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February 25 , 2012

Honorable Shelley C. Chapman
United States Bankruptcy Court
One Bowling Green, Courtroom 610
New York, New York 10004

Re: Ambac Financial Group, Inc., Case No. 10-15973 (SCC)

**OBJECTION TO THE THIRD AMENDED PLAN OF REORGANIZATION / REQUEST FOR APPOINTMENT OF
A CHAPTER 11 TRUSTEE**

Dear Judge Chapman,

I am a shareholder and I am making the following observations about this case: Beginning in early 2010, at the same time the debtor seriously began to contemplate a chapter 11 filing, the debtor began taking certain actions to make their chief asset, Ambac Assurance Corporation (AAC) appear to have much less value than it actually has. In this letter I am examining the facts and the debtor's motives:

-The Debtor Stopped Presenting Adjusted Book Value in Their Financial Reports

Up until the end of 2009, the debtor always included the value of unearned premiums (premiums received but considered Liabilities on the balance sheet; the majority of these are statistically known to become earned and turn into assets) in the equity valuation they presented to shareholders. (See Exhibit A, excerpt from the debtor's Q3 2009 Operating Supplement) This practice suddenly stopped in early 2010. The tradition the debtor had followed for many years of presenting this adjusted book value (ABV) and "intrinsic value" of the business (which included the value of unearned premiums) in their financial reports suddenly disappeared. What was the motive? Obviously the motive back when they used to present the ABV, which showed greater assets, was to present shareholders with an increased equity value. However, in early 2010, as the debtor first began to seriously contemplate filing for bankruptcy, their motive became the opposite – to convince those reading their reports of as little shareholder value as possible. The unearned premiums are still there, in large numbers, the debtor just doesn't talk about them in the same way anymore. Why is this? Because if they did, in the way that they always did in the past, it would reveal greater equity value in AAC.



-The Debtor Has Steadily Increased Their Loss Reserves to Huge Amounts

There are numerous examples of companies' manipulating their Loss Reserves figures in order to achieve a desired result: either to make equity appear to increase, or to decrease.

"The status of loss reserves is a principal determinant of financial strength in property-liability insurance companies. . . Since loss reserves are estimated, there is considerable subjectivity in the setting of loss reserve levels. At times the magnitude of these errors is so great as to suggest deliberate manipulation of loss reserves by management to alter a company's underwriting performance and surplus level." An Empirical Analysis of State Examiners' Reactions to Loss Reserving Patterns. The Journal of Risk and Insurance > Vol. 42, No. 2, Jun., 1975 Anderson, Dan R, Fetters, Michael L

Well-known cases where defendants have manipulated their Loss Reserves amounts have caused great scandal: For example, the Enron case: *UNITED STATES SECURITIES & EXCHANGE COMMISSION, Plaintiff, v. DAVID W. DELAINEY, Defendant. Civil Action No. H-03-4883* (Enron manipulation of Loss Reserves to increase earnings)

In the case of *Fait v. Regions Fin. Corp., 712 F.Supp.2d 117, 120–25 (S.D.N.Y.2010)* Judge Kaplan observed that loan loss reserves "reflect management's opinion as to the likelihood of future loan losses and their magnitude." Thus, "[w]hether Regions had adequate reserves for its predicted loan losses is not a matter of objective fact," but instead, "[t]he reserves were statements of opinion by defendants as to the portion of the stated value of Regions' loans that would prove to be uncollectable"

The Loss Reserve figure is one of the largest items on the balance sheet, and it is also the most uncertain item. It can be manipulated to either increase or decrease earnings or shareholders equity. The debtor has increased their Loss Reserves since the beginning of 2010 by about 1.6 Billion. Had they not done so, there would be an increase in shareholder equity above current figures of 3.2 billion. It is perhaps coincidental that this 3.2 billion is approximately the same amount AAC received during this same time period from Takefuji Corp. as a result of Takefuji's bankruptcy deal... this does give rise to questions because after AAC received the funds from Takefuji there would have been considerable additional equity value of AAC ..if the Loss Reserves not been raised by a corresponding amount.

The reason given for the huge increases in Loss Reserves was purportedly because in early 2010 the debtor expected the housing market to further dramatically collapse. Then during 2011, when the Loss Reserves were raised even more, the debtor predicted a further huge collapse in housing -- collapses which did not occur. Instead we experienced some recovery at the end of 2011, recovery which is now increasing and predicted to further increase during 2012. We are waiting to see if the debtor will now lower their Loss Reserves and move them over to the Asset side of the balance sheet. If this recovery continues the Loss Reserves should continue to fall, and this represents shareholders equity.

-The Debtor is Misrepresenting the Value of AAC's Litigation

In the *DEBTOR'S REPLY IN SUPPORT OF ITS MOTION FOR ORDER (I) APPROVING THE DISCLOSURE STATEMENT (Docket 0609)* the debtor states: "The second Sam Objection takes issue with the Debtor's valuation of AAC, specifically with respect to AAC's potential recovery in respect of ongoing litigation

against mortgage issuers. The Debtor's financial advisors have already considered AAC's potential recovery in these actions and included a contraliability in AAC's balance sheet in excess of \$2 billion..."

Here the debtor states that they are valuing the litigation in excess of 2 billion dollars - but this is totally false. There is no actual 2 billion "contraliability" on their balance sheet. In actuality the debtor is valuing the so-called \$2.6 billion in subrogation recoveries at a net loss on their balance sheet. If you refer to the debtor's 2011 3rd quarter SEC Form 10 Q, filed on 11/09/2011: On page 31 of the 10 Q it states: "Of the \$2,598,259,000 of subrogation recoveries recorded at September 30, 2011, \$1,545,959,000 was included in "Subrogation recoverable" asset. However the balance sheet in the same 10 Q says the Subrogation Recoverable Asset amount is \$714,496,000. The reason the actual asset value for the litigation recorded on the balance sheet is less than half the amount stated on page 31 is because more than half of the so-called asset is lost due to "remediation". Then the 10 Q also states at the bottom of the same page (31): ". Of the \$2,598,259,000. of subrogation recoveries recorded at September 30, 2011..... \$1,052,295,000. was included in "Loss and loss expense reserves." (a Liability)

Therefore the actual result on the balance sheet for the value of this litigation is a Liability of well over a billion dollars and an Asset of significantly less than that, resulting in a large NET LOSS value given for the litigation. The debtor also includes nothing for damages in their value of the litigation.

Yet if you examine this litigation you will see that the debtor is seeking billions of dollars in recoveries, plus billions of dollars in damages, including rescissory and punitive damages.

1. Damages sought include all items on page 159 of the following complaint:
Ambac Assurance Corp. vs. EMC Mortgage Corp and J.P. Morgan Securities Inc, New York State Supreme Court, New York County, No. 650421/2011
http://www.ambac.com/pdfs/NYS_Ambac_v_EMCMortgage_Corp_Complaint_filed_version.pdf
2. Damages sought include all items on pages 82 ,83 and item 15 on page 8 of the following complaint:
Ambac Assurance v. Countrywide Home Loans, Inc., Countrywide Securities Corp., Countrywide Financial Corp. (n.k.a. Bank of America Home Loans), and Bank of America Corp., - New York State Supreme Court, New York County, No 651612/2010
<http://ambac.com/pdfs/DocumentDisplayServlet.pdf>
3. Damages sought include items i,ii,iii,,iv and v on page 12 of the following complaint:
Ambac Assurance UK Limited in the name of Ballantyne Re plc Against J.P. Morgan Investment Management Inc , New York State Supreme Court, New York County, No 650259/2009
<http://www.lowenstein.com/files/Uploads/Documents/CapitalMarkets/Ambac%20Complaint.pdf>
4. Damages sought include items A,B,C,D,E,F, and G on pages 35 and 36 of the following complaint:
Ambac Assurance Corporation and the Segregated Account of Ambac Assurance CORPORATION, Plaintiffs, against. DLJ Mortgage Capital and Credit Suisse Securities LLC (USA) , New York State Supreme Court, New York County, No 600070/2010
http://ambac.com/pdfs/Amended_Complaint.pdf

-The Debtor Has Been Evading the Question of the Asset Value of AAC

Since the beginning of this case AFGI has attempted also to evade the question of the true value of AAC. The Debtor listed no value for AAC on their Schedule of Assets. Then the original Disclosure

Statement gave no valuation information for AAC. In response to my objection to the Disclosure Statement they later provided some valuation information, however they still never obtained an independent valuation or a formal and complete valuation of the intrinsic value of AAC. At the hearing on February 18, 2011, (Docket 213) David Wallis testified that that the debtor had paid Blackstone over 23 million dollars and still had not gotten a formal valuation of AAC from them. Why does one spend untold millions of dollars and not find out what your asset is worth? In response to objections to the original Disclosure Statement they had a valuation done for all intents and purposes "in house" by Blackstone. This is a dangerous thing, given all of the internal conflicts and disabling motives that exist within the debtor's company which we will elucidate further. The valuation in their Amended Disclosure, done by Blackstone, states (in the Disclosure Statement) that the valuation is not an independent valuation, nor a market valuation, but one which is only for their own purposes in their bankruptcy, suggesting that an independent valuation would be quite different.: (Docket 0576) ..,

" Blackstone did not independently verify management's Financial Projections in connection with the estimates of Enterprise Value for the Debtor contained herein, and no independent valuations or appraisals of the Debtor were sought or were obtained in connection herewith. Valuation estimates were developed solely on behalf of the Board of Directors for purposes of formulation and negotiation of the Plan and analysis of implied relative recoveries to creditors thereunder. Such estimates reflect computations of the estimated Valuation through the application of certain valuation techniques, in this case the DCF, and do not purport to reflect or constitute appraisals, liquidation values or estimates of the actual market value that may be realized through the sale of any securities to be issued pursuant to the Plan, which may be significantly different than the amounts set forth herein... "

An independent valuation would ascertain the real asset value of AAC, and would also include additional intangible assets which are significant. An asset is an asset, whether or not the owner has immediate access to its full value. This is why an independent formal valuation of AAC is needed.

-OCI Has a Motive to Reduce the Apparent Value of AAC and to Wipe Out AFGI's Shareholders: OCI'S Sole Interest is Policyholders

From the time that the Wisconsin Office of the Commissioner of Insurance (OCI) took control of AAC and its cash, they have refused to give the debtor the funds it would need to continue making the payments on their debt. OCI's interest is not, and cannot be, the debtor or its shareholders. OCI's sole interest is in ensuring that policyholders receive as much value as possible. One way to do this is to force the debtor into bankruptcy. However, this would only work most effectively if AAC is seen as not valuable.

-The Debtor is Hopelessly Conflicted

In addition to the conflicts of the debtor's management that were elucidated by Mr. Anthony Princi at the hearing on Feb 18 (Docket 213), the debtor is hopelessly conflicted because of a well-established fact in this case: The debtor cannot get ANY plan approved, nor can the debtor receive ANY funds from its asset, AAC, WITHOUT THE APPROVAL OF OCI. As stated in the previous paragraph, OCI's interest is not in the debtor, nor in the debtor's creditors, nor the in debtor's shareholders. OCI's sole interest is, and can only be, the interest of policyholders. The debtor cannot therefore act in the best interest of its shareholders or its business; they must act according to OCI's interest which is policyholders, or face no options and no money.

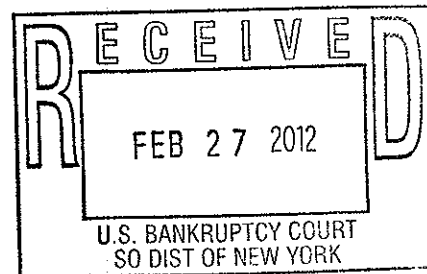
-The Debtor's Threats of Needing to Rush to Confirm the Plan or Face Chapter 7 are Baseless

At several points in their case the debtor has stated speed is necessary to confirm a plan, in order to avoid going into Chapter 7. (Notably this does not apply when the debtor desires any type of delay, when that happens, delays are fine). However there has been adequate testimony in this case that OCI can, and will, provide cash if needed for the debtor to keep going if needed. OCI would certainly provide funds to prevent a Chapter 7, because a Chapter 7 would harm the policyholders that OCI has vowed to protect. (Testimony from the Hearing on Feb 18 (Docket 213) and *Affidavit of CJ Brown* on Oct 24, (Docket 0657). I respectfully submit to the Court that rushing to confirm this Plan would result in great injustice.

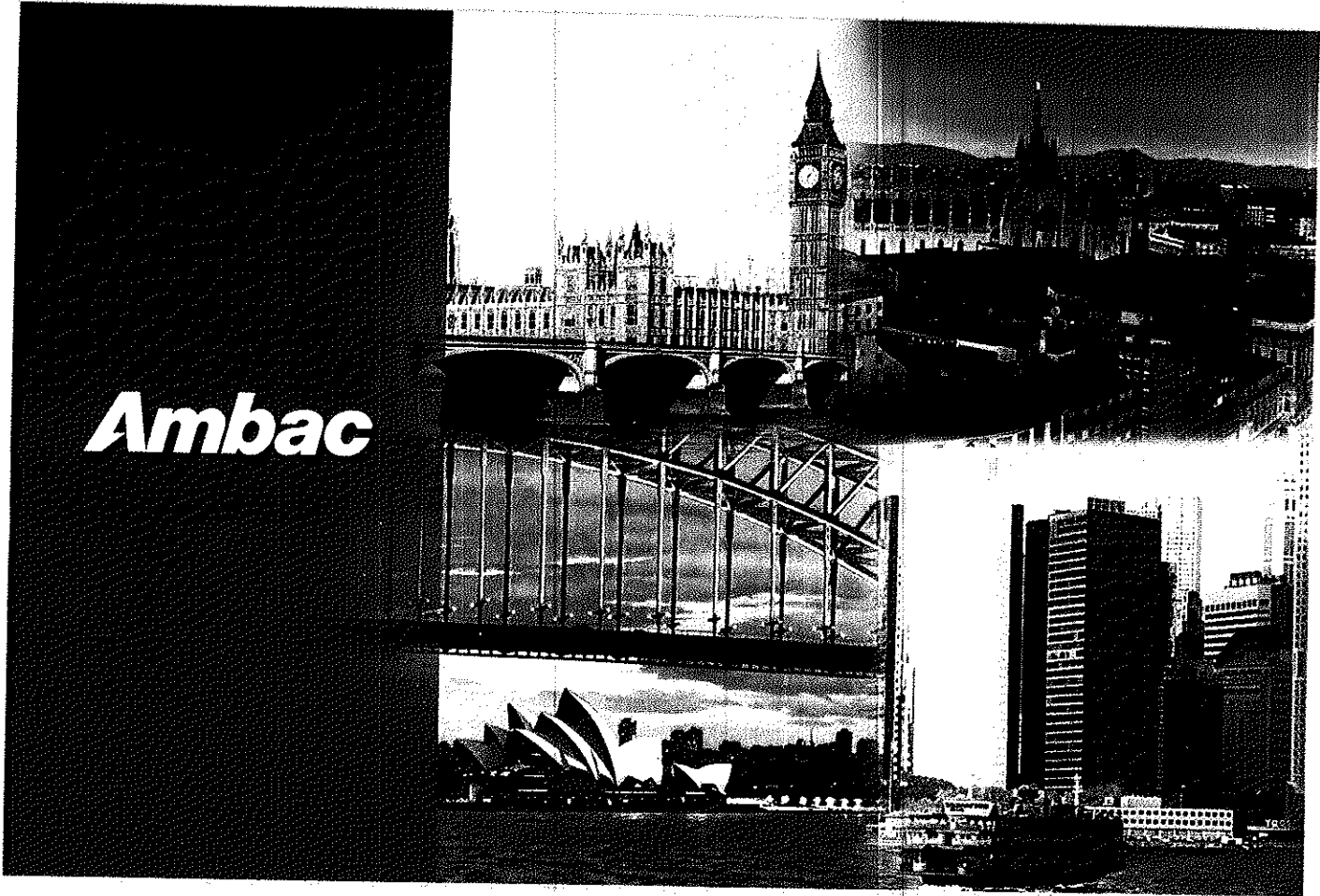
Your Honor, there is abundant evidence in this case that the value of this estate has been misrepresented, that the debtor is hopelessly conflicted, and that their Plan has not been proposed in good faith. For this reason, I request that the Court refuse to confirm the Third Amended Plan of Reorganization and pursuant to U.S.C. §1104, I request the Appointment of a Chapter 11 Trustee, in order to ascertain and protect the true value of this estate; and to ameliorate the conflicts that exist within the debtor's management. This would clearly be in the best interest of all interested parties.

Sincerely,

Mrs. Frederick Sam



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Ambac

2009 Quarterly Operating Supplement

Q3

► Financial Highlights

Share price	\$1.68
Market capitalization	\$483.2 million
Net income	\$2,188.3 million
Net income per diluted share	\$7.58
➔ Book value per share	\$(9.83)
➔ Adjusted book value per share	\$0.81
➔ Adjusted book value per share (excluding unrealized gains and losses)	\$9.16

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Ambac Financial Group, Inc. Quarterly Operating Supplement Third Quarter 2009

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Note 1: Throughout this Supplement adjusted book value (ABV) per share is reported and analyzed. ABV, is not promulgated in conformity with U.S. generally accepted accounting principles (GAAP) and should not be considered a substitute for actual book value. It is used by management, equity analysts and investors as a measurement of the Company's estimated intrinsic value with no benefit given for ongoing business activity. Management derives adjusted book value by beginning with stockholders' equity (book value) and adding or subtracting the after-tax value of: the net unearned premium reserve (which includes estimated future installment premiums discounted at the risk free rate, net of reinsurance); deferred acquisition costs; and the unrealized gain or loss on investment agreement liabilities. Ambac adjusts the present value of installment premiums to an amount that represents management's best estimate (discounted at 4.2% at September 30, 2009) as compared to the amounts required under US GAAP. The definition of ABV used by the Company may differ from definitions of ABV used by other financial guarantors and should be considered in such context. The adjustments described above will not be realized until future periods and may differ materially from the amounts used in determining ABV.

Note 2: Internal Ambac credit ratings contained in this Supplement are provided solely to indicate the underlying credit quality of guaranteed obligations based on the view of Ambac Assurance. In cases where Ambac has insured multiple tranches of an issue with varying internal ratings, or more than one obligation of an issuer with varying internal ratings, a weighted average rating is used. Ambac credit ratings are subject to revision at anytime and do not constitute investment advice. Ambac Assurance, or one of its affiliates, has insured the obligations listed and may also provide other products or services to the issuers of these obligations for which Ambac may have received premiums or fees.

Note 3: Information contained in this report is unaudited.