

From: Urquhart [mailto:urquhart@rogers.com]

Sent: August-13-10 1:21 PM

To: Ed Devlin (ed.devlin@pimco.com); 'Bill Gross'; 'Mohamed El-Erian'

Cc: 'Joel Rochon'; Diane & Hugh Urquhart (urquhart@rogers.com)

Subject: Request for PIMCO to Consider Supporting Settlement of Nortel Canadian Long Term Disabled Employees

Bill Gross, Founder and Co-Chief Investment Officer

Mohamed El-Erian, Chief Executive Office and Co-Chief Investment Officer

Ed Devlin, Canadian Fixed Income Portfolio Manager

Pacific Investment Management Company LLC

I am Diane Urquhart, an independent financial analyst from Mississauga, Ontario, Canada. Ed Devlin knows me from my work on the Representative Counsel team for the Retail Owners of Canadian Non Bank Asset Backed Commercial Paper during the Canadian Non Bank ABCP bankruptcy proceedings. **I am writing to the three of you today to make a personal heartfelt request for PIMCO to consider supporting a settlement of the Nortel Canadian Long Term Employees, who are being pushed into abject poverty due to the inadequate funding of the Nortel Canada Health and Welfare Trust for the self-insured Canadian Long Term Disability Wage Replacement Benefits.**

Nortel is a corporation in full liquidation and not one that is restructuring as an ongoing concern. I believe there is no rational basis for creditors at liquidating corporations to benefit from an employer's failure to fund incurred claims for self-insured long term disability benefits in the trust accounts for disabled employees. The Nortel Canada Health and Welfare Trust has a trustee agreement that required sufficient employer contributions to fund long term disability wage replacement benefits annually on a sound actuarial basis. This is not case of a pension fund or a health and welfare trust that has deficient assets compared to the actuarial liabilities due to a correction in the capital markets. **Nortel management historically not only failed to make the required employer contributions for the long term disability wage replacement benefits, it also borrowed close to one third of the assets in the Canada Health and Welfare Trust that were supposed to be protected for the trust's disabled and survivor beneficiaries.** You would know that former Nortel management has not had a pristine record in this decade, with eight executives agreeing to securities violation settlements with the US SEC and the Ontario Securities Commission, and the former CEO, CFO and Controller all facing adjudication of RCMP criminal charges in the Canadian court.

It is easy for investment professionals to delegate to their lawyers the fine details of court bankruptcy proceedings, but sometimes we need to step back and reflect upon how the most vulnerable in society are being affected by the byzantine procedures in the bankruptcy courtroom. In this case, severely injured and sick Canadians, some with children, are being pushed out of their homes, through no fault of their own. These Canadian disabled thought they were insured and that Nortel had set aside the appropriate reserve assets in the Canada Health and Welfare Trust. Despite Canada being recognized for its social security programs, the Canada Pension Plan Disability annual income is only \$13, 521.

On the other hand, we see that PIMCO is one of the five money managers on the Ad Hoc Bondholder Group within the Nortel bankruptcy proceedings.

- Mackay Shields LLC
- Loomis Sayles & Company, L.P.
- Fidelity Management & Research Co.
- Pacific Investment Management Company LLC
- Sankaty Advisors LLC

We see Pimco on both the Nortel Docket 61 Creditors' List (bondholders, suppliers and other creditors) and the List of Adhering Parties for 2009 Nortel Entities CDS Protocol (the list of participants in the Nortel CDS cash settlement auctions on February 10, 2009).

I would like PIMCO to consider the following facts surrounding the Nortel bankruptcy and then decide to advocate amongst your peers for a settlement of the Nortel Canadian Long Term Disabled Employees.

(1) Nortel Canadian long term disability employees who earned \$70,000 before their disability will see their effective income after essential medical costs drop to between \$16,600 to \$21,000 per year, which is at or below the poverty line. Many Nortel disabled employees had earned less than \$70,000 per year before becoming disabled. See Table 1.

(2) Full settlement of the Canadian long term disabled would cause the average Nortel bond price to drop at most 2.8% from \$75.70 to \$73.60, which is the measure of value that does not rightfully belong to the bondholders in the first place due to the trust account arguments above. See Table 2.

(3) Nortel's bonds have risen from the \$12.00-\$14.63 range low at about the time of the Nortel bankruptcy filing on January 14, 2009 to the \$77.00 to \$80.75 range today. See Chart 1.

(4) The Nortel bond that is not guaranteed by the US subsidiary of Nortel, with symbol NT - GH, has risen from the \$6.50 low at about the time of the Nortel bankruptcy filing on January 14, 2009 to \$25.50 today. This bond series is a proxy demonstrating that US Nortel creditors are expecting to achieve a much higher cash settlement ratio than the creditors of the Nortel Canadian estate. Fair cross-border bankruptcy settlements is a subject for discussion on another day. See Chart 2.

(5) If PIMCO owned the Nortel CDS's, it has likely made a large profit on its Nortel investment, since the Nortel CDS auctions at February 10, 2009 had a cash settlement price of \$6.50 for the NNL CDS and \$12.00 for the NNC CDS. These CDS cash settlement prices are well below where the Nortel CDSs traded in prior periods and are well below where the Nortel bond prices are presently trading. See Chart 1 and 2 and Table 3.

(6) Nortel bonds were known to be higher risk, as they have been rated below investment grade by the credit rating agencies since the year 2002. See Table 4.

(7) See the sworn affidavits of Joan Williams, an actuary with Welton Parent Inc. in Ottawa and of myself, an independent financial analyst. These address the financial status, legal obligations and the actuarial and insurance principles and practices that should govern the financial arrangements being made for the Canadian long term disabled employees. See Table 5.

Sincerely

Diane Urquhart

Independent Financial Analyst

Mississauga, Ontario

Tel: (905) 822-7618

Cell: (416) 505-4832

E-mail: urquhart@rogers.com

Table 1 - Canadian Long Term Disabled With Working Income of \$70,000	Long Term Disabled Employee Employer Paid to 50%	Employee Paid Optional Added to 70%
Working Income Before	\$70,000	\$70,000
% Benefit Relative to Working Income	50%	70%
Health & Welfare Trust / Pension Fund Funding % on Income	20%	20%
Medical and Dental Benefits Funding % *	0%	0%
Income and Medical and Dental Funding %	17%	18%
Bankruptcy Cash Settlement Ratio %	15%	15%
H & WT / Pension Fund and Bankruptcy Cash Settlement %	29%	30%
Income All Sources and M & D Benefits Before	\$39,500	\$53,500
Medical and Dental Costs Before	\$4,500	\$4,500
Effective Income Net of Medical and Dental Costs Before	\$35,000	\$49,000
Medical and Dental Benefits Nortel Before	\$4,500	\$4,500
Income All Sources Before	\$35,000	\$49,000
Guaranteed Income Supplement	\$0	\$0
Old Age Security	\$0	\$0
CPP First Payer	\$13,521	\$13,521
Income Nortel Before	\$21,479	\$35,479
Income All Sources and M & D Benefits After	\$21,069	\$25,549
Medical and Dental Costs After	\$4,500	\$4,500
Effective Income Net of Medical and Dental Costs After	\$16,569	\$21,049
Medical and Dental Benefits Nortel After	\$675	\$675
Income All Sources After	\$20,394	\$24,874
Guaranteed Income Supplement	\$0	\$0
Old Age Security	\$0	\$0
CPP First Payer	\$13,521	\$13,521
Income Nortel After	\$6,873	\$11,353
% Reduction Nortel Income and M & D Benefits	-71%	-70%
% Reduction Effective Income Net of M & D Costs	-53%	-57%

Table 2
Estimated Impact on US Junk Bond Price if US Estate Settles Canada LTD Employees Claim

Nortel Junk Bonds (\$ US Millions)	Face Amount	Price	% Change
GQ	575	77.00	
GR	575	77.00	
GN	1,000	78.75	
GM	550	79.75	
GL	1,125	79.75	
GH	200	25.50	
GE	150	66.75	
All	4,175	75.69	
Valuation of Nortel Bonds at Current Market Prices	3,160	75.69	
Canada LTD Employees Creditor Claim	141		
Less Canada LTD Employees Canada Estate Cash Settlement	-21		15%
Net LTD Employees Creditor Claim Above Equal Not Paid	120		
Impact of Canada LTD Settlement on Junk Bond Holders If Canadian Disabled Settled	-88	-2.10	-2.8%
Valuation of Nortel Bonds Less Incremental Canada LTD Employees Settlement	3072	73.58	-2.8%
Impact of Canada LTD Settlement on Junk Bond Holders Relative to Face Amount of Claims	-88		-2.1%
Impact of Canada LTD Settlement on Other US Unsecured Creditors	-32		-2.1%
Impact of Canada LTD Settlement on Other Non-US Unsecured Creditors	0		0.0%
Estimated Canada LTD Employees' Claims			
Mercers Actuarial Liability to LTD Employees (Incl. Pension Accruals to Age 65)	-161		
Health and Welfare Trust Assets (100% Compromise of Loan to Nortel)	20		
Deficiency of Settlement from Health and Welfare Trust	-141		
Estimated Nortel Unsecured Creditor Mix			
US Junk Bond Owners in US Estate	4,175	35%	
Other Unsecured Creditors in US Estate	1,525	13%	47%
Other Unsecured Creditors Outside of US	6,259	52%	
Canada LTD Employees	141	1%	
Total Unsecured Creditors	12,100	100%	

Chart 1

Nortel Networks Corporation and Nortel Networks Limited Bonds Guaranteed by Nortel Networks Inc. U.S.

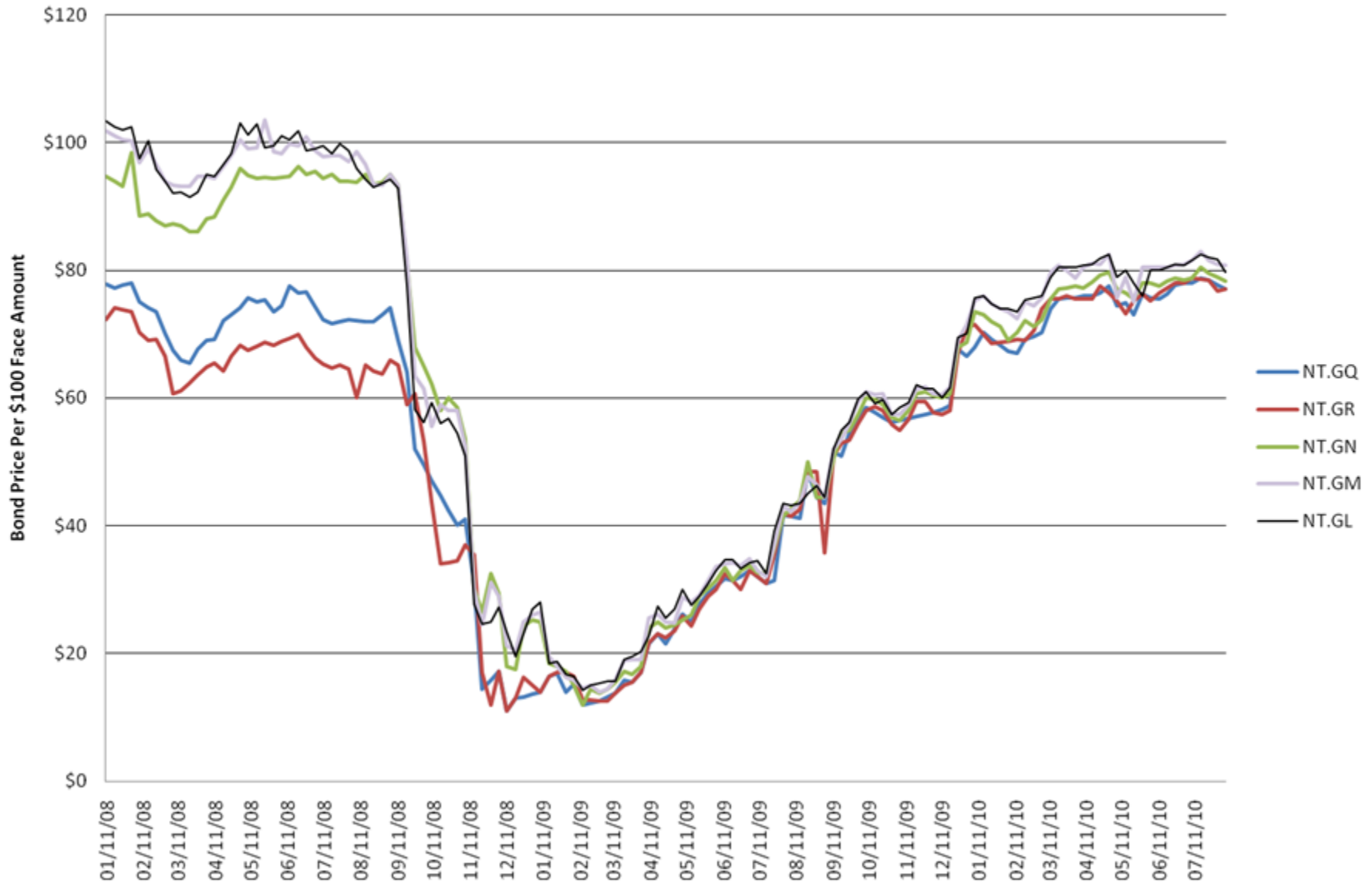


Chart 2

Nortel Networks Limited Bond Not Guaranteed by Nortel Networks Inc. U.S.

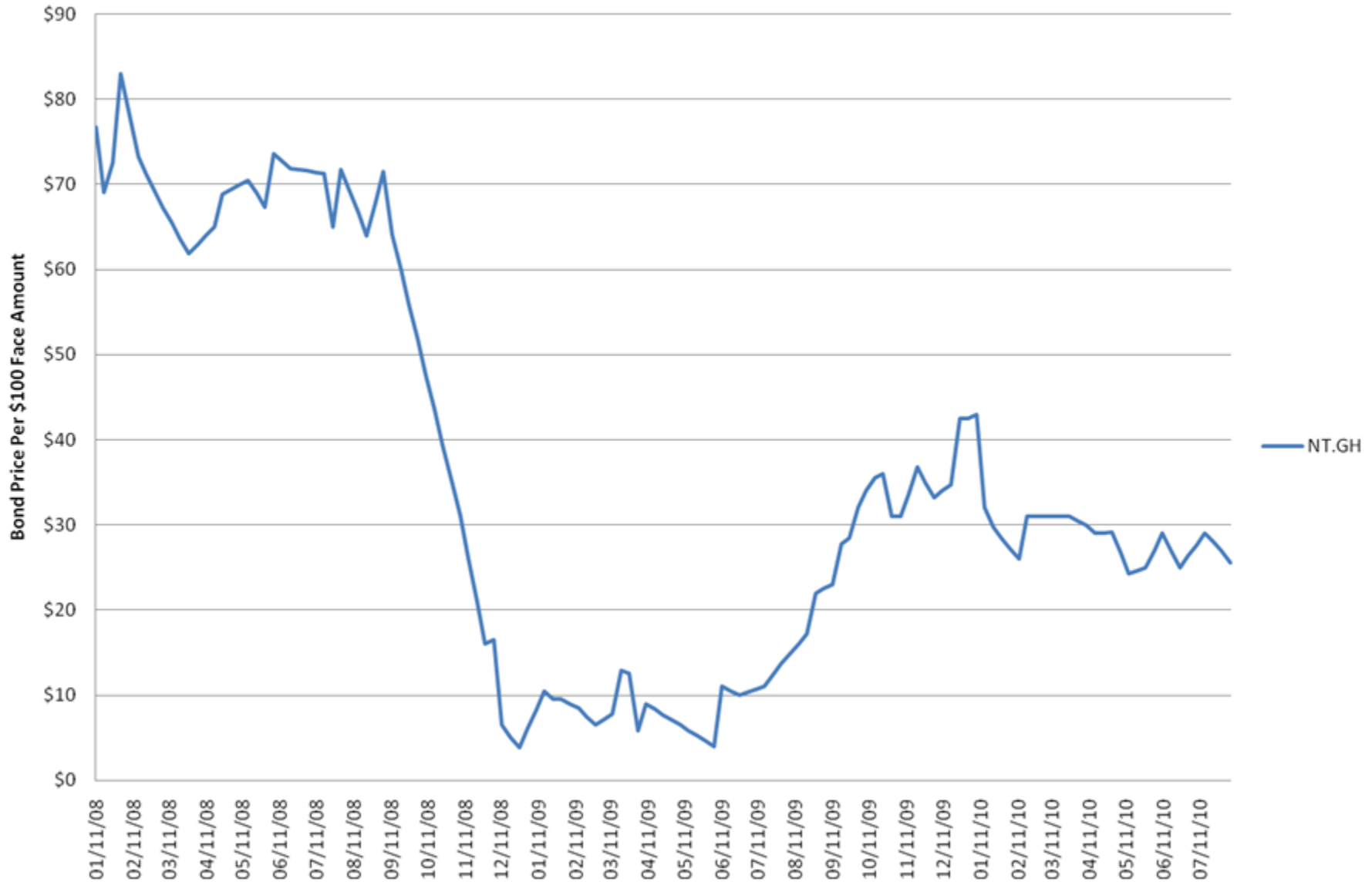


Table 3

Nortel Networks Corporation CDS

Final Price 12

Auction Date 10Feb09

Reference Data

RED 6 : 6BBBBE
 RED 9 : 6BBBBEAD3
 Index Constituents of *Markit CDX.NA.HY.1 to 11
 Markit CDX.NA.HY.B 1 to 9
 Markit CDX.NA.HY.HB 10, 11

Deliverable Obligations

US656568AC66 US656569AK65 US656569AE06
 US656568AF97 USC65614AC08 USC65614AB25
 US656568AE23 US656569AL49 USC65614AA42
 US656568AD40 US656569AG53 US656569AB66
 US656569AD23 USC65614AD80 - Red Preferred

Nortel Networks Limited CDS

Final Price 6.5

Auction Date 10Feb09

Reference Data

RED 6 : N/A
 Index Constituents of : None

Deliverable Obligations

US656569AD23 USC65614AB25 US656569AH97
 US656569AK65 US656569AE06 US656569AB31
 USC65614AC08 USC65614AD80 US656569AG53
 US656569AL49 USC65614AA42 US656569AB66

**Table 4
 Credit Ratings on Nortel Long Term Bonds Issued or Guaranteed by NNC or NNL**

Reporting Period	Standard & Poors		Moody's	
	Credit Rating	Last Update	Credit Rating	Last Update
2001	BBB-	Oct. 3, 2001	Baa2	Oct. 3, 2001
2001	BBB-	April 9, 2002	Ba3	April 4, 2002
2002	B	Sept. 18, 2002	B3	Nov. 1, 2002
2003	B-	April 28, 2004	B3	Nov. 1, 2002
2004	B-	April 28, 2004	B3	Nov. 1, 2002
2005	B-	Feb. 8, 2006	B3	Feb. 8, 2006
2006	B-	June 16, 2006	B3	Sept. 26, 2006
2007	B-	March 22, 2007	B3	March 22, 2007
2008	D	Jan. 14, 2009	Caa2	Dec. 15, 2008
2009	D	Jan. 14, 2009	Ca - NNC/D- Other	Jan. 15, 2009

Table 5

[Affidavit of Joann Williams to Exhibit E](#)

[Affidavit of J. Williams to Exhibit F-N](#)

[Affidavit of Diane Urquhart](#)

[Exhibit B to Affidavit of Diane Urquhart](#)

[Exhibits C-N to Affidavit of Diane Urquhart](#)