

David Flattum, General Counsel (david.flattum@pimco.com)
Toko Hanyu, Assistant to David Flattum (toko.hanyu@pimco.com)
Pacific Investment Management Company LLC

November 3, 2010

Dear David Flattum
General Counsel, Pacific Investment Management Company LLC

Re: Nortel Canadian Health and Welfare Trust

Thank you for your September 3rd reply to my August 13th email concerning the serious situation of Canadian Nortel Long Term Disabled (LTD) Employees being driven into poverty by the Nortel liquidation process. ([PIMCO Letter to Urquhart September 3, 2010](#), [PIMCO Letter from Urquhart August 13, 2010](#))

I wrote Bill Gross, Mohamed El-Erian and Ed Devlin on the basis of a preliminary assessment that Nortel management governance committees and the third party trustees for the Canadian Health and Welfare Trust (HWT) had breached their fiduciary duties to the Long Term Disabled (LTD) and Survivors Income Beneficiaries. The US SEC within its regulatory authority governing the integrity of the capital markets also has an interest in whether or not the management of public corporations has used trust funds for the purpose of managing profits and executive bonuses, or inflating the value of publicly traded shares or bonds.

With the assistance of legal counsel and two senior actuaries, Joann Williams and Jeremy Bell, I have now reviewed thousands of pages of new financial and actuarial information and legal contracts released by the Canadian Nortel CCAA Court Monitor on August 30, 2010. The new evidence confirms our preliminary assessment of breaches of trust involving \$59 M of HWT assets accumulated for the benefit of satisfying incurred claims of the LTD Employees and Survivors Income Beneficiaries, as shown in Table 1 attached. The Nortel LTD Employees are overwhelmed by the stress of how they have been treated in this CCAA process, and several of them have asked me to write you this follow-up letter.

PIMCO would in no way be breaching its fiduciary duties to its bond clients by acting as a catalyst for a US Nortel bond owners' settlement to restore \$59 M into the HWT for the Canadian LTD and Survivors Income Beneficiaries. To put it another way, the US bond owners do not deserve to earn an investment return from HWT assets that do not rightfully belong to them or Nortel's bankruptcy estate. I would like PIMCO and the US bond owners to reflect upon whether it is right to use their power and influence to take advantage of vulnerable Canadians caught in a Canadian bankruptcy process that relies on a single disabled person to represent the LTD Employees group.

New Evidence on Assets Withdrawn from the HWT

The new evidence on how the HWT assets were removed was disclosed on August 30, 2010, well after the March 31, 2010 interim pensioners and former employees settlement agreement (the "Interim Agreement") was reached, despite efforts by the Dissenting LTD Beneficiaries to get this critical information over a year ago. The March 31st Interim Agreement was imposed under the duress of employee benefits being cut off. The Interim Agreement provided just 9 months of additional disability wage loss replacement and medical claims reimbursement in exchange for a legal release of the Nortel

management governance committees and the third party trustees who breached their fiduciary duties governing the HWT, and compromised secured creditor claims.

Our expert team has reached the following two key conclusions about how Canadian HWT assets have been improperly removed from the trust to the detriment of the LTD and Survivors Income Beneficiaries and for the benefit of the Nortel bankruptcy estate, including the US bond owners.

First, \$32 M of employer contributions were withdrawn from the HWT during May 2005 to April 2006 to pay for the medical claims of pensioners and the medical claims and life insurance premiums of employees. This was confirmed by the financial analysis of the HWT financial statements in my affidavit, Appendix "GGG" of the new August 30th information, and the affidavit of former Nortel Treasurer Mike McCorkle, who was in charge of a 2005-06 project evaluating whether Nortel could wind-up the HWT.

Under the terms of the HWT Trust Agreement, Nortel was obligated to fund the HWT on a "sound actuarial basis". This means, first and foremost, that the LTD wage loss replacement claims were to be fully funded. The Canada Revenue Agency also required the funding of LTD Wage Loss Replacement Plans according to insurance principles or a "Plan of Insurance." If there was an unfunded liability with respect to existing disability claims, Nortel should have made contributions of at least its usual employer contributions for the medical claims and life insurance premiums of its pensioners and employees. Otherwise, the assets already accumulated in the trust are spent and the unfunded liability for disability claims is increased as a direct result. Nortel used assets that were previously held in trust for disability claims in order to meet its own current obligations.

Up until 2006, and except for the May 2005 to April 2006 period, the medical claims of pensioners and the medical claims and life insurance premiums of employees had been costs paid on an annual pay as you go basis, with employer contributions flowing through the HWT to pay for the annual medical claims and life insurance premiums. In 2007, Nortel formalized the distinct nature of the medical claims and life insurance premiums paid, when it changed its HWT accounting to no longer have its employer contributions for these benefits flowing through the HWT (except for the pensioners life insurance premiums.)

Second, there is a \$27 M amount "Due from Sponsoring Company" amongst the assets on the HWT balance sheet. This amount "Due from Sponsoring Company" is a loan to Nortel that was written off at December 31, 2009. This HWT loan asset was not repaid from Nortel's available cash of \$1.8 B in its Global Estate and \$261 M in its Canada Estate just prior to the Nortel bankruptcy filing at January 14, 2009. The purpose of this loan was to officially recognize the proportion of the required employer contributions that was paid by an IOU, rather than in cash. This loan has been improperly submitted as an unsecured creditor claim within the Canada Estate.

According to Article II of the HWT Trustee Agreement, the Nortel HWT is an Irrevocable Trust. In an Irrevocable Trust the grantor, having transferred assets into the trust, effectively relinquishes all rights of ownership to the assets and the trust. Both the \$32 M of withdrawn HWT assets in 2005-06 and the \$27 M HWT loan to Nortel are assets that were supposed to be irrevocable from the HWT.

Consequences for the Canadian Nortel Long Term Disabled Employees

The \$59 M of removed HWT assets is inflating the value of the Nortel bonds, while creating devastating damages to the lives and the quality of lives of about 375 Canadian Nortel Long Term Disabled Employee

starting on December 31, 2010. Take a moment to see the consequences on the disabled persons of these assets being removed from the HWT in videos and letters at the following links.

[CBC Interview of Nortel LTD Employees from Calgary, Alberta](#)

[Video by Rights for Nortel Disabled Employees on Their Fight for Protection of Their Disability Income](#)

[Open Letter from Jackie Bodie on Bill S-216 October 19, 2010](#)

[Open Letter from Jackie Bodie on Parkinson's Disease October 3, 2010](#)

Given the significance of the matters to the health and dignity of the Nortel LTD Employees, the dissenting group of long-term disabled and I continue to explore other avenues for remedy of the breaches of trust that have occurred within the HWT. For example, Northern Trust has neglected to file a secured creditor claim for the \$59 M of trust assets removed from the HWT within the Nortel CCAA proceeding, as it appears it was authorized to do in accordance with the definition of a “secured creditor” under the Canadian CCAA. In failing to do so, and in failing to bring to the court’s attention the removal of trust assets and the basis for potential secured claims, Northern Trust may be liable independent of any breaches of fiduciary duty regarding Nortel’s HWT funding practices and initial removal of trust assets that might have been released through the Interim Agreement. Similarly, the Monitor and Representative Counsel may not have adequately discharged their obligations to the extent they were aware of the removal of trust assets and the corresponding existence of potentially valid secured claims at the time of the Interim Agreement's approval at the March hearings. We are also looking into pursuing the CCAA provision that prevents the compromise of claims arising when there has been misappropriation by a debtor acting in a fiduciary capacity, unless there has been a vote of the affected claimants as a separate class.

Carling Facilities Sale Proceeds as Source of Money to Settle LTD Employees Income Benefit

On October 19th, the Government of Canada announced its purchase of the Ottawa Carling Facilities for \$208 million.

[Motion Record Carling Facility Returnable Nov. 8, 2010](#)

The Carling Facilities sale proceeds are being credited to the Nortel Canada Estate, except for repayment of the \$75 M prior charge agreed to at the time of the Nortel CCAA filing in January 14, 2009. The \$75 million prior charge relates to the US estate providing inter-company Debtor in Possession Financing to the Canada Estate from the cash in the Nortel US treasury. I request that PIMCO act as a catalyst for a US Nortel bond owners' agreement to concede \$59 M out of the \$75 M prior charge for the Canada Estate DIP financing, so that \$59 M may be restored to the HWT for the Canadian LTD and Survivors Income Beneficiaries.

Depending upon the mediated result for the allocation of the Nortel businesses' sale proceeds amongst the US, Canada and UK estates, this \$75 M prior charge for inter-company DIP Financing does raise the question of whether the US bond owners are attempting to double-dip value from the Canada Estate. Concession of this prior charge simplifies the Nortel liquidation process by lessening the double-dipping problem and restores the HWT assets.

Table 2 shows that the Nortel average bond price now at \$78.68 would be reduced by just \$1.04 or

-1.3% if the requested \$59 M concession of the DIP Financing Prior Charge is accepted as remedy for the wrongfully withdrawn HWT assets.

This concession, together with a positive decision from J. Morawetz on the distribution of the remaining HWT assets, will expeditiously resolve the wrongfully withdrawn HWT assets and enable a full settlement of the Canadian LTD Employees' Income Benefits, as shown in Table 1.

Table 4 shows that there are \$63 M of actuarial liabilities owed for other LTD Benefit Plan benefits, such as medical, life insurance and pension accruals between now and retirement. These other benefits are not legal obligations of the HWT. They are legal obligations of the Nortel Canada Estate.

I further request that PIMCO act as a catalyst for a US Nortel bond owners' agreement to not object to a Canadian Government solution for the 375 Nortel LTD employees being pushed into poverty. I would very much appreciate PIMCO legal counsel becoming part of the discussion on the Canadian Government's plans, not for the purpose of stopping a solution for these vulnerable human beings, but to engage in the development of a fair and lawful solution for all. We need to approach this as an emergency solution, without partisan politics and without any more bankruptcy court room brawls, with the powerful parties ganging up on the weak long term disabled.

Request for Continuing Communications

I would very much appreciate the opportunity for continuing dialogue on this subject with PIMCO and any other Nortel bond owners that you could refer me to. This is an unfortunate situation that neither the Nortel bond owners nor the Nortel Canadian LTD employees should allow to fester. Weaknesses in the Canadian CCAA court procedures and the imbalance of power between bond owners and disabled persons should not be reasons to push fellow human beings into despair and homelessness when there were trustee contracts and laws to protect them.

Sincerely

Diane A. Urquhart
Independent Financial Analyst
Mississauga, Ontario, Canada
Tel: (905) 822-7618
Cell: (416) 505-4832
E-mail: urquhart@rogers.com

CC:

Bill Gross, Founder and Co-Chief Investment Officer (bill.gross@pimco.com)

Danelle Reimer, Assistant to Bill Gross (danelle.reimer@pimco.com)

Mohamed El-Erian, Chief Executive Office and Co-Chief Investment Officer, (mohamed.elerian@pimco.com)

Ed Devlin, Canadian Fixed Income Portfolio Manager (ed.devlin@pimco.com)

Pacific Investment Management Company LLC

Representatives of Nortel Long Term Disabled Employees:

Jackie Bodie jbodie@blinc.ca

Greg McAvoy jgmconvoy@shaw.ca

Arlene Borenstein (Plante) arleneplante@hotmail.com

Peter Burns snrub.retep@rogers.com

Josée Marin marin.jossee@sympatico.ca

Carol Sampson sammygirl1@rogers.com

Lawrence Clooney lkclooney@hotmail.com

Jennifer Holley jholley@xplornet.com

Connie Walsh connie@walshclan.biz

Table 1

Impact of HWT Distribution + Restored Misappropriated HWT Assets	HWT	Scenario 2 of Monitor			Restored Misappropriated Assets + Scenario 3 of RG LLP		
		LTD	Survivors	Pensioners	LTD	Survivors	Pensioners
\$ Millions							
HWT Assets in Scenario 2 Less 2010 Pensioners Life Insurance Premiums	\$72	\$29	\$7	\$36	\$58	\$15	\$0
Pensioners Group Life Insurance Premiums Paid Out of HWT for 2010	\$8	\$0	\$0	\$8	\$0	\$0	\$8
HWT Assets for Distribution	\$80	\$29	\$7	\$44	\$58	\$15	\$8
Restored Misappropriated Assets Employer Contributions Withdrawn for Medical and Life Insurance 2005 & 2006	\$32	\$0	\$0	\$0	\$25	\$3	\$0
Loan to Nortel Written Off	\$27	\$0	\$0	\$0	\$21	\$3	\$0
HWT Assets With Misappropriated Assets Restored *	\$139	\$29	\$7	\$44	\$103	\$20	\$8
* LTD and Survivors Income HWT Legal Obligation (Inc. \$7.8 M for PLIP in 2010)	\$131				\$103	\$20	\$8

Table 2

Estimated Impact on US Junk Bond Price if US Estate Contributes to Canada LTD Employees' Settlement October-29-10

Nortel Junk Bonds (\$ Millions)	Face Amount	Price	% Change
GQ	\$575	\$80.00	
GR	\$575	\$80.00	
GN	\$1,000	\$81.75	
GM	\$550	\$81.10	
GL	\$1,125	\$84.50	
GH	\$200	\$23.66	
GE	\$150	\$69.00	
All	\$4,175	\$78.68	
Valuation of Nortel Bonds at Current Market Prices	\$3,285	\$78.68	
Impact of Canada LTD Employees' Settlement	-\$43	-\$1.04	-1.3%
Valuation of Nortel Bonds Less Canada LTD Employees' Settlement	\$3,242	\$77.65	-1.3%

	Canada LTD Employees Settlement for Misappropriated HWT Assets	Face Amount Unsecured Creditor Claims	% Mix of Unsecured Creditor Claims
Estimated Nortel US Estate Unsecured Creditor Mix			
US Junk Bond Owners in US Estate	\$43	\$4,175	73%
Other Unsecured Creditors in US Estate	\$16	\$1,525	27%
Total US Estate	\$59	\$5,700	100%

Table 3

Use of Carling Facilities Sale Proceeds for LTD Employees Settlement \$ Millions	Canada Estate Only	US Estate Contribution
Carling Campus Purchase by Canadian Federal Government	\$ 208	\$ 208
Prior Charge for Inter-Country Debtor in Possession Financing *	-\$75	-\$16
Canada Estate Contribution from Carling Facilities Sale	\$133	\$192
Survivors Income Settlement	-\$6	-\$6
LTD Employees Income Settlement	-\$46	-\$46
Combined Settlement for Misappropriated HWT Assets	-\$51	-\$51
LTD Employees Other Benefits Settlement	-\$63	-\$63
Total LTD Employees Settlement	-\$109	-\$109
Remaining Carling Facilities Proceeds for Canada Estate	\$24	\$83

* US Estate Concession of Prior Charge to Restore Misappropriated HWT Assets

Table 4

Long Term Disabled Employees Benefit Claims

	HWT DISTRIBUTION Scenario 2	HWT DISTRIBUTION Scenario 3 + US Estate Settlement
HEALTH AND WELFARE TRUST DISTRIBUTION	(\$29 M)	(\$58 M)
USESTATE SETTLEMENT FOR MISAPPROPRIATED HWT ASSETS		(\$46 M)
ACTUARIAL LIABILITIES		
Income *	\$103 M	\$103 M
Life Insurance Core **	\$5 M	
Life Insurance Optional Waived **	\$3 M	
HEALTH AND WELFARE TRUST UNPAID LIABILITIES	\$82	\$0
Life Insurance Core **		\$5 M
Life Insurance Optional Waived **		\$3 M
Medical and Dental **	\$30 M	\$30 M
Pension Accruals	\$25 M	\$25 M
LTD ACTUARIAL LIABILITIES AFTER HWT DISTRIBUTION	\$137 M	\$63 M

* Mercers Estimate of Just \$80 M Actuarial Liabilities ** Mercers Estimated Actuarial Liabilities

Table 5

NORTEL HEALTH AND WELFARE TRUST DISTRIBUTION HEARING DOCUMENTS
SEPT. 29 AND 30, OCT. 1, 2010

[Urquhart Notes - Nortel HWT Distribution Hearing September 29, 30 and Oct. 1, 2010](#)

[Rochon Genova LLP Factum of the Dissenting LTD Beneficiaries](#)

[Nortel - Montreal Trust H & WT Trustee Agreement Jan. 1, 1980.pdf](#)

[Affidavit of Diane Urquhart, sworn September 26, 2010 - ALL](#)

[Affidavit of J. Williams, sworn September 24, 2010](#)

[Affidavit of J. Williams, sworn August 9, 2010](#)

[Affidavit of J. Williams, sworn August 9, 2010 to Exhibit E](#)

[Affidavit of J. Bell, sworn September 23, 2010](#)

[Affidavit of J. Bell, sworn September 3, 2010](#)

[Affidavit of J. Bell, sworn September 3, 2010 Exhibit A](#)

[Affidavit of J. Bell, sworn September 3, 2010 Exhibit B](#)

[Affidavit of J. Bell, sworn September 3, 2010 Exhibit C-E](#)

[Affidavit of J. Bell, sworn September 3, 2010 Exhibit F](#)