminary Approval Order, Ambac shall provide or cause to be provided to the Claims Administrator (at no cost to the Settlement Fund, Lead Counsel or the Claims Administrator) its security holder lists (consisting of security holder names and addresses), in electronic form.

17. Following entry of the Preliminary Approval Order, Lead Counsel may pay from the Escrow Account, without further approval from the Settling Defendants or the D&O Insurers or further order of the Court, all reasonable Notice and Administration Costs. Such costs and

expenses shall include, without limitation, the actual costs of publication, printing and mailing the Notice, reimbursements to nominee owners for forwarding the Notice to their beneficial owners, the administrative expenses actually incurred and fees reasonably charged by the Claims Administrator in connection with providing Notice and processing the submitted claims, and the reasonable fees, if any, of the Escrow Agent. In the event that the Settlement is terminated pursuant to the terms of this Stipulation, all Notice and Administration Costs actually paid or incurred, including any related fees, will not be returned or repaid to the Settling Defendants, the D&O Insurers or any person or entity who or which paid any portion of the Settlement Fund, and the amounts not returned shall be allocated on a *pro rata* basis based on each contributing party's contribution actually paid into the Escrow Account. Prior to final approval of the Settlement, the amount that may be paid for reasonable Notice and Administration Costs without further approval from the Settling Defendants or the D&O Insurers or further order of the Court pursuant to this paragraph may not exceed five-hundred thousand dollars (\$500,000).

18. The Released Parties shall have no responsibility for, interest in, or liability whatsoever with respect to the maintenance, investment or distribution of the Settlement Fund, the establishment or maintenance of the Escrow Account, the establishment or administration of the Plan of Allocation, the determination, administration, or calculation of claims, the payment or withholding of Taxes, the distribution of the Net Settlement Fund, the administration of the Settlement, or any losses incurred in connection with such matters. The Settling Defendants take no position with respect to the provisions of this Stipulation governing those issues.

ATTORNEYS' FEES AND LITIGATION EXPENSES

19. Lead Counsel will apply to the Court for a collective award of attorneys' fees to Plaintiffs' Counsel as specified in paragraph 6 of the Notice attached hereto as Exhibit A-1 to

Exhibit A. Lead Counsel will request that the Court approve an allocation from the awarded fee to Tolin's Counsel in the amount of four-hundred thousand dollars (\$400,000) for Tolin's Counsel's fees and expenses in connection with the Tolin Action; subject to any limits imposed by the Court and/or as a matter of law, Lead Counsel shall otherwise have the sole authority to allocate the Court-awarded attorneys' fees and Litigation Expenses amongst Plaintiffs' Counsel in a manner which they, in good faith, believe reflects the contributions of such counsel to the prosecution and settlement of the Securities Actions. The Released Parties shall have no responsibility for the allocation among Plaintiffs' Counsel, and/or any other person or entity who may assert some claim thereto, of any award of attorneys' fees or Litigation Expenses that the Court may make in the Securities Actions, and the Settling Defendants shall take no position with respect to such matters.

20. Lead Counsel also may apply to the Court for reimbursement of Litigation Expenses, which may include reimbursement of the expenses of Plaintiffs in accordance with 15 U.S.C. § 78u-4(a)(4). The Settling Defendants shall not take any position with respect to Lead Counsel's applications or awards. Such matters are not the subject of any agreement between the Settling Parties other than what is set forth in this Stipulation.

21. Upon application to the Court, any attorneys' fees and Litigation Expenses that are awarded by the Court may be paid to Lead Counsel, with the Court's approval, immediately upon award, notwithstanding the existence of any timely filed objections thereto, or potential for appeal therefrom, or collateral attack on the Settlement or any part thereof, subject to Lead Counsel's obligation to make appropriate refunds or repayments to the Settlement Fund, plus accrued interest at the same net rate as is earned by the Settlement Fund, if the Settlement is terminated pursuant to the terms of this Stipulation or if, as a result of any appeal or further

proceedings on remand, or successful collateral attack, the award of attorneys' fees and/or Litigation Expenses is reduced or reversed. Lead Counsel shall make the appropriate refund or repayment in full no later than fifteen (15) business days after receiving from a court of appropriate jurisdiction notice of the termination of the Settlement or notice of any reduction of the award of attorneys' fees and/or Litigation Expenses. An award of attorneys' fees and/or Litigation Expenses is not a necessary term of this Stipulation and is not a condition of this Stipulation. Lead Plaintiffs and Lead Counsel may not cancel or terminate the Stipulation or the Settlement based on this Court's or any appellate court's ruling with respect to attorneys' fees and/or Litigation Expenses.

22. Subject to any necessary approval by the Bankruptcy Court (which Ambac will seek or has sought), Ambac agrees that it will pay defense costs incurred by the existing counsel for Ambac and the Individual Defendants in connection with the efforts of Ambac and the Individual Defendants to obtain court approval of the Settlement. However, nothing in this Stipulation shall preclude the Individual Defendants from seeking to recover from the D&O Insurers defense costs incurred or that may be incurred if the Effective Date does not occur or defense costs, including costs in connection with efforts to obtain court approval of a settlement or to enforce or assert the releases or bar orders provided by a settlement, if those defense costs have not been paid by Ambac.

CLAIMS ADMINISTRATOR

23. The Claims Administrator shall administer the process of receiving, reviewing and approving or denying claims under Lead Counsel's supervision and subject to the jurisdiction of the Court. Other than Ambac's obligation to provide its shareholder transfer records, as provided herein in paragraph 16, none of the Released Parties shall have any

responsibility for the administration of the Settlement or the claims process. The Settling Defendants and Settling Defendants' Counsel shall cooperate in the administration of the Settlement to the extent reasonably necessary to effectuate its terms and to the extent consistent with the terms of this Stipulation.

24. The Claims Administrator shall receive Claims and administer them according to the Plan of Allocation, as proposed by Plaintiffs and approved by the Court, or according to such other Plan of Allocation as the Court approves. The proposed Plan of Allocation is as set forth in paragraph 2 and 41-75 of the Notice attached hereto as Exhibit A-1 to Exhibit A.

25. The allocation of the Net Settlement Fund among Authorized Claimants is a matter separate and apart from the proposed Settlement between the Settling Parties, and any decision by the Court concerning the Plan of Allocation shall not affect the validity or finality of the proposed Settlement. The Plan of Allocation proposed in the Notice is not a necessary term of this Stipulation, and it is not a condition of this Stipulation that any particular plan of allocation be approved by the Court. Plaintiffs and/or their counsel may not cancel or terminate the Stipulation or the Settlement based on this Court's or any appellate court's ruling with respect to the Plan of Allocation in the Securities Actions. The Settling Defendants shall have no responsibility or liability whatsoever for allocation of the Net Settlement Fund, nor shall the Settling Defendants object to the Plan of Allocation proposed by Plaintiffs.

26. Lead Counsel shall be responsible for supervising the administration of the Settlement and the Settlement Fund and for supervising the disbursement of the Net Settlement Fund. Neither the Settling Defendants nor any other Released Party shall have any liability, obligation or responsibility whatsoever for the administration of the Settlement or the Settlement Fund or for supervising the disbursement of the Net Settlement Fund. Neither the Settling

Defendants nor any other Released Party shall be permitted to review, contest or object to any Claim Form or any decision of the Claims Administrator or Lead Counsel with respect to accepting or rejecting any Claim Form or Claim for payment by a Class Member, except as provided for in paragraph 28. Notwithstanding the foregoing, if a potential Class Member or actual Class Member files any legal action against any Settling Defendant or other Released Party, the Settling Defendant or Released Party that is named as a defendant in such an action shall have the right to obtain and review any Claim Form or Claim for Payment that such potential or actual Class Member submitted.

27. All Claim Forms must be submitted by the date set by the Court in the Preliminary Approval Order and specified in the Notice, unless such deadline is extended by Order of the Court. Any Class Member who fails to submit a Claim Form by such date shall be forever barred from receiving any distribution from the Net Settlement Fund or payment pursuant to this Stipulation (unless, by Order of the Court, late-filed Claim Forms are accepted), but shall in all other respects be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgment and the releases provided for herein, and will be permanently barred and enjoined from bringing any action, claim or other proceeding of any kind against any Released Party concerning any Settled Claim, including but not limited to the releases and bars provided by the terms of paragraphs 3, 30 and 32 of this Stipulation and the Judgment provided for therein. A Claim Form shall be deemed to be submitted when posted, if received with a postmark indicated on the envelope and if mailed by first-class mail and addressed in accordance with the instructions thereon.

28. Each Claimant shall be deemed to have consented and submitted to the jurisdiction of the Court with respect to the Claimant's Claim, including, but not limited to,

consents to the releases provided for in the Judgment, and the Claim will be subject to investigation and discovery under the Federal Rules of Civil Procedure, provided that such investigation and discovery shall be limited to that Claimant's status as a Class Member and the validity and amount of the Claimant's Claim. No discovery shall be allowed on the merits of the Securities Actions or this Settlement in connection with the processing of Claim Forms, provided, however, that the Settling Defendants may determine whether specific persons who opt out of the Class have submitted Claim Forms and obtain any documentation relating thereto.

29. Lead Counsel will apply to the Court, on notice to Ambac and the Individual Defendants, for a Class Distribution Order: (i) approving the Claims Administrator's administrative determinations concerning the acceptance and rejection of the Claims submitted; (ii) approving payment of any outstanding administration fees and expenses associated with the administration of the Settlement from the Escrow Account; and (iii) if the Effective Date has occurred, directing payment of the Net Settlement Fund to Authorized Claimants from the Escrow Account.

30. Payment pursuant to the Class Distribution Order shall be final and conclusive against any and all Class Members. All Class Members whose Claims are not approved by the Court shall be barred from participating in distributions from the Net Settlement Fund, but otherwise shall be bound by all of the terms of this Stipulation and the Settlement, including the terms of the Judgment, and the releases provided for therein, and will be permanently barred and enjoined from bringing any action against any and all Released Parties concerning any and all of the Settled Claims.

31. All proceedings with respect to the administration, processing and determination of Claims and the determination of all controversies relating thereto, including disputed

questions of law and fact with respect to the validity of Claims, shall be subject to the jurisdiction of the Court.

TERMS OF THE JUDGMENT

32. Lead Counsel shall request that the Court enter a Judgment, substantially in the form annexed hereto as Exhibit B, including, among other things, the releases, bar orders, judgment reduction provisions, and conditions provided for therein. The terms of the Judgment shall provide *inter alia* that the Released Ambac Parties shall have no liability to any nonsettling defendant or any other party or person for contribution or indemnification, however denominated, in connection with, arising out of or in any way related to the Securities Actions, or with respect to any Settled Claims Against Ambac and Individual Defendants, and that any such claims-over shall be extinguished. The entry of such a Judgment is one of the conditions precedent to the occurrence of the Effective Date.

WAIVER OR TERMINATION

33. Within thirty (30) days of: (a) the Court's entry of an order expressly declining to enter the Preliminary Approval Order in any material respect without leave to amend and resubmit; (b) the Court's refusal to approve this Stipulation or any material part of it; (c) the Court's declining to enter the Judgment, substantially in the form attached hereto as Exhibit B, in any material respect; or (d) the date upon which the Judgment is modified or reversed in any material respect in an order that represents a Final decision on the matter, the Settling Parties each shall have the right to terminate the Settlement and this Stipulation, by providing written notice to the other of an election to do so. However, any decision with respect to an application for attorneys' fees or Litigation Expenses, with respect to the Court's findings and conclusions pursuant to § 21D(c)(1) of the Exchange Act, as amended by the PSLRA, 15 U.S.C. § 78u-

4(c)(1), or with respect to any plan of allocation, shall not be considered material to the Settlement and shall not be grounds for termination.

34. The Ambac Settlement was negotiated separately and independently from the settlement between Lead Plaintiffs and the Underwriter Defendants and shall proceed separately if the Underwriter Settlement is terminated; one is not conditioned on the other. Notwithstanding the foregoing, it is the mutual intent of all of the parties to both settlements that the settlements be treated together for notice, opt out and approval purposes as much as practicable.

35. The effectiveness of the Settlement shall be conditioned on the occurrence or waiver of all of the following events and the Effective Date of the Settlement shall be the date upon which all of the following events have occurred or been waived:

- a. Ambac and the D&O Insurers have fully paid, or caused to be fully paid, pursuant to the terms of this Stipulation, the Ambac Settlement Amount as required above;
- b. Ambac and/or the Individual Defendants have not exercised their option to terminate their participation in this Stipulation pursuant to paragraph 41 hereof;
- c. The Court has approved the Settlement as described herein, following notice to the Class and a hearing, as prescribed by Rule 23 of the Federal Rules of Civil Procedure, and entered the Judgment, or a judgment substantially similar in the form and substance of Exhibit B hereto;
- d. The Judgment has become Final, as defined in paragraph 1(aa);
- e. A notice of dismissal with prejudice and without costs to any party has been executed in the Tolin Action and filed and approved pursuant to paragraph 48;
- f. The Bankruptcy Court has either (i) entered an order, which order shall include any necessary approvals related to Ambac's entry into and performance of any obligations

under this Stipulation, confirming a plan of reorganization (the "Confirmation Order") in respect of Ambac (the "Plan of Reorganization"), or (ii) entered an order pursuant to Rule 9019, in accordance with the terms of paragraph 50 below, of the Federal Rules of Bankruptcy Procedure approving Ambac's entry into and performance of any obligations under this Stipulation (the "9019 Order"). Such Confirmation Order or such 9019 Order, as the case may be, shall include provisions (w) to the fullest extent permitted by applicable law, permanently barring and enjoining all persons or entities, including but not limited to Ambac and/or Ambac as debtor in possession on behalf of Ambac and any and all of its current and former parents, affiliates, subsidiaries, predecessors, successors, heirs, estates, administrators and legal representatives ("Ambac Entities") and any shareholder or creditor of any of the Ambac Entities (including any shareholder or creditor of any of the Ambac Entities or any other person or entity purportedly acting derivatively on behalf of any of the Ambac Entities), from instituting or prosecuting or continuing to prosecute any and all manner of claims, actions, causes of actions, suits, controversies, agreements, costs, damages, judgments, and demands whatsoever, known or Unknown, suspected or unsuspected, accrued or unaccrued, arising under the laws, regulations or common law of the United States of America, any state or political subdivision thereof, or any foreign country or jurisdiction, in law, contract, or in equity, against any or all of the Individual Defendants and any or all of the current or former officers, directors or employees of any Ambac Entity, (aa) that were, could have been, might have been or might be in the future asserted in any of the Securities Actions or any of the Derivative Actions, or (bb) in connection with, arising out of, related to, or based

upon, in whole or in part, directly or indirectly, any action or omission or failure to act within the Class Period or relevant periods specified in any of the Derivative Actions by any of the Individual Defendants or any of the current or former officers, directors or employees of any Ambac Entity relating to any Ambac Entity or in his or her capacity as an officer, director, or employee of any Ambac Entity, or (cc) that allege, arise out of, or are based upon or attributable to any fact, action, omission or failure to act that is (A) alleged in any of the Securities Actions or the Derivative Actions or (B) related to any fact, action, omission or failure to act alleged in the Securities Actions or the Derivative Actions; (x) providing for full releases by Ambac, on behalf of itself and (to the fullest extent of Ambac's power to do so) all Ambac Entities and (to the fullest extent of their power to do so) any shareholder, creditor or other person or entity purporting to sue on behalf of or in the right of any of the Ambac Entities, of any and all manner of claims, actions, causes of actions, suits, controversies, agreements, costs, damages, judgments, and demands whatsoever, known or Unknown, suspected or unsuspected, accrued or unaccrued, arising under the laws, regulations or common law of the United States of America, any state or political subdivision thereof, or any foreign country or jurisdiction, in law, contract, or in equity, against any or all of the Individual Defendants and any or all of the current or former officers, directors or employees of any Ambac Entity, (aa) that were, could have been, might have been or might be in the future asserted in any of the Securities Actions or any of the Derivative Actions, or (bb) in connection with, arising out of, related to, or based upon, in whole or in part, directly or indirectly, any action or omission or failure to act within the Class Period or relevant periods

specified in any of the Derivative Actions by any of the Individual Defendants or any of the current or former officers, directors or employees of any Ambac Entity relating to any Ambac Entity or in his or her capacity as an officer, director, or employee of any Ambac Entity, or (cc) that allege, arise out of, or are based upon or attributable to any fact, action, omission or failure to act that is (A) alleged in any of the Securities Actions or the Derivative Actions or (B) related to any fact, action, omission or failure to act alleged in the Securities Actions or the Derivative Actions; (y) directing the filing of appropriate applications seeking dismissal of the Derivative Actions (if such Derivative Actions have not previously been dismissed) and (z) approving Ambac's entry into the Insurer Agreement;

- g. The order or orders of the Bankruptcy Court entered pursuant to subparagraph (f) of this paragraph have become Final; and
- h. Dismissal of the Derivative Actions.

36. Upon the occurrence or waiver of all of the events referenced in paragraph 35 above and upon the Effective Date, any and all remaining interest or right of Settling Defendants in or to the Settlement Fund, if any, shall be absolutely and forever extinguished and the releases provided for in paragraphs 3- 6 herein shall be effective, except as otherwise stated herein.

37. If Ambac and/or the Individual Defendants exercise their right to terminate their participation in this Stipulation and Settlement as provided in paragraph 41 below, or the Court does not approve the Ambac Settlement but does approve the Underwriter Settlement, or Bankruptcy Court approval is not obtained as set forth in paragraphs 35(f), then:

- a. The Underwriter Settlement shall proceed as set forth in that stipulation without further notice to the Class.

- b. The releases set forth in the Proofs of Claim shall be given only with respect to the Underwriter Defendants and the Released Underwriter Parties, and not with respect to Ambac, the Individual Defendants, or the Released Ambac Parties.
- c. Plaintiffs and the Settling Defendants shall be restored to their respective positions with respect to one another in the litigation as of December 3, 2010.
- d. The terms and provisions of this Stipulation, with the exception of provisions in paragraphs 13, 17, 21, 22, 40, 42, 45, 46, and 60 herein, shall have no further force and effect, and shall not be used in the litigation or in any other proceeding for any purpose with respect to Ambac, the Individual Defendants and the Released Ambac Parties.
- e. Any Judgment or order entered by the Court in accordance with the terms of this Stipulation, including but not limited to the certification of the Class, shall be treated as vacated, *nunc pro tunc*, with respect to Ambac and the Individual Defendants. Without limiting the foregoing, in such case, this Stipulation will not be binding on Ambac or the Individual Defendants, and Ambac and the Individual Defendants may oppose and assert all objections to certification of any class or subclass sought by any party to the litigation, to the same extent, if any, that they would have been able to had they not entered into this Stipulation.
- f. Unless otherwise agreed in writing between Lead Counsel and counsel for Ambac, within fifteen (15) business days after written notification of the termination of the Ambac Settlement is sent by Lead Counsel to the Escrow Agent, the payments to the Settlement Fund made by Ambac and/or the D&O Carriers shall be refunded by the Escrow Agent to Ambac and/or the D&O Insurers who made the payments on a *pro*

rata basis based on each party's contribution actually paid into the Escrow Account. In such event, the refunds to Ambac and/or the D&O Insurers shall include the *pro rata* share of interest accrued, net of applicable Taxes and Notice and Administration Costs, on their respective payments to the Settlement Fund.

38. If the Underwriter Settlement is terminated or the Court does not approve the Underwriter Settlement but does approve the Ambac Settlement, then:

- a. The Ambac Settlement shall proceed as set forth in this Stipulation without further notice to the Class.
- b. Pursuant to the terms of agreement between the Lead Plaintiffs and the Underwriter Defendants, the payments to the settlement fund made by or on behalf of the Underwriter Defendants, if any, shall be refunded by the Escrow Agent to the Underwriter Defendants who made the payments. In such event, the refunds to the Underwriter Defendants shall include the *pro rata* share of interest accrued, net of applicable Taxes and Notice and Administration Costs, on their respective payments to the settlement fund.

39. If both the Ambac Settlement and the Underwriter Settlement are terminated or not approved, then:

- a. This Stipulation shall be canceled and terminated unless Lead Counsel and Settling Defendants' Counsel otherwise mutually agree in writing and the Court (and to the extent necessary, the Bankruptcy Court) allows the Settling Parties to proceed with this Stipulation.
- b. Plaintiffs and the Settling Defendants shall be restored to their respective positions with respect to one another in the litigation as of December 3, 2010.

c. The terms and provisions of this Stipulation, with the exception of provisions in paragraphs 13, 17, 21, 22, 40, 42, 45, 46, and 60 herein, shall have no further force and effect and shall not be used in the litigation or in any other proceeding for any purpose with respect to Ambac, the Individual Defendants and the Released Ambac Parties. Any Judgment or order entered by the Court in accordance with the terms of this Stipulation, including but not limited to the certification of the Class, shall be treated as vacated, *nunc pro tunc*. Without limiting the foregoing, in such case, this Stipulation will not be binding on Ambac or the Individual Defendants, and Ambac and the Individual Defendants may oppose and assert all objections to certification of any class or subclass sought by any party to the litigation, to the same extent, if any, that they would have been able to had they not entered into this Stipulation.

40. Within fifteen (15) business days after written notification of termination is sent by Lead Counsel to the Escrow Agent, the Settlement Fund (including accrued interest), less Notice and Administration Expenses which have either been disbursed, or are determined to be incurred and chargeable to Notice and Administration Expenses, and less any Taxes paid or owing pursuant to paragraphs 13 and 17 hereto, shall be refunded by the Escrow Agent to the parties who contributed funds to the Escrow Account on a *pro rata* basis based on each party's contribution actually paid into the Escrow Account. For purposes of calculating the amounts to be refunded under the circumstances addressed in this subparagraph, interest, Taxes and Notice and Administration Expenses shall be attributed *pro rata* based on the amounts paid into the Settlement Fund. At the request and under the direction of counsel for Ambac, the Underwriter Defendants and/or the D&O Insurers, the Escrow Agent or its designee shall apply for any tax refund owed to the Settlement Fund and pay the proceeds, after deduction of any fees or

expenses incurred in connection with such application(s) for refund, to Ambac and the Underwriter Defendants and/or the D&O Insurers, as applicable, on a *pro rata* basis.

41. If a portion of the Class, equal to or greater than the portion specified in a separate supplemental agreement between Plaintiffs and Ambac and the Individual Defendants (the “Ambac Supplemental Agreement”) delivers timely and valid requests for exclusion from the Class, then Ambac and the Individual Defendants shall have the option to terminate their participation in this Stipulation and the Ambac Settlement, pursuant to the terms set forth in the Ambac Supplemental Agreement.

42. The Supplemental Agreement is confidential and shall not be filed with any court unless and until a dispute as between or among Plaintiffs and the Settling Defendants concerning its interpretation or application arises. In that event, the Settling Parties shall file and maintain the Supplemental Agreement with any court under seal. The terms and conditions of the Supplemental Agreement shall otherwise be kept confidential and shall not be disclosed, unless ordered by a court, provided that the Supplemental Agreement may be disclosed to the Settling Defendants, their attorneys, accountants, and advisers, the D&O Insurers and their counsel, and members of the Creditors’ Committee and their counsel.

43. The proposed schedule reflected in the proposed Preliminary Approval Order and proposed Notice shall provide that any request for exclusion must be received at least twenty-one (21) calendar days prior to the Final Approval Hearing. The Settling Parties intend and agree that Lead Plaintiffs will request that the Court order that any members of the Class opting out of either the Settlement provided herein or the Plaintiffs’ settlement with the Underwriter Defendants shall be deemed to have opted out of both the Ambac and Underwriter Settlements; approval by the Court of this request is not a condition to the Settlement.

44. Copies of any request for exclusion from the Class received by the Claims Administrator (or other person designated to receive exclusion requests) shall be provided to Lead Counsel and Settling Defendants' Counsel by e-mail or facsimile within three (3) business days of receipt thereof. If the opt-out threshold specified by the Supplemental Agreement is reached, Ambac and the Individual Defendants shall have until five (5) business days prior to the Final Approval Hearing to inform Lead Counsel, in writing, that they elect to exercise their option to terminate the Settlement. Lead Counsel shall have the right to communicate with the holders of such securities and, if, prior to the conclusion of the Final Approval Hearing, a sufficient number of them withdraw in writing their requests for exclusion such that the remaining "opt outs" represent less than the threshold, the notice of termination shall be deemed withdrawn.

45. Except as otherwise provided herein, in the event the Settlement is terminated, the Settlement termination shall be without prejudice, and none of the terms of the Settlement shall be effective or enforceable and the facts of the Settlement shall not be admissible in any trial of the Securities Actions, and the Settling Parties shall be deemed to have reverted to their respective status in these Securities Actions as of December 3, 2010, and, this Stipulation shall be null and void and shall have no further force or effect, the Settling Parties shall proceed in all respects as if this Stipulation and any related orders had not been entered, and any portion of the Settlement consideration previously paid or caused to be paid by the Settling Defendants, including, but not limited to, any funds disbursed in payment of Litigation Expenses and attorneys' fees, together with any interest earned or appreciation thereon, less any Taxes paid or due with respect to such income, and less Notice and Administration Costs incurred and paid or payable, shall be returned to the Settling Defendants or the D&O Insurers, as appropriate, within

fifteen (15) business days after written notification of such event by Lead Counsel to the Escrow Agent, pursuant to the terms of the Escrow Agreement.

NO ADMISSION OF WRONGDOING

46. Whether or not the Settlement is approved by the Court, and whether or not the Settlement is consummated, the fact and terms of this Stipulation, including exhibits, all negotiations, discussions, drafts and proceedings in connection with the Settlement, and any act performed or document signed in connection with the Settlement:

(a) shall not be offered or received against any of the Released Parties as evidence of, or construed as, or deemed to be evidence of any presumption, concession or admission by any of the Released Parties with respect to the truth of any fact alleged by Plaintiffs or the validity of any claim that was or could have been asserted against any of the Released Parties in the Securities Actions or in any litigation, in this or any other court, administrative agency, arbitration forum or other tribunal, or of any liability, negligence, fault or other wrongdoing of any kind of any of the Released Parties to Plaintiffs, the Class or anyone else;

(b) shall not be offered or received against any of the Released Parties as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any of the Released Parties, or against the Released Parties, Plaintiffs or any Class Member(s) as evidence of any infirmity in the claims or defenses that have been or could have been asserted in the Securities Actions;

(c) shall not be offered or received against any of the Released Parties, or against the Plaintiffs or any other Class Member(s), as evidence of a presumption, concession or admission with respect to any liability, negligence, fault or wrongdoing of any kind, or in any

way referred to for any other reason or purpose as against any of the Released Parties, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of this Stipulation; provided, however, that if this Stipulation is approved by the Court, any Released Party may file this Stipulation, the Judgment, any Claim Form submitted by a Class Member, and/or the Dismissal Order in any action for any purpose, including, but not limited to, in order to support a defense or counterclaim based on principles of res judicata, collateral estoppel, release and discharge, good faith settlement, judgment bar or reduction or any other theory of claim preclusion or issue preclusion or similar defense or counterclaim;

(d) shall not be construed against any of the Released Parties, Plaintiffs or any other Class Member(s) as an admission, concession or presumption that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial; and

(e) shall not be construed against Plaintiffs or any other Class Member(s) as an admission, concession or presumption that any of their claims are without merit or that damages recoverable under the Securities Actions would not have exceeded the amount of the Settlement Fund.

MISCELLANEOUS PROVISIONS

47. All of the following exhibits attached hereto are hereby incorporated by reference as though fully set forth herein: proposed Preliminary Approval Order, Notice, Proof of Claim Form, Summary Notice and proposed Judgment.

48. Upon all conditions to the Effective Date of the Ambac Settlement having occurred, the Dismissal Order held by counsel designated by Ambac shall be filed in the Tolin

Action. If the other conditions to the Effective Date of the Ambac Settlement do not occur or the Settlement is terminated, the Dismissal Order shall not be filed and shall be returned to Tolin's Counsel.

49. Lead Plaintiffs agree that they will not appeal the Court's Order dated February 22, 2010, unless and until this Stipulation is terminated pursuant to the terms of one or more of paragraphs 33-45. Lead Plaintiffs further agree that if both the Ambac Settlement and the Underwriter Settlement become Final, then Lead Plaintiffs will waive any right to appeal, and will not at any time thereafter appeal, the Court's Order dated February 22, 2010.

50. In the event the Confirmation Order is not entered on or before August 8, 2011, then (at Plaintiffs' option) Ambac shall promptly, upon appropriate notice to parties in interest, proceed to seek the 9019 Order by motion made under Rule 9019 of the Federal Rules of Bankruptcy Procedures on or before September 9, 2011, independent of any approval and confirmation of the Plan of Reorganization.

51. If any claim barred and enjoined by the Bankruptcy Court Approval Order is asserted against any Released Ambac Party, notwithstanding the judgment(s), approval(s) or order(s) provided herein, Ambac shall retain counsel on behalf of such Released Ambac Party to seek the dismissal of and defend against such claim, so as to effectuate the judgment(s), approval(s) or order(s) provided herein, and shall (subject to any necessary Bankruptcy Court approvals, which Ambac will seek) pay the fees and expenses of such counsel and other defense costs of such Released Ambac Party. The requirements contained in this paragraph will not impact the Effective Date.

52. The Settling Parties intend this Settlement to be a final and complete resolution of all disputes asserted or that could be asserted by the Plaintiffs or any other Class Member(s)

against all Released Parties with respect to all Settled Claims. Accordingly, the Settling Parties agree not to assert in any forum that the Securities Actions were brought by Plaintiffs or Lead Counsel, or defended by the Settling Defendants or Settling Defendants' Counsel, in bad faith or without a reasonable basis. For the purpose of the Court's findings and conclusions pursuant to § 21D(c)(1) of the Exchange Act, as amended by the PSLRA, 15 U.S.C. § 78u-4(c)(1), Plaintiffs and the Settling Defendants and their respective counsel agree that each has complied fully with Rule 11 of the Federal Rules of Civil Procedure and shall assert no claims of any violation of Rule 11 of the Federal Rules of Civil Procedure or other court rule or statute relating to the prosecution, defense or settlement of the Securities Actions. The Settling Parties agree that the amount paid and the other terms of this Settlement were negotiated at arm's length and in good faith, including in connection with a mediation conducted by an experienced and respected mediator, and reflect a settlement that was reached voluntarily after consultation with experienced legal counsel.

53. This Stipulation, including the exhibits to this Stipulation and the Supplemental Agreement referred to in paragraph 41 above, may not be modified or amended, nor may any of its provisions be waived, except by a signed writing. Any condition in this Stipulation may be waived by the party entitled to enforce the condition in a writing signed by that party or its counsel. The waiver by any party of any breach of this Stipulation by any other party shall not be deemed a waiver of the breach by any other party, or a waiver of any other prior or subsequent breach of this Stipulation by that party or any other party. Without further order of the Court, the parties may agree to reasonable extensions of time to carry out any of the provisions of this Stipulation.

54. The headings herein are used for the purpose of convenience only and are not meant to have legal effect.

55. The administration and consummation of this Settlement as embodied in this Stipulation shall be under the authority of the Court, and the Court shall retain jurisdiction for the purpose of, *inter alia*, entering orders providing for the enforcement of the terms of this Stipulation, including, but not limited to, the releases provided for herein, and awards of attorneys' fees and Litigation Expenses to Lead Counsel.

56. This Stipulation may be executed in one or more original, e-mailed and/or faxed counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument.

57. This Stipulation shall be binding upon, and inure to the benefit of, the successors, trustees, and assigns of the parties hereto.

58. The Settling Parties shall use their best efforts to consummate the Settlement.

59. The Settling Parties agree that, prior to final approval by the appropriate court(s) of the Settlement, the Honorable Nicholas H. Politan will continue to serve as a mediator for any disputes or issues that may arise relating to the Settlement.

60. All agreements made and orders entered during the course of the Securities Actions relating to the confidentiality of information shall survive this Stipulation.

61. The construction, interpretation, operation, effect and validity of this Stipulation, and all documents necessary to effectuate it, shall be governed by the internal laws of the State of New York without regard to conflicts of laws, except to the extent that federal law requires that federal law govern.

62. This Stipulation shall not be construed more strictly against one Settling Party than another merely by virtue of the fact that it, or any part of it, may have been prepared by counsel for one of the Settling Parties, it being recognized that it is the result of arm's-length negotiations between the Settling Parties and all Settling Parties have contributed substantially and materially to the preparation of this Stipulation.

63. Each individual executing this Stipulation and any of the exhibits hereto, or any related Settlement documents, represents that he or she is authorized by his or her client(s) to enter into this Stipulation and any of the exhibits hereto, or any related Settlement documents.

64. Lead Counsel and Settling Defendants' Counsel agree to cooperate fully in seeking Court approval of the Preliminary Approval Order, the Stipulation and this Settlement, and to use reasonable efforts to promptly agree upon and execute all such other documentation as may be reasonably required to obtain final approval by the Court of the Settlement.

65. The parties stipulate and agree that all litigation activity, except that contemplated herein and in the Preliminary Approval Order, the Notice, and the Judgment, shall be stayed and all hearings, deadlines, and other proceedings in this action, except a preliminary approval hearing (if any) and the Final Approval Hearing, shall be taken off calendar.

66. The Court shall retain jurisdiction with respect to implementation and enforcement of the terms of the Stipulation, and all parties hereto submit to the jurisdiction of the Court for purposes of implementing and enforcing the Settlement embodied in the Stipulation.

67. If any party is required to give notice to the other parties under this Stipulation, such notice shall be in writing and shall be deemed to have been duly given upon receipt by hand delivery, facsimile transmission or electronic mail to the recipients in the signature block below.

IN WITNESS WHEREOF, the parties hereto have caused this Stipulation to be executed,
by their duly authorized attorneys as of May 4, 2011.

On behalf of *Lead Plaintiffs in In re Ambac
Securities Litigation*

BERNSTEIN LITOWITZ BERGER & GROSSMANN LLP

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On behalf of *Plaintiffs in Tolin v. Ambac Financial Group, Inc.*

GARDY & NOTIS, LLP

By: James S. Notis
James S. Notis

IN WITNESS WHEREOF, the parties hereto have caused this Stipulation to be executed,
by their duly authorized attorneys as of May 4, 2011.

On behalf of *Lead Plaintiffs in In re Ambac
Securities Litigation*

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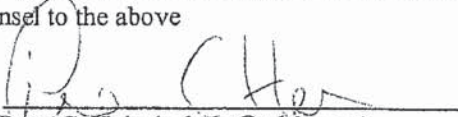
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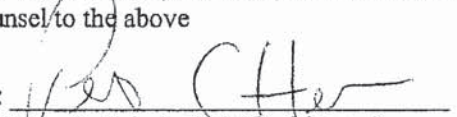
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Lassiter, Sean T. Leonard, Thomas C. Theobald,
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