

In re Ambac Financial Group, Inc. Securities Litigation

COURT: United States District Court for the Southern District of New York

CASE NUMBER: 08-cv-0411

CASE LEADERS: Lauren A. Ormsbee

Lead Plaintiffs, the Public School Teachers' Pension & Retirement Fund of Chicago, Arkansas Teacher Retirement System, and Public Employees' Retirement System of Mississippi, achieved two settlements with defendants in this securities class action litigation in 2011 totaling \$33 million: (i) a \$27.1 million settlement with Ambac Financial Group, Inc. ("Ambac") and certain of its former officers and directors (the "Ambac Settlement"), 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 (the "Underwriter Settlement"), on behalf of all purchasers of Ambac's Directly-Issued Subordinated Capital Securities ("DISCS") that were sold in or traceable to the February 2007 DISCS offering.

The Court approved the Ambac Settlement and Underwriter Settlement in September 2011. On February 14, 2014, the Net Settlement Funds for the Ambac Settlement and Underwriter Settlement were distributed to Authorized Claimants whose distribution amount calculated to \$20.00 or more.

UPDATE: Settlement of Claim Filed in the SIPA Liquidation of Lehman Brothers Inc.

In November 2014, Lead Plaintiffs reached an additional settlement with the 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"). The Settlement was reached on behalf of persons or entities who purchased Ambac DISCS in or traceable to the February 2007 offering (the "Underwriter Class" or the "Class"). On June 9, 2015, the Court approved the Settlement

The Settlement results in the allowance of a general, unsecured creditor claim against Lehman's estate in the SIPA liquidation proceeding 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. The amount recovered with respect to the Allowed Claim, less expenses related to the Settlement, will be allocated among eligible Authorized Claimants based on their purchases or acquisitions of Ambac DISCS from February 12, 2007 to July 18, 2009.

You do not need to submit a Claim Form or take any other action to be eligible to receive funds obtained through the additional Settlement. Funds received in connection with the Allowed Claim will be distributed to eligible claimants who previously submitted Claim Forms. Only persons and entities who purchased Ambac DISCS and 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 Settlement.

Background

Lead Plaintiffs allege that Ambac, one of the country's largest bond insurers, secretly lowered its underwriting standards to allow the guarantee of billions of dollars of high risk mortgage-related securities without adequately disclosing the acceptance of greater risk than Ambac had insured in the past. As America's real estate market plummeted throughout late 2006 and 2007, Ambac affirmatively misrepresented its deteriorating portfolio risk by consistently posting small reserves and "mark-to-market" write-downs that strongly indicated a healthy portfolio. In fact, the mortgage-backed securities were showing significant delinquencies and risk of loss that would cripple Ambac's capital base. This exposure not only caused the Company enormous losses but also caused Ambac to lose its prized triple-A credit rating.

On January 16, 2008, Ambac announced a loss of \$32 per share, stunning investors by disclosing (a) a \$5.4 billion "mark-to-market" write-down on its \$29 billion exposure to mortgage-related collateralized debt obligations; (b) \$1.1 billion of actual impairments; (c) a near-tripling of its loss reserves; (d) a 67% reduction in dividend payments; and (e) the resignation of the Company's CEO. These disclosures caused a 70% drop in Ambac's stock price over two days. In March 2008, Ambac raised \$1.5 billion in equity capital. This influx of capital did little to help the beleaguered company. Ambac's stock declined from a high of \$96 per share in May 2007 to a low of \$6.24 following the January 2008 disclosure. By the end of March 2008, the stock had further dropped to \$5.75 per share. By the end of the Class Period, Ambac's stock was trading at \$3.46 per share.

On August 22, 2008, Lead Plaintiffs filed a Consolidated Amended Class Action Complaint alleging claims under both the Exchange Act of 1934 and the Securities Act of 1933. On October 21, 2008, Defendants filed their motions to dismiss the Complaint. On February 22, 2010, Judge Buchwald denied in large part Defendants' motions to dismiss the Complaint, sustaining all of Lead Plaintiffs' Exchange Act claims and Lead Plaintiffs' Securities Act claims with respect to a February 2007 DISCS Offering. The Court dismissed Securities Act claims with respect to a March 2008 Offering.

Case Documents

- June 9, 2015 – Order approving Lead Plaintiffs' Motion for (1) Final Approval of Settlement of Claim Filed in the SIPA Proceeding of Lehman Brothers Inc., (2) Approval of the Proposed Allocation of Settlement Proceeds, and (3) Reimbursement of Expenses
- June 9, 2015 – Judgment Approving Settlement of Claim Filed in the SIPA Liquidation of Lehman Brothers Inc.
- June 2, 2015 – Reply and Notice of Non-Opposition in Support of Lead Plaintiffs' Final Approval Motion
- May 5, 2015 – Joint Declaration of Lauren A. Ormsbee and Frederic S. Fox in Support of Final Approval Motion
- May 5, 2015 – Memorandum of Law in Support of Final Approval Motion
- May 5, 2015 – Notice of Lead Plaintiffs' Motion for (1) Final Approval of Settlement of Claim Filed in Lehman SIPA Proceeding, (2) Approval of the Proposed Allocation of Settlement Proceeds, and (3) Reimbursement of Expenses ("Final Approval Motion")
- March 25, 2015 – Notice of Proposed Settlement of Claim Filed in the SIPA Liquidation of Lehman Brothers Inc.

- July 25, 2011 - Proof of Claim
- July 25, 2011 - Notice of Pendency of Class Action and Proposed Settlements
- August 22, 2008 - Consolidated Amended Class Action Complaint