

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

Case No. 08-cv-00411-NRB

IN RE AMBAC FINANCIAL GROUP,  
INC. SECURITIES LITIGATION

**NOTICE OF PROPOSED SETTLEMENT OF CLAIM FILED  
IN THE SIPA LIQUIDATION OF LEHMAN BROTHERS INC.**

**TO: All persons or entities who purchased or acquired securities of Ambac Financial Group, Inc. (“Ambac”) in or traceable to the February 2007 Directly-Issued Subordinated Capital Securities offering (the “Class”).**

PLEASE READ THIS NOTICE CAREFULLY; YOUR RIGHTS WILL BE AFFECTED BY THE PROPOSED SETTLEMENT.

**INTRODUCTION AND SUMMARY**

1. Lead Plaintiffs, the Public School Teachers’ Pension & Retirement Fund of Chicago, Arkansas Teacher Retirement System, and Public Employees’ Retirement System of Mississippi, previously achieved two settlements with defendants in this securities class action litigation (the “Action”) totaling \$33 million: (i) a \$27.1 million settlement with Ambac and certain of its former officers and directors, on behalf of purchasers of all Ambac securities during the period from October 19, 2005 through July 18, 2009, and (ii) a \$5.9 million settlement with certain underwriters of Ambac’s February 2007 offering of Directly-Issued Subordinated Capital Securities (“DISCS”), on behalf of the Class (the “Underwriter Settlement”).<sup>1</sup>
2. This Notice is to apprise Class Members of an additional proposed settlement reached with James W. Giddens (the “SIPA Trustee”), as trustee for the liquidation of Lehman Brothers Inc. (“Lehman”) under the Securities Investors Protection Act of 1970 (“SIPA”) that provides for the resolution of the Claim filed by Lead Plaintiffs on behalf of themselves and the Class in Lehman’s SIPA liquidation proceeding in the United States Bankruptcy Court (the “Settlement”). Lehman had served as an underwriter of Ambac’s February 2007 DISCS offering and Lead Plaintiffs asserted claims against Lehman for violations of federal securities laws in the Action, but those claims were stayed pursuant to the Bankruptcy Code as a result of the filing of Lehman’s liquidation proceeding pursuant to SIPA.
3. **The Proposed Settlement:** The proposed Settlement, if approved by the Court, will result in the allowance of a general, unsecured creditor claim against Lehman’s estate in its SIPA liquidation proceeding in United States Bankruptcy Court in the amount of \$550,000 for the benefit of the Class (the “Allowed Claim”). The amount that will ultimately be recovered from Lehman’s estate with respect to the Allowed Claim is currently unknown but is estimated to be approximately 50% of the value of the Allowed Claim, or approximately \$275,000. This estimate is based on receipt of all future distributions in the SIPA Proceeding and the estimated amount of such distributions, which will depend on several factors, including how other disputed unliquidated contingent claims are resolved as well as litigation in which the SIPA Trustee is currently involved.
4. The amount recovered with respect to the Allowed Claim, less expenses related to the Settlement,<sup>2</sup> will be allocated among eligible Authorized Claimants based on their purchases of Ambac DISCS from February 12, 2007 to July 18, 2009. Only Class Members who previously submitted valid claim forms and who are eligible for future distributions from the settlement funds obtained in the Action will be eligible to share in the funds obtained through the Settlement.
5. **You do not need to submit a claim form or take any other action to be eligible to participate in the proposed Settlement.** If the Settlement is approved, the funds obtained as a result of the Allowed Claim will be distributed to eligible Authorized Claimants together with future distributions of the net settlement funds from the previous achieved settlements. Class

<sup>1</sup> All capitalized terms used in this Notice that are not otherwise defined herein have the meanings provided in the Stipulation Regarding Proofs of Claims of Public School Teachers’ Pension, et al. (Nos. 5626, 5627, 5628 and 5629) (the “Stipulation”) or in the Stipulation of Settlement with the Underwriter Defendants dated May 4, 2011, both of which are available at [www.AmbacSecuritiesLitigation.com](http://www.AmbacSecuritiesLitigation.com).

<sup>2</sup> Such expenses include any Court-approved fees and expenses of Lead Plaintiffs’ Bankruptcy Counsel, Lowenstein Sandler LLP, any taxes which may be due on the recovered amounts, and the reasonable expenses of the Claims Administrator in providing notice of the Settlement and disseminating the Settlement funds.

Members who (1) previously submitted valid Claim Forms; (2) received a distribution from the Underwriter Settlement; (3) cashed their distribution check(s); and (4) would be entitled to a minimum payment of \$20 in the next distribution will be eligible to participate in the distribution of funds resulting from the proposed Settlement, if it is approved.

6. **Litigation Expenses Sought:** Lead Counsel Bernstein Litowitz Berger & Grossmann LLP and Kaplan Fox & Kilsheimer LLP are not seeking any attorneys' fees in connection with the Settlement.<sup>3</sup> As part of their motion for final approval of the Settlement, the only litigation expenses incurred in connection with achieving the Settlement that will be applied for are the fees and expenses of bankruptcy counsel retained by Lead Plaintiffs, Lowenstein Sandler LLP ("Bankruptcy Counsel"), in an amount not to exceed \$85,000. Any expenses awarded by the Court will be paid from the funds received as a result of the Allowed Claim in the SIPA Proceeding pursuant to the Settlement. Class Members are not personally liable for any such expenses.
7. **Settlement Hearing:** The Court has scheduled a Settlement Hearing to consider the fairness of the proposed Settlement and Lead Plaintiffs' motion for final approval of the Settlement, allocation of funds received as a result of the Settlement, and reimbursement of expenses incurred in connection with achieving the Settlement (the "Final Approval Motion"). The Settlement Hearing will be held on June 9, 2015 at 10:30 a.m. at the Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, Courtroom 21A, New York, NY.
8. As discussed below in paragraphs 27-30, if you wish to object to the Settlement and/or the Final Approval Motion, you must submit an objection in accordance with the instructions set forth below, so that it is received no later than May 19, 2015.

### BACKGROUND

9. In the Consolidated Amended Class Action Complaint filed in the Action on August 25, 2008, Lead Plaintiffs asserted claims against Lehman for violations of Sections 11 and 12(a)(2) of the Securities Act of 1933 in connection with the February 2007 DISCS offering.
10. All claims asserted against Lehman in the Action were stayed pursuant to Section 362(a) of the Bankruptcy Code as a result of the filing of Lehman's liquidation proceeding, which commenced in September 2008.
11. On May 29, 2009, Lead Plaintiffs and Plaintiff Painting Industry Insurance and Annuity Funds (collectively, "Plaintiffs") timely filed four general creditor claims in Lehman's SIPA Proceeding based on Lehman's alleged violations of federal securities laws as asserted in this Action. One claim (Claim No. 5626) was filed on behalf of Lead Plaintiffs and other purchasers of Ambac securities, including the Class (the "Claim"), and three other claims (Claim Nos. 5627, 5628, and 5629) were filed individually on behalf of Plaintiffs Arkansas Teacher Retirement System, Painting Industry Insurance and Annuity Funds, and Public Employees' Retirement System of Mississippi, respectively (the "Individual Claims" and, together with the Claim, the "Claims").
12. In 2011, Lead Plaintiffs reached settlements with all defendants remaining in the Action other than Lehman: (i) a \$27.1 million settlement with Ambac and certain of its former officers and directors, and (ii) a \$5.9 million settlement with the underwriters of the February 2007 DISCS offering other than Lehman. Lehman was not included as a settling defendant or released party in either of the 2011 settlements. An initial distribution of the net settlement funds obtained in these settlements occurred in February 2014.
13. Following arm's-length negotiations, Plaintiffs and the SIPA Trustee have agreed to a proposed Settlement that provides for the resolution of the claims that Plaintiffs filed in the SIPA Proceeding on the terms and conditions set forth in the Stipulation Regarding Proofs of Claims of Public School Teachers' Pension, et al. (Nos. 5626, 5627, 5628 and 5629) dated November 11, 2014 (the "Stipulation"), subject to the approval of the Court.<sup>4</sup> On January 30, 2015, the United States Bankruptcy Court modified the automatic stay pertaining to Lehman to the extent necessary to permit review and approval of the Settlement by the District Court.

### WHAT DOES THE PROPOSED SETTLEMENT PROVIDE?

14. If the Settlement is approved, on the Effective Date,<sup>5</sup> Plaintiffs, on behalf of themselves and as lead plaintiffs on behalf of the Class in the Action, will have an allowed, general unsecured creditor claim against the Lehman general

<sup>3</sup> Lead Counsel may be contacted by mail at the addresses set forth in paragraph 27. In addition, Bernstein Litowitz Berger & Grossmann LLP may be contacted by telephone at (800) 380-8496 and by email at blbg@blbgllaw.com. Kaplan Fox & Kilsheimer LLP may be contacted by telephone at (212) 687-1980.

<sup>4</sup> As noted above, the Claims filed in the SIPA Proceeding included both the Claim filed on behalf of Lead Plaintiffs and the Class and three Individual Claims filed individually on behalf of three Plaintiffs. The Stipulation provides for the resolution of all of these Claims. The Individual Claims will be deemed withdrawn. Under the proposed Settlement, Plaintiffs will receive payment under the Allowed Claim on the same basis as all Class Members.

<sup>5</sup> "Effective Date" means the date on which the District Court enters an order approving the Settlement on the terms and conditions set forth in the Stipulation and that order has become Final (as that term is defined in the Stipulation).

estate in the SIPA Proceeding in the amount of \$550,000 (the "Allowed Claim") in respect of Claim No. 5626 and the Allowed Claim shall fully and finally resolve any and all Claims Plaintiffs have asserted against the Lehman estate under or in connection with the matters, transactions, and accounts that are the subject of the Claim. Plaintiffs, on behalf of themselves and as lead plaintiffs on behalf of the Class, will receive proportionately the same in payments or distributions (including with respect to the timing and type of payments or distributions) in respect of the Allowed Claim as is generally received by holders of allowed, general unsecured claims against the Lehman estate. Promptly after receiving notice of the District Court's approval of the Settlement, the SIPA Trustee shall cause the Lehman general creditor claims register to be updated to reflect the Allowed Claim.

15. The amount that will ultimately be recovered from Lehman's estate with respect to the Allowed Claim is currently unknown but is estimated to be approximately 50% of the value of the Allowed Claim, or approximately \$275,000. This estimate is based on receipt of all future distributions in the SIPA Proceeding and the estimated amount of such distributions, which will depend on several factors, including how other disputed unliquidated contingent claims are resolved as well as litigation in which the SIPA Trustee is currently involved.
16. The amount recovered with respect to the Allowed Claim, less expenses related to the Settlement, will be allocated to compensate Authorized Claimants in this Action with respect to their purchases of Ambac DISCS from February 12, 2007 to July 18, 2009 based on their Recognized Loss Amounts as previously calculated under the Court-approved Plan of Allocation. Only Class Members who previously submitted valid Claim Forms in the Action, received a distribution from the Underwriter Settlement, and who are eligible for future distributions from the settlement funds obtained in the Action will be eligible to share in the funds obtained through the Settlement.
17. Except for the obligations under the Stipulation, on the Effective Date, Plaintiffs, on behalf of themselves, their successors and assigns, and on behalf of any other party, person, or entity claiming by, through or under them (the "Claimants Releasing Parties"), forever waive and release (i) Claim Nos. 5626, 5627, 5628 and 5629 filed in the SIPA Proceeding (the "Claims") and (ii) any and all claims, liabilities, causes of action, demands, and damages (of whatever kind or nature and whether known or unknown or asserted or unasserted) that the Claimants Releasing Parties may prior to the Effective Date have ever had, may at the Effective Date have, or at any time after the Effective Date can, could, shall, or may have against Lehman, its estate, the SIPA Trustee, and the SIPA Trustee's agents or attorneys, related to or arising out of the matters, transactions, and accounts that are the subject of the Claims.
18. If any Class Members have timely filed their own proofs of claim in Lehman's SIPA Proceeding, the proposed Settlement will not bar, release or otherwise affect such claims.

#### **WHAT ARE THE REASONS FOR THE SETTLEMENT?**

19. Lead Plaintiffs and Lead Counsel believe that the proposed Settlement is fair, reasonable and adequate and in the best interests of the Class in light of the substantial costs of litigating a disputed claim in the SIPA Proceeding and the uncertainty as to the amount, if any, that could be recovered pursuant to the Claim. In the absence of the Settlement, Lead Plaintiffs would be required to seek certification of the Class in the Bankruptcy Court, engage in extensive discovery concerning the Claim, and prove the merits and damages of the Claim in order to obtain any recovery. The costs of pursuing the Claim through continued litigation could equal or exceed the amount that could be recovered from Lehman's estate, in light of the fact that Lehman only underwrote 5% of the February 2007 DISCS offering.
20. Based on their consideration of these factors, Lead Plaintiffs and Lead Counsel, along with Bankruptcy Counsel, have concluded that the Settlement, providing for an Allowed Claim in the amount of \$550,000, is fair, reasonable and adequate to Lead Plaintiffs and the Class, and in their best interests.

#### **WHO IS A MEMBER OF THE CLASS?**

21. The Class, which was previously certified for the Underwriter Settlement, consists of all persons or entities who purchased or acquired Ambac securities in or traceable to the February 2007 Directly-Issued Subordinated Capital Securities offering. Excluded from the Class are Ambac; 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 or entities who or which were previously excluded by the Court in response to a request for exclusion.

#### **WHAT PAYMENT ARE ATTORNEYS FOR THE CLASS SEEKING?**

22. Lead Counsel will not seek any attorneys' fees in connection with this Settlement. As part of their Final Approval Motion, Lead Plaintiffs will apply to the Court for reimbursement of litigation expenses consisting only of fees and expenses of

Bankruptcy Counsel incurred in connection with achieving the Settlement in an amount not to exceed \$85,000. The Court will determine the amount to be awarded, which will be paid from the funds obtained as a result of the Allowed Claim in the SIPA Proceeding pursuant to the Settlement. Class Members are not individually responsible for any of these expenses.

#### **WHEN AND WHERE WILL THE COURT DECIDE WHETHER TO APPROVE THE SETTLEMENT?**

23. A hearing will be held on June 9, 2015, at 10:30 a.m., before the Honorable Naomi Reice Buchwald in the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl Street, Courtroom 21A, New York, New York (the "Settlement Hearing"). At the Settlement Hearing, the Court will consider whether the proposed Settlement is fair, reasonable, and adequate and should be approved, and whether the Final Approval Motion should be approved.
24. Class Members may appear at the Settlement Hearing and be heard on any of the foregoing matters, if they have satisfied the procedures identified in paragraphs 27-33, below. Class Members do not need to attend the Settlement Hearing. The Court will consider any submission made in accordance with the provisions below even if a Class Member does not attend the hearing.

#### **WHAT DO I NEED TO DO?**

25. Nothing. Unless you wish to object to the Settlement and/or the Final Approval Motion or be heard at the Settlement Hearing (discussed below), you do not need to take any action.

#### **HOW WILL THE FUNDS RECEIVED AS A RESULT OF THE SETTLEMENT BE DISTRIBUTED?**

26. **You do not need to submit a claim form or take any other action.** If the Settlement is approved, the funds received as a result of the Allowed Claim in the SIPA Proceeding will be added to the balance remaining for distribution to previously approved Authorized Claimants who received a distribution from the Underwriter Settlement, and who, pursuant to the Order Approving Distribution Plan dated November 15, 2013 (the "Distribution Order"), are eligible to participate in subsequent distributions.<sup>6</sup>

#### **WHAT ARE THE PROCEDURES FOR OBJECTING TO THE PROPOSED SETTLEMENT?**

27. Any Class Member may object to the proposed Settlement and/or the Final Approval Motion. Objections must be in writing. Any objection, together with copies of all other papers and briefs supporting the objection, must be filed with the Clerk's Office at the United States District Court for the Southern District of New York on or before May 19, 2015. The papers must also be served on Lead Counsel and counsel for the SIPA Trustee at the addresses set forth below so that the papers are *received* on or before May 19, 2015.

##### **Clerk's Office**

Clerk of the Court  
United States District Court for the  
Southern District of New York  
500 Pearl Street  
New York, NY 1007

##### **Lead Counsel**

Lauren A. Ormsbee, Esq.  
BERNSTEIN LITOWITZ  
BERGER & GROSSMANN LLP  
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38th Floor  
New York, NY 10019

Frederic S. Fox, Esq.  
KAPLAN FOX &  
KILSHEIMER LLP  
850 Third Avenue, 14th Floor  
New York, NY 10022

##### **Counsel for the SIPA Trustee**

Robert B. Funkhouser, Esq.  
HUGHES HUBBARD & REED LLP  
One Battery Park Plaza  
New York, NY 10004

28. Any objection (a) must state the name, address and telephone number of the person or entity objecting and must be signed by the objector; and (b) must contain a statement of the Class Member's objection or objections, and the specific reasons for each objection, including any legal and evidentiary support the Class Member wishes to bring to the Court's attention. If you wish to object but you have not received a distribution payment in this Action, you must also include documents sufficient to show your membership in the Class with your objection.

<sup>6</sup> Pursuant to the terms of the Distribution Order, only those Authorized Claimants who cashed their previous distribution check(s) and whose *pro rata* share of the next distribution would be at least \$20.00 are eligible to receive checks in subsequent distributions. See Distribution Order ¶¶ 3(f), 3(g)(i).

29. You may not object to the Settlement or the Final Approval Motion if you are not a member of the Class.
30. Unless otherwise ordered by the Court, any Class Member who does not make and serve his, her or its objection or opposition in the manner provided shall be deemed to have waived his, her or its right to object to the Settlement and the Final Approval Motion and shall forever be barred and foreclosed from objecting to the fairness, reasonableness or adequacy of the Settlement or the requested expenses, or from otherwise being heard concerning the Settlement.

#### **HOW CAN I SPEAK AT THE SETTLEMENT HEARING?**

31. If you wish to be heard at the hearing in opposition to approval of the Settlement and/or the Final Approval Motion, and if you file and serve a timely written objection as described above, you must also file a notice of appearance with the Clerk's Office and serve it on Lead Counsel and counsel for the SIPA Trustee at the addresses set forth above so that it is *received* on or before May 19, 2015.
32. You may file an objection without having to appear at the Settlement Hearing. You may not, however, present your objection at the Settlement Hearing unless you first file and serve a written objection in accordance with the procedures described above.
33. You do not need to hire an attorney in order to make a written objection to the Settlement and/or the Final Approval Motion or to appear at the Settlement Hearing. If you do decide to hire an attorney, which will be at your own expense, however, he or she must file a notice of appearance with the Court and serve it on Lead Counsel and counsel for the SIPA Trustee at the addresses set forth above so that the notice is *received* on or before May 19, 2015.
34. The Settlement Hearing may be adjourned by the Court without further notice to the Class. If you intend to attend the Settlement Hearing, you should confirm the date and time with Lead Counsel.

#### **HOW CAN I GET MORE INFORMATION ABOUT THE SETTLEMENT?**

35. You may obtain a full copy of the Stipulation at [www.AmbacSecuritiesLitigation.com](http://www.AmbacSecuritiesLitigation.com), or by writing to the Court-approved Administrator, as follows:

Ambac Financial Group, Inc. Securities Litigation  
c/o Rust Consulting, Inc.  
P.O. Box 2457  
Faribault, MN 55021-9157

Telephone: (877) 497-5866  
Email: [info@ambacsecuritieslitigation.com](mailto:info@ambacsecuritieslitigation.com)

You may also obtain additional copies of this Notice by calling, writing or emailing the Administrator at the number or addresses above at any time prior to the Settlement Hearing. Additional information about the Action and the previous settlements is also available at [www.AmbacSecuritiesLitigation.com](http://www.AmbacSecuritiesLitigation.com). Lead Plaintiffs' papers in support of the Final Approval Motion and any related Orders of the Court will also be posted on [www.AmbacSecuritiesLitigation.com](http://www.AmbacSecuritiesLitigation.com)

36. For other inquiries, you may contact Lead Counsel at the addresses set out in paragraph 27 above. In addition, Bernstein Litowitz Berger & Grossmann LLP may be contacted by telephone at (800) 380-8496 and by email at [blbg@blbglaw.com](mailto:blbg@blbglaw.com), and Kaplan Fox & Kilsheimer LLP may be contacted by telephone at (212) 687-1980.

#### **PLEASE DO NOT CALL OR WRITE THE COURT OR THE OFFICE OF THE CLERK OF COURT FOR INFORMATION OR ADVICE.**

Dated: March 25, 2015

By Order of the United States District Court  
for the Southern District of New York